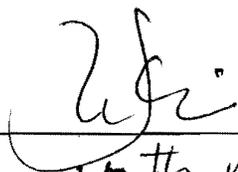


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**PUBLIC SECTOR REFORM IN KIRIBATI AND ITS  
IMPACT ON PUBLIC ENTERPRISE: A CASE OF THE  
PUBLIC UTILITIES BOARD (PUB) IN KIRIBATI**

by

Meaua Namane B. Tooki

A Thesis submitted in partial fulfillment  
of the requirement for the degree of  
Master of Arts

Management and Public Administration Programme  
The University of the South Pacific

December 2005

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DECLARATION OF ORIGINALITY

I, Mrs Meaua Namane B. Tooki, declare that this thesis is an original piece of work, and has been solely compiled by me. Where other sources have been used, these have been duly acknowledged.

.....

**Meaua Namane B. Tooki**

December, 2005.

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## **DEDICATION**

To my almighty God, my dear parents, Namane and Tokataake, my grandmother Mrs Tabita Takirua, not forgetting my father-in-law, Mr Tooki Teraii, all have passed away. Thank you all for the many blessings and contributions that have enhanced this remarkable achievement.

## **ABSTRACT**

### **PUBLIC SECTOR REFORM AND ITS IMPACT ON PUBLIC ENTERPRISE: THE CASE OF THE PUBLIC UTILITIES BOARD IN KIRIBATI**

Public sector reform in Kiribati that began in the late 1980s has been part of a global trend towards reassessing the role of government in the economy. There has been a shift towards the rhetoric of private sector management or free market philosophies with the view to improving productivity, efficiency and effectiveness of public enterprises. From the global view, there is recognition that the poor economic performance of public enterprise has in part contributed to the underdevelopment of the private sector, thus in turn led to poor economic growth. In Kiribati as elsewhere, the introduction of free market philosophies into public enterprises (PEs) can only happen through the reform of the enterprise, and privatisation is chosen as an immediate option in achieving this goal.

The experience of the United Kingdom, New Zealand and Australia proves that privatisation has been a good option in improving public sector efficiency and indeed, the best way to boost private sector development. However, the early reform in Kiribati has been disappointing since to date, no privatisation has materialized. Instead,

commercialisation and corporatisation have been widely adopted as alternative strategies to transform PEs into commercial and competitive enterprises. The case of the Public Utilities Board (PUB) clearly demonstrates that commercialisation and corporatisation policies have made a little progress at the micro level, such as changing the legal status of the company, adoption of information technology and human resource development, but without necessarily much improvement in the company's performance. As a government owned company, the PUB is still committed to its social obligations, by providing non-commercial services, such as free water services and delivery of the electricity and sewerage at nominal rates.

The reform in Kiribati and other PICs since the 1980s and to date clearly demonstrates that the transfer of an outside model into the local system is not possible because of the differences in the levels of development. The UK, Australia and New Zealand are developed countries and thus changes that have been implemented successfully in their system cannot be the same in the developing countries of the Pacific. Some of the common problems and challenges facing the PICs and Kiribati are weak legal system, strong communal ties, and greater dependence on external aid funds. Although privatisation would bring about development opportunity, this has been a threat to Kiribati as other small PICs given the uniqueness of the country's smallness and isolation. These same factors have in part contributed to the failure of the PUB management in bringing about efficiency, effectiveness and profitability. The isolation of Kiribati as other PICs has caused high fuel cost making it difficult for the PUB and related commercial activities to achieve efficiency and effectiveness. This is further added by political interference especially in setting appropriate tariff rates for its services.

It is suggested that commercialisation and corporatisation should be revisited as they appear fit in the case of Kiribati ensuring that reform should be at the micro and macroeconomic levels. Partial privatisation through joint venture or contracting out as well as liquidation is seen as necessary in the case of Kiribati. Contracting out and joint venture are good options for countries with lack of resources like Kiribati because they have the advantage of reducing government subsidies and the likelihood of increasing the

company's performance. More importantly, they bring in new ideas and skills together with the required expertise into the company and the country as a whole.

Fragmentation is the final option and may be the best option for big companies managing more than one complex business like the PUB in Kiribati. The separation of water service from electricity and sewerage is the preferred option to enhance PUB management focusing on one or two specific business activities.

In achieving successful reform, the people of Kiribati should have ownership of the reform programme ensuring that implementing policies are devised concurrently with the existing culture, available resources and capacities. Government should play a critical role in providing funds and appropriate legal protection while external aid donors put more effort in educating the people at different sectors of the economy. These may boost sustainable economic growth upon which improved living standards of the wider citizenry may be based. It is the researcher's hope that in respecting the people's views and providing quality life for everyone, peace, health and prosperity will be maintained in Kiribati.

**PUBLIC SECTOR REFORM AND ITS IMPACT ON PUBLIC ENTERPRISE**  
**A Case of the Public Utilities Board in Kiribati**

**CONTENTS**

	<b>PAGE</b>
Declaration of originality	i
Acknowledgement	ii
Dedication	iv
Abstract	v
Table of contents	viii
List of tables	xiii
List of figures and photos	xv
List of appendices	xvi
Glossary and abbreviations	xvii

**CHAPTER 1**

<b>1.0</b>	<b>Introduction</b>	<b>1</b>
1.1	Overview of the study	1
1.2	Rationale of the study	7

1.3	Objectives of the study	10
1.4	Sources of Data and Methodology	11
1.5	Organisation of the Thesis	11
<b>CHAPTER 2</b>		
<b>2.0</b>	<b>Public Enterprise Reform: A Conceptual Framework and Literature Review</b>	<b>13</b>
2.1	Introduction	13
2.2	Literature review	14
2.2.1	What is public sector reform?	14
2.2.2	Public Enterprise Reform Theory	14
2.2.3	Evolution of commercialisation, corporatisation and privatisation	17
2.2.4	Types of privatisation	18
2.2.5	Rationales of privatisation	20
2.3	International perspective	21
2.3.1	Historical perspective of privatisation	21
2.3.2	Public sector reform in the UK, New Zealand and Australia	21
2.4	Public enterprise reform in the Pacific	24
2.4.1	Policy background	24
2.4.2	Public sector reform in the Pacific	25
2.4.3	Privatisation of Telecommunication sector in the Pacific	28
2.5	The case of Kiribati	29
2.5.1	Policy background	29
2.5.2	Public enterprise reform in Kiribati	29
2.5.3	Legal framework of reform in Kiribati	30
2.5.4	The process of privatisation	30
2.5.5	The lead to privatisation in Kiribati	35
2.5.6	Policies and programmes in support of privatisation	37
2.5.7	Policy issues	38
2.5.8	Current projects	39
2.6	Public sector	39

2.6.1	The structure of the public sector	39
2.6.2	Public enterprise sector	40
2.6.3	Public enterprise financial performance	41
2.6.4	Issues and problems of public enterprises in Kiribati	41
2.7	Private sector	42
2.7.1	Progress of the private sector	42
2.7.2	Private sector development	43
2.7.3	Challenges facing the private sector	44
2.8	The reform of the PUB in Kiribati	44
2.9	The role of Government	46
2.10	The role of external aid donors' influence	47
2.11	Conceptual framework	50
2.12	Conclusion	51

### **CHAPTER 3**

<b>3.0</b>	<b>Research Methodology</b>	<b>53</b>
3.1	Introduction	53
3.2	The research topic	53
3.3	Research Methodology	54
3.3.1	Qualitative and quantitative approaches	54
3.3.2	The case study approach	54
3.4	Data collection methods	55
3.4.1	Sample size and characteristics	55
3.4.2	Literature survey	57
3.4.3	Field survey	58
3.4.4	Semi-structured interviews	58
3.4.5	In-the-field observations	59
3.4.6	Questionnaire surveys	60
3.4.7	Data processing	61
3.4.8	Ethical consideration	61
3.4.9	Research limitations	61

3.5	Conclusion	62
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## **CHAPTER 4**

### **4.0 Background Information of Kiribati**

#### **63**

4.1	Introduction	63
4.2	Geography	64
4.2.1	Land and ocean area	64
4.2.2	Environment	65
4.3	History and culture	66
4.4	Population and demographic issues	69
4.4.1	Population	69
4.4.2	Urban South Tarawa (study area)	69
4.4.3	Rural areas	75
4.5	Political background	76
4.5.1	Political structure and policy formation	76
4.5.2	Foreign relations	78
4.6	Economy	79
4.6.1	Economic issues	79
4.6.2	Recent economic performance	79
4.6.3	Nature of the monetary economy	81
4.7	Social and infrastructure issues	82
4.7.1	Access to education	82
4.7.2	Access to health	83
4.7.3	Transport and Communication	83
4.7.4	Sharing and caring culture	85
4.7.5	Employment opportunity	85
4.7.6	Challenges for youth	86
4.7.7	Land tenure system and limited lands	87
4.8	Conclusion	88

## CHAPTER 5

5.0	A Case Study: Public Utilities Board in Kiribati	90
5.1	Introduction	90
5.1.1	Overview of the main thrust of the study	90
5.1.2	Literature review in conjunction with the study objective	90
5.2	Key Findings and Discussion	91
5.2.1	Data recording and analysis	91
5.2.2	Sample characteristics	92
5.2.3	Company background	97
5.2.4	Company history and growth	99
5.3	PUB Organisational Chart	101
5.3.1	Corporate structure	101
5.3.1	Senior management structure	103
5.4	PUB Core Functional Areas and Services	103
5.4.1	Administration and Personnel Division	103
5.4.2	Finance and Accounting Division	107
5.4.3	Power Engineering Division	108
5.4.4	Water Engineering Division	109
5.5	Key Factors Affecting Growth of the PUB	112
5.5.1	Board of Directors	112
5.5.2	Employees	115
5.5.3	Diagnosis of Corporate culture	116
5.5.4	Changes in PUB tariff	119
5.5.5	PUB Financial performance as at 2004	120
5.6	Further Discussion on Findings	121
5.6.1	Problems and challenges facing PUB	121
5.6.2	General problems of public enterprises in Kiribati	125
5.6.3	Impact of PUB inefficiency on economic growth	125
5.7	Research limitations	129
5.8	Conclusion/recommendations	129

## **CHAPTER 6**

### **6.0 Conclusion and Summary**

**131**

6.1	Introduction	131
6.2	Brief overview of methodology approach	131
6.3	Limitations of the study	133
6.4	Recommendations	134
6.5	Future research	136
6.6	Conclusion	136
	<b>Bibliography</b>	<b>139</b>
	<b>Appendices</b>	<b>148</b>

## **LIST OF TABLES**

1.1	Candidates for privatization in 1989
2.1	Government of Kiribati subsidies and grants to public enterprises, 1995–2000
2.2	PICs budget figures as percent of GDP (US\$m), (1996–2002)
2.3	Members of the privatisation Task Force Committee
2.4	Government Statutory Commercial Authorities
2.5	Candidates for privatisation (NDS 1996)
2.6	History of privatisation in Kiribati
2.7	Total and per capita flows to PICs since 1970
2.8	Conceptual framework
3.1	Sample characteristics
3.2	Criteria for selecting population and sample for research
3.3	List of population and/or samples
4.1	Distribution of denominations on South Tarawa
4.2	Ethnic group in South Tarawa
4.3	Population growth rate in South Tarawa (1931–2000)
4.4	Population trend in South Tarawa by Urban Centres (1985–2000)

- 4.5 Gross domestic product by sector at current prices (1996–2002)
- 4.6 Land availability in South Tarawa
- 5.1 Age structure of PUB employees interviewed (%)
- 5.2 Gender structure of PUB employees interviewed (%)
- 5.3 Educational attainment of PUB employees interviewed (%)
- 5.4 Related work experience of PUB employees interviewed (%)
- 5.5 Critical events in the history of the PUB
- 5.6 Survey results on PUB personnel and HR functions
- 5.7 Members of the board of directors
- 5.8 Satisfaction survey results
- 5.9 Changes in PUB tariffs
- 5.10 Survey results on problems and challenges facing PUB
- 5.11 Survey results on PUB services
- 5.12 Survey results: sources of energy and fuel used beside PUB electricity

## **LIST OF FIGURES AND PHOTOS**

### **FIGURES**

- 1.1 Kiribati sources of revenue prior to independence (1977)
- 2.1 Public enterprise reform model
- 2.2 Public sector share of employment (estimate 2002)
- 2.3 Share of the private sector in employment
- 2.4 Government subsidies to PUB recurrent budget (1996–2004)
- 3.1 Model used in analysing research results
- 4.1 Map showing the location of the Republic of Kiribati in the South Pacific
- 4.2 Map of South Tarawa
- 4.3 Population trend of South Tarawa (1931–2000)
- 4.4 South Tarawa residents by home island
- 4.5 GDP growth rate (1995–2004)
- 4.6 Structure of GDP (at the current prices) as at 2004
- 4.7 Tourism: total number of visitors to Kiribati
- 5.1 PUB Organisational Chart
- 5.2 Management structure

- 5.3 Management structure for Administration and Personnel division
- 5.4 Management structure for Finance and Accounting
- 5.5 Management structure for Power Engineering
- 5.6 Management structure for Water and Sewerage Engineering division
- 5.7 PUB income and expenditure reports, 2001–2004

B. PHOTOGRAPHS

- 4.1 South Tarawa during high tide
- 5.1 The Public Utilities Board Administrative Headquartres
- 5.2 PUB new Power House in Bikenibeu, South Tarawa

C. LIST OF APPENDICES

- A List of commercialised and corporatised public organisations in 1989
- B Candidates for privatisation in 1989
- C Government ministries/departments by locations
- D Interview questions – Board of Director of the PUB
- E Interview questions – Chief Executive Officer, PUB
- F Interview questions for Senior Managers
- G Interview questions for lower staff
- H Questionnaire – Government Officials
- I Questionnaire – Private Business
- J Questionnaire – Non-government Organisations
- K List of public enterprises in Kiribati as at June 2005
- L Operating Profits of the Public Enterprises in Kiribati (as of 2002)

## **GLOSSARY AND ABBREVIATIONS**

### **GLOSSARY**

Kaaingaa	Clan or tribe or family
Kam bati n raba	Thank you
Maneaba	Kiribati meeting hall
Maneaba ni maungatabu	Parliament
Mauri	Welcome
Te mauri	Health
Te raoi	Peace
Te tabomoa	Prosperity
Te utu	Family
Unimane	Elders

### **ABBREVIATIONS**

A\$	Australian currency — currency used in Kiribati
ADB	Asian Development Bank

AusAID	Australian government assistance
BOD	Board of Directors
BKATM	Botaki ni Karikirakean Aroia Taan Makuri
CEO	Chief Executive Officer
FIT	Fiji Institute of Technology
FSP	Foundation of the South Pacific
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
KMFEP	Ministry of Finance and Economic Planning
KNEPO	Kiribati National Economic Planning Office
NDS	National Development Strategies
NGOs	Non-government organisations
PE	Public enterprise
PICs	Pacific Island Countries
PIFS	Pacific Island Forum Secretariat
PUB	Public Utilities Board
SAPHE	Sanitation, Public Health and Environment Project
TTI	Tarawa Technical Institute
TA	Technical Assistant
USP	University of the South Pacific

## Chapter 1

### INTRODUCTION

#### 1.1 OVERVIEW OF THE STUDY

The evolution of public sector reform in the developing countries of the Pacific Islands<sup>1</sup> during the mid-1980s has been the result of public enterprise inefficiency in the delivery of public goods and services (World Bank, 1995). In Kiribati, this type of reform, which emerged in the late 1980s, is part of the global change towards a market economy. The first government under President Tabai (1979–1991) in its drive to establish a long term sustainable local capital market saw the need to develop the private sector and emphasised a policy of divesture (privatisation) as an alternative strategy (KMFEP, 1979). This thesis looks at *public sector reform and its impact on public enterprises* as an immediate strategy to develop the private sector. In the literature it is known as the privatisation of public enterprises (Hughes, 1998; Kirkpatrick et al., 2000; and Mudambi, 2003). Privatisation is a longstanding issue in Kiribati and other Pacific Island countries (PICs). It has caused much debate and controversy among policy makers; the World Bank and other external aid donors beginning around independence in the late 1970s and remains a key challenge today (see ADB, 2003, 2002, 1993; Dubsky and Pathak, 2002; KMFEP, 2000, 1999, 1996; IMF, 1989; and World Bank, 1991). As the World Bank (1988) notes, Kiribati launched its privatisation policy in 1987.

Kiribati reform is driven by two major trends. The first relates to the budget constraints following the loss of British phosphate revenue and an acute cut in British budgetary assistance. The second related factor has been the dominant economic activities of the public sector performed by public enterprises, which severely limited the private sector (KMFEP, 1988). Figure 1.1 shows the impact of the loss of phosphate revenue on the Kiribati government budget.

---

<sup>1</sup> Pacific countries comprise Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Papua New Guinea (PNG), Palau, Samoa, Solomon Islands, Vanuatu, Tonga, and Tuvalu.

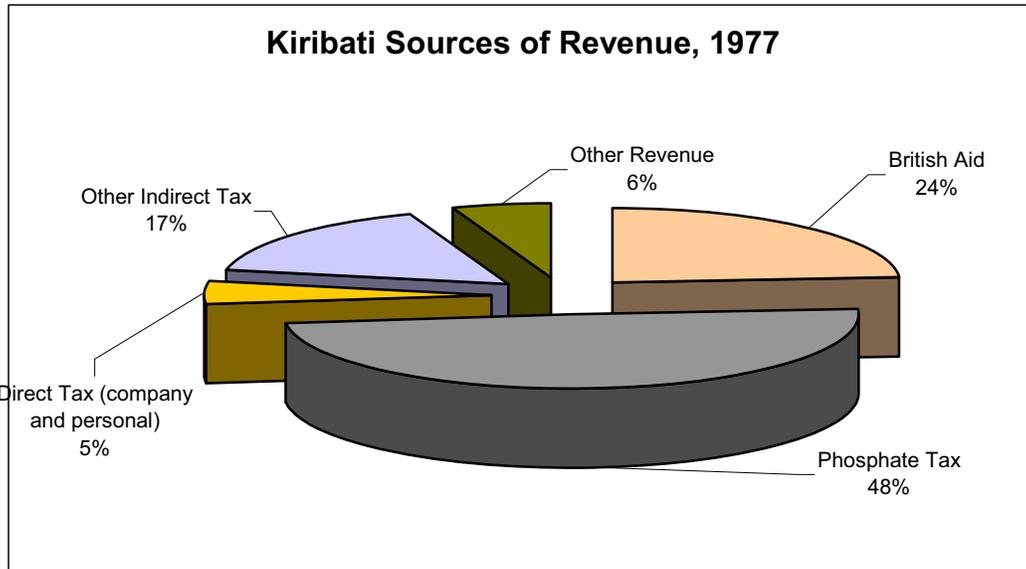


Figure 1.1: Sources of Revenue, 1977

Source: KMFEP (1979).

Figure 1.1 clearly shows that the phasing out of the British phosphate revenue in 1979 constrained the Kiribati government budget. This provides the motivation for the Kiribati government to look at opportunities with the private sector (KMFEP, 1979).

The World Bank (1995) also claims that Kiribati has been the first country in the Pacific to officially announce its privatisation policy. This led to the reform of all existing public organisations that began in 1989. Consequently, a Company Act was passed by parliament and a few entities have turned into statutory bodies, while some have become registered companies or limited liability companies under the Act of Parliament (Appendix A). An integral part of this effort has been identification of four public enterprises (PEs) to be slated for privatisation (Table 1.1).

**Table 1.1: Candidates for Privatisation (NDS 1986)**

- 
- Atoll Motor and Marine Services
  - Tarawa Biscuits
  - Otintaai Hotel
  - Captain Cook Hotel in Kiritimati
- 

Source: World Bank (1991); ADB (1993).

The later government under President Tito also recognised that private sector development can boost economic growth (Pearson, 1997). Nevertheless, this government does not favour the idea of privatisation and put more emphasis in strengthening fiscal and monetary policies, including financial systems. Tito's government also identified public enterprise reform as one key policy issue but none of the PEs reform process materialized or achieved a meaningful result (KMFEP, 2000). An interesting point is that the election of President Tito (1995–2003) was based on anti-privatisation policy (ADB, 1997). MacDonald (1998) argues that President Tito gained the support of the majority of the people because the policy of privatisation would involve the change of the existing community ties to individualism. Such change is a threat to many people, especially in alienating public assets to private entrepreneurs.

However, with the influence of external aid donors (World Bank, IMF and ADB) this anti-privatisation vision came under attack and Tito's government formulated a new vision to reform public enterprises and privatise those companies competing directly with private businesses (see Appendix B). Government's vision and priorities are well reflected in the National Development Strategies (NDS) for 1996–1999 and NDS 2000–2003. It becomes apparent that the reform of public enterprise dominates much of the discourse on economic growth. In line to Kirkpatrick et al. (2002) and Nolan (2001), transfer of public activities to the private sector can only happen through the 'privatisation process'. President Tito's reluctance to support the policy of privatisation has in part delayed implementation of the policy. As ADB (2002) states, there has been no further development since corporatisation.

The current government under President Anote Tong (elected in early 2003) although comes with different priorities, it shows its interest in supporting the privatisation policy (KMFEP, 2003). Empirical evidence is in the recent liquidation of the two unsuccessful public enterprises, namely *Abamakoro Trading Limited* and *Atoll Motor Marine Services Limited*. However, the public reluctance to support privatisation has hampered government interest in pushing for direct privatisation. An alternative strategy adopted by this government is to reduce government subsidies to commercial services by cutting subsidies to poorly performing PEs and encourage tendering to the private ownership. In

support of the privatisation policy, government's new strategies emphasise continuous review and close monitoring of public enterprise performance. In this approach, government is mandated to ensure that respective PEs under their supervision should produce to ministries every three months their progress reports together with issues/problems encountered during their operations. Concurrently, government ministries are also required to produce to Parliament operational reports consistent with activities set out in the four-year plan, which also include reports of their respective public enterprises. The whole conception is to ensure that specific targets as required by the NDS are achieved within the stated timeframe to allow timely corrective measures. In addition, the reform of macroeconomic policy, notably in the financial sector (monetary policies) is still ongoing, most of which were started with the former government. These are clarified in the NDS 2004–2007 (KMFEP, 2003).

It is evident that since early reform in the 1980s and up to now no full privatisation has materialised in Kiribati. However, useful insights have been gained from past experience, which are now put to practical use. One classic example is the adoption of joint ventures (partial privatisation) with government, such as in fishing, telecommunications and banking. For example, the Bank of Kiribati is now 75% owned by the Australian and New Zealand Banking Corporation (ANZ). In this context, degrees of privatisation by adopting alternative strategies such as contracting out and joint ventures are possible. A detailed literature review on privatisation will appear in Chapter 2 of the current study.

Prasad and Snell (2002) provide that the early reorganisation, commercialisation and corporatisation of the former Air Tungaru Limited, Public Utilities Board, Kiribati Shipping Corporation and the Government Supply Company Limited and other corporatised public enterprises have since had no further development. As the Pacific Islands Forum Secretariat (2004) notes, today all public enterprises in Kiribati are fully owned by government with the exception of two joint venture companies namely, the Bank of Kiribati and Kiribati Otoshiro Fishing Company Limited. This means government remains the larger producer and consumer of resources.

ADB (2002a) and KMFEP (2000) indicate that PEs continue to depend on government subsidy. Government subsidies to PEs in 2001 totalled \$5.9 million from the recurrent budget and \$2.2 million from the Development Fund. In the year 2002, the total cash contribution was \$13.1 million plus in-kind contribution of \$21.3 million to the PUB. Government greater dependence on external donor funds illustrates the poor performance of the public sector.

The literature (also empirical survey) shows that PEs in Kiribati continue to act like public organisations. In the Public Utilities Board or PUB, for example, centralised decision-making and top-down management still prevail reflecting much of the traditional bureaucratic system. Customer care in terms of friendliness has improved at certain levels of the organisation. Nevertheless, change in the PE culture as shown in the case of the PUB in Kiribati appears to have made little no progress. The idea of making the PUB's more customer oriented and competitiveness has not been achieved as anticipated having its significant impact on the enterprise's performance. One major challenge facing the PUB has been the political interference through the board of directors because of its monopoly status (ADB, 2002a). Government ownership has given employees the feeling of job security because they are still with the government organisation, thus there is no motivation towards commercial activities and competition. Porter (1990) believes that employees of the private sector are more customer service oriented and competitive. Other studies (see Mudambi, 2003; and Jayaramann, 1999) highlight that competition in PEs is crucial as it encourages employees to be more customer service oriented in the delivery of goods and services to meet the market standards while simultaneously maintaining profits

ADB (2002c) states that the corporatisation of the PUB has made little improvement or change at the microeconomic level. Some notable improvements can be seen in the recruitment of a qualified CEO or Chief Executive Officer including line managers and continuous training of key personnel. Other changes also reflected in the company's legal status, including change from government department to a limited liability company and job titles, such as from managers to chief executive officer, financial controller to finance manager and typist to personal assistant. The major challenge is for government to give

more flexibility and autonomy to the company's management and operation rather than the board of directors. This will provide management's accountability for results and the possibility of enhancing the PUB's potential to obtain the maximum benefit of efficiency and effectiveness.

Further development can be seen in the wider use of new technology such as telecommunications e-mail, fax, telephone (mobile phones), computerized accounting systems, engineering and throughout the education system. There is a widespread adoption of new technologies in both public and private organizations. However, such changes took long to realise in the sense that the launching of new technology in Kiribati just occurred in the early 2000s, almost a decade after the reform (ADB, 2002a). However, expectations to improve government operational planning and performance monitoring have not yet been realized (KMFEP, 2003).

In addition, the evolution of small private businesses on South Tarawa is one notable improvement, which can be seen as a future opportunity for Kiribati economic growth. This has been slow as in comparison to other PICs like Fiji and Samoa partly due to the country's unique status in terms of its smallness and isolation, particularly the lack of resources (ADB, 2002a; and KMFEP, 2002). Nevertheless, recent development of the private sector relating to large foreign investors basically in wholesaling and restaurants, such as the Punjas Company Limited from Fiji, Fair Price Limited from China and many Chinese restaurants can be seen as the major threat to Kiribati. Although employment opportunities have increased in the private sector from these enterprises, such development may limit the opportunity for local entrepreneurs. Most local entrepreneurs have no big capital and entrepreneurial skills to compete with these foreign investors.

Larmour (1998) argues that reform in Kiribati as in other PICs in the 1980s and 1990s has been less successful, partly due to poor governance. This assessment provides that future reform of public enterprise is essential in the case of Kiribati to ensure the integration of good governance dimensions<sup>2</sup> into the operation of PEs. The current situation with foreign

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<sup>2</sup> Good governance dimensions include accountability, transparency, creditability and participation.

investors is a classic example. Empirical survey provides that government has failed to seek wider community's views on this change, particularly those running similar business lines with foreign investors.

It is evident (empirical survey) that reform measure using joint venture approach appears to have been more influential in increasing public enterprise performance. The Bank of Kiribati is a good example, where productivity, efficiency and effectiveness play critical roles in shaping the corporate culture of the organisation. This is demonstrated in faster services and information processes, staff punctuality, appropriate incentives to good performers, timely discipline to unsatisfactory performers, and smart uniforms with a polite and gentle customer approach. Proper control measures and appropriate incentives put in place have boosted staff morale to perform at their full potential. For example, the Bank of Kiribati displays on its notice board outstanding performers specifying the type of reward they receive. In line to Reddy (1998)'s finding, change in the performance of the organisation will occur only if the culture is changed to reflect accountability to tax payers and customers.

The failure of microeconomic reforms to bring about a significant shift in the culture of PEs and accelerate private sector development provides the basis for the need to reform macroeconomic policies, specifically targeting public enterprises. As ADB (2005) recommends, the public sector reform is too broad. The reform should be specific to public enterprises if it is to promote PE efficiency. The Kiribati NDS (2004–2007) provide that public enterprise is one of the key policy issues to be achieved. In the literature, public enterprise reform can either adopt commercialisation and corporatisation or privatisation. It is evident that the reform of public enterprise and privatisation are two interrelated development strategies having dominated Kiribati National Development Strategies since 1989 (KMFEP, 1979, 1996, 2000, 2003; and ADB, 2002a, 2005).

## **1.2 Rationale of the Study**

The topic of public sector reform and its impact on public enterprise underpinning the current study is of vital importance to both academic researchers and to policymakers. To

academic researchers, this topic is actually the follow-up to the microeconomic reforms undertaken in the mid-1980s and early 1990s in Pacific island countries (PICs). Lessons learnt from the early reforms in Kiribati have formed the foundation for this research work. Of equal importance is the contribution to existing knowledge and understanding of public enterprise problems.

This research work is useful as it provides the opportunity for the researcher to share experience and knowledge on the topic with the view to offering some potential strategies for future reform. These strategies and recommendations are based on both academic and practical experience grounded on the I-Kiribati indigenous ethical norms and values. The study is in response to a challenge by the Kiribati government (Hon. President Tong's Speech, 2005) to academic researchers to provide useful information for policy-making decisions, especially on those long persisting issues and problems having their greater negative impact on Kiribati development.

The study is the first academic research in Kiribati specific to public enterprise reform. The absence of such research has in part contributed to the long existence and persistence of the problems relative to the public sector inefficiency. Thus, the study will try to draw on lessons from both successful and failed reforms, so that policy makers could use or refer to it when making decisions concerning the particular issue. This information will form the basis for better and constructive solutions and improved measures on the part of those concerned. It is the researcher's hope that this piece of work will provide a useful start for future researchers in this particular area.

To policymakers, understanding the mechanisms is crucial for the proper formulation of a strategic framework for public enterprise reform. Despite extensive studies on the issue, up to now there has been no consistent framework for reform. Much of the review on public enterprise reform in the Pacific suggests that the reforms in the Pacific Island countries and Kiribati in the mid-1980s and up to now have been less influential in promoting PE efficiency partly due to the absence of an appropriate legal framework (see Hughes, 2003; World Bank, 1992; and MacDonald, 1998). As ADB (1993) argues, in

Kiribati, for example, government's endeavour to implement privatisation in 1989 has failed to provide adequate legislation because of political unwillingness to remove market barriers.

The study is also useful, as it will identify ways for sustaining ongoing reforms and modifications necessary for the improvement of the public sector at large and also useful for policy decision-making at both the public and private sector organisational levels. The findings of the study will contribute to the global body of knowledge that can be used for future research. The reform of the Public Utilities Board in Kiribati as intended in this study will provide a good model to all government-owned enterprises in Kiribati and PICs.

In addition, the selection of the Public Utilities Board (PUB) in Kiribati as the main focus for the current study is based on the empirical finding (see ADB, 2001) that the company inefficiency in the delivery of water, sewerage and electricity services, particularly to the public on South Tarawa, together with its poor economic performance has a serious negative impact on the people and development opportunities in Kiribati. A detailed analysis of the PUB issues and problems and findings highlighted will be found in Chapter 5.

Finally, the study will be very useful to policy makers as it uncovers a much broader aspect of the reform programme at both the micro-macroeconomic levels as it will incorporate both the international and regional perspectives and practices. In addition, the study sheds light on the problems facing government and the people at large and recommends development strategies that incorporate stakeholders' views (government, civil society, non-government organisations and the private sector) and the technical feasibilities. This makes the study different and unique from the others, hence it can become the basis in the formulation of a strategic framework for the reform process at both the micro-macroeconomic levels, particularly the future public enterprise reform, which is the top agenda today in most Pacific governments (PIFS, 2005).

### **1.3 OBJECTIVES OF THE STUDY**

In general, this study aims to find out how public sector reform evolved in Kiribati in the mid-1980s with the view to exploring the impact of this reform on public enterprises. The study focuses on the case of the Public Utilities Board in Kiribati, which will provide the framework for studying and determining the effect of the reform on public enterprises.

The above general objectives are further broken down into specific objectives:-

- i. Study of the concept of public sector reform and its interlinked concepts, such as public enterprise reform, commercialization, corporatisation and privatisation;
- ii. Study of the process and scope of public sector reform in some developed countries and its application to some developing countries of the Pacific;
- iii. Study of the process and application of commercialisation, corporatisation and privatisation in Kiribati;
- iv. Study of the financial performance of PEs in Kiribati;
- v. Study of related factors contributing to the problem of poor economic growth by examining Kiribati geographical features, history and culture, population and demographic, political, economic and social factors;
- vi. Study of the Public Utilities Board by investigating opinions of the Board of Directors, Chief Executive Officer including employees with regard to the company's history and growth in terms of its strategic management plan, corporate culture, financial performance since its inception;
- vii. Study of the problems and challenges facing the PUB by looking at the internal and external environments in which it operates;
- viii. Study of factors contributing to PEs' poor performance by investigating the views of stakeholders, such as politicians, government senior officials, private business managers and employees and community representatives (NGO's) for the future reform of public enterprises in Kiribati; and
- ix. Study of the current position of the privatisation policy, and its future prospects and provide recommendations for future improvement.

#### **1.4 SOURCES OF DATA AND METHODOLOGY**

Data and information for this thesis were derived from both secondary and primary sources. The methodology employed both a literature survey and fieldwork, which included a case study, questionnaire surveys, in-depth interviews and in-the-field observations. Both the qualitative (descriptive) and quantitative methods are employed for analysis and interpretations of the findings. A detailed explanation of the methodology is provided separately in Chapter 3.

#### **1.5 ORGANISATION OF THE THESIS**

Chapter 1 is an introduction, which highlights the key issue under study, usefulness of the study, main objectives, data and methodology used in the research, and lastly the structure of the thesis.

Chapter 2 deals with a conceptual framework and literature review of past studies on public sector reform and its impact on public enterprise. It focuses on how the reform evolved, and the scope of this reform in the United Kingdom, New Zealand and Australia and some Pacific Island countries with particular reference to Kiribati. The chapter also provides a review of the process and implementation of commercialisation, corporatisation and privatisation, as well as looking at significant development in Kiribati since the commencement of reform in the mid-1980s. It also looks at the current position of the policy, its future prospects and problems associated with the implementation.

Chapter 3 deals with the research methodology. The chapter is divided into four main parts, which include the research topic and methodology.

Chapter 4 provides background information on Kiribati with particular reference to South Tarawa (location of research area) in terms of geography, history and culture, demography, and political, economic and social factors.

Chapter 5 provides a case study of the Public Utilities Board (PUB). It presents the results of the fieldwork, mainly the interpretation of data and discussion of key findings.

Chapter 6 provides a summary and conclusion. The chapter provides a review of the methodological approach, implications of the study, its limitations and suggestions for future research, as well as a brief concluding statement. A major part of the conclusion will contain recommendations by identifying neglected areas in the present research useful for future research.

## Chapter 2

### **PUBLIC ENTERPRISE REFORM:**

#### **A CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW**

##### **2.1 INTRODUCTION**

The notion of public sector reform and its impact on public enterprises has been around since the emergence of a market economy in most developed countries in the early 1980s (Hughes, 1998). The issue on public enterprises reform is still recent in developing countries, particularly the Pacific Island countries (PICs), such as Kiribati. Dubsy and Pathak (2002) refer to it as a 'recipe' to promote public sector efficiency, widely adopted particularly by the World Bank and other external aid donors in the context of the development of Pacific Island economies. More generally, many writers on the issue restrict their attention to the effects of the reform process on public sector efficiency and effectiveness; while some are concerned only with the effects of the reform process on government budget (see Hughes, 1998; Gupta, 2000; and Farazamand, 1999). In examining the impact of reform on public enterprise, the present study looks at three important dimensions, which include the scale of change, the process of reform and its implementation (Nolan, 2001). These should provide a theoretical basis for understanding public sector reform and its impact on public enterprise. It is of vital importance to emphasize that there is still ongoing debate on this issue. Many studies indicate that the proper role of government in society is not well understood and thus remains an open issue (see for example Larmour, 1998; Mudambi, 2003; Nolan, 2001; and Osborne & Gaebler, 1992).

This chapter focuses on a conceptual framework and literature review. The primary objective of the chapter is to examine the impact of public sector reform on public enterprises in PICs with particular reference to Kiribati. The chapter will examine the emergence of public enterprise reform theory, policies of privatisation, corporatisation and commercialisation and how these policies are processed and implemented. It will also identify problems encountered, changes that have taken place in PEs since public sector reform in the mid-1980s, the current position of these policies in Kiribati and their future

prospects. It will begin with a conceptualisation of the notion of public sector reform followed by comprehensive literature review. It will also look at the issue from the international perspective, particularly the cases of the United Kingdom, Australia and New Zealand from which lessons can be drawn that are useful for the PICs future reforms. The three countries are taken in this study because they have played critical roles in the development of the PICs and Kiribati, most notably New Zealand and Australia. The UK is also taken to see the original process of reform.

## **2.2 LITERATURE REVIEW**

### **2.2.1 What is Public Sector Reform?**

Hughes (1998) defines public sector reform (PSR) as the process that involves the reassessment of the respective roles of the public sector. The rationale behind this reform is to determine public activities that should be transferred to the private sector. The literature does not provide a commonly used definition but many authors have generally accepted usage of concepts like ‘development’, transition, change, modernisation, innovation, reorganisation, reshaping and so forth (see Dubsky and Pathak, 2002; Gupta, 2000; Mudambi, 2003; and Walters et al.,1993).

Public sector reform involves two phases of change (see Botsman & Reilly, 1990; Nolan, 2000). The first involves change at the microeconomic level, for example downsizing of the public service through eliminating duplications and simplifying institutional units, commercializing, corporatising and privatizing, deregulating the market, decentralization and so forth. The second phase moves change at the macroeconomic level, which refers to the reform of fiscal or monetary policies, tariffs and levies including public enterprise reform.

### **2.2.2 Public Enterprise Reform Theory**

The emergence of public enterprise reform theory is based on the dominant economic role of public enterprises and its direct impact on private sector growth and slow economic growth. As the World Bank (1993); PIFS (2005) argue, a public enterprise sector is the underlying cause of a weak private sector and related economic problems. In Kiribati, for

example, poor performance of public enterprises (Kiribati Public Service Office, 2001) has a direct impact on government budget and fiscal deficit, resource allocation and income distribution, which is reflected in implicit subsidies and taxes. Table 2.1 demonstrates that the operation of public enterprises in Kiribati is a severe and growing constraint on the government budget (KMFEP, 2000).

**Table 2.1: Government Subsidies and Grants to Public Enterprises 1995–2000, (A\$m)**

<b>Year</b>	1995	1996	1997	1998	1999	2000
<b>Subsidies and Grants</b>	A\$1.6m	A\$2.1m	A\$5.2m	A\$4.0m	A\$7.0m	A\$4.5m

Source: KMFEP (2000).

As illustrated in Table 2.1, the Kiribati government’s substantial grants and subsidies to public enterprises averaged A\$4.0 million per annum (equivalent to an average of 6% of GDP) between 1995 and 2000. This figure does not include subsidies in the form of technical assistance provided by external aid donors.

Floyd et al. (1986: xiv-xv) argue on related macroeconomic problems associated with PEs. Firstly, the application of non-commercial objectives hampers competition in these enterprises. Secondly, government ownership of PEs has allowed political interference and interest in the operation of these enterprises. Thirdly, heavy subsidy to PEs prevents government efforts from subsidising particular groups of consumers or private sector activities. Fourthly, public enterprises are more privileged for credit and borrowing from public financial institutions and large credit markets, or keeping out private borrowers.

Mudambi (2003) argues that public enterprises have proved to be inefficient, primarily because they tend to pursue strategies, such as excess employment, that satisfy the objectives of politicians who control them, rather than maximizing efficiency. One key objective of politicians influencing public enterprises has been securing employment for their voters.

The public enterprise problem has been a global phenomenon since the 1970s and remains a critical issue today (Mudambi, 2003). There is recognition that PEs are inefficient and have severely affected economic growth in both developed and developing countries including the PICs like Kiribati. However, many governments have adopted public sector reform, targeting PEs as an immediate option.

The ADB (2005) argues that public sector reform is too broad and recommends a more specific reform of the public enterprise sector may be more effective as a means to improve PE efficiency. Nevertheless, to pursue a successful reform, it is vitally important to look at introducing a 'conceptual framework' based on two broad related issues of PEs: poor investment; and limited private sector activities.

This framework critically explores the prospects for adopting privatisation as a means of expanding the role of the private sector. As Kikeri (1995) argues, the general reform strategy widely adopted for public enterprise reform has been privatisation. In Gupta (2000:138), 'privatisation of public enterprises kills two birds with one stone: it accelerates private sector development for generating revenues for the government; and it reduces government outlays indirectly and directly'. Not surprisingly, privatisation has been a key element of public sector reform in almost all the OECD countries.

Mudambi (2003) also suggests that privatisation has become the dominant theme of the public enterprise literature since the late 1970s. The UK radical reform launched in 1979 under the Thatcher government has made privatisation a theme for debating public enterprises. The theoretical argument for privatisation rests on two hypotheses (see Kirkpatrick et al., 2002:129). The first is that public enterprise performance will be superior under private ownership as compared to public ownership. The 'ethics' of privatisation is based on the notion that property ownership is the primary determinant of enterprise performance. The second is that an 'overextended' public enterprise sector hampers private sector development and overall economic efficiency. Based on these theoretical underpinnings, the public enterprise sector has been the first target in many reform activities since the early 1980s.

In cases where privatisation is not an immediate option, notably the PICs like Kiribati (ADB, 1993; MacDonald, 1998), the framework attempts to integrate other options that might fit such a situation. Experience suggests that public enterprise reform without privatisation has proved most successful in promoting PE efficiency. Kirkpatrick et al. (1999) provide China as an example, where PEs were operated like full commercial enterprises under state ownership. In this context, the two concepts of commercialisation and corporatisation are also considered as alternative public enterprise reform strategies. Accordingly, these reform strategies of commercialization, corporatisation and privatisation may be used to explain the “impact of public sector reform on public enterprises”.

### **2.2.3 Evolution of Commercialisation, Corporatisation and Privatisation**

Botsman and Reilley (1990: 56) indicate that public sector reform in the developed countries like Australia in the early 1980s resulting in the emergence of three popular reform strategies of commercialisation, corporatisation and privatisation.

#### Strategy 1

*Commercialisation* is about making a government-owned entity or organization operate like a private enterprise in the sense that a public entity offers goods and/or services to the user at a price. In other words, the user is charged a fee for the goods and services provided. Commercialisation (see Samy, 1994) is the first stage in the privatisation process, and that process involves changing the organisation’s civil service culture to a commercially oriented culture, with the view to improving customer service and the organisation’s competitiveness.

#### Strategy 2

*Corporatisation* (see Farazmand, 2001) is the process of transforming a government organisation or entity into a limited liability or registered company, through an Act of Parliament. This strategy is being adopted worldwide in an endeavor to improve PE efficiency by distancing government from day to day operations — an element that was

perceived to be the cause of sub-optimal performance. Corporatisation is the second stage in the privatisation process, aimed at reducing government activities and making public enterprises more efficient, cost-effective and customer oriented.

In essence, commercialisation and corporatisation do not involve any sale of public asset ownership and control into the hands of the private sector.

### Strategy 3

*Privatisation* (see Farazmand, 2001) is defined as the process that involves the partial or complete sale of ownership and/or management of a public enterprise. Privatisation, the conversion of a public enterprise into a private enterprise, is the best strategy for eliminating the problems associated with political interference. Various types of privatisation can be used in reform which starts from simple liquidation, asset sale through joint ventures, management contracting out, public offering, leases, and concessions

#### **2.2.4 Types of Privatisation**

Despite the complexities in implementing full privatization in some countries, partial privatisation may be a good option. Botsman and Reilley (1990:57) suggest several types of privatisation that can be adopted in partial privatisation. These are:

##### *Joint Venture/trade sale*

Joint venture involves part sale of the company, whether assets or management services, to an outside investor. Joint venture takes the form of a written agreement between government and buyer. The joint venture partner is expected to bring the finance and the expertise required in production, marketing, management and the capacity to expand the business. Joint venture has the advantage of reducing government subsidy and making an enterprise commercially viable and competitive, in turn, leads to profit maximisation.

##### *Public offering*

Public offering is a process of involving sale of a proposition of shares of government-enterprise equity, need not be 100% sale, particularly to those companies offering interest,

for example the Kiribati Provident Fund and/or Fiji Provident Fund. The sale is normally done through the Stock Market Exchange as well as through an auction. Public offering has the advantage of spreading public enterprise ownership to private shares (institutional investors).

#### *Contracting out*

Contracting out is a process transferring some part of management services to private ownership through the form of agreement between government and an outside investor. Contracting out has the advantage of reducing government activities, and increasing private ownership without taking the risk of sale of public asset and/or paying a substantial amount of money to investors. Contract varies as it depends on the nature of a PE, and provides a method of PE restructuring without having to resort to complete privatization. In general, this is no way precludes the liquidation and privatisation alternatives, for the restructuring of a public company can certainly be used to facilitate eventual divesture.

#### *Fragmentation/decomposition*

Fragmentation is an elective for privatisation that does not involve sale of public asset. The process of fragmentation involves the breaking up of large public enterprises into several entities, for example, water, electricity and sewerage services provided by the Public Utilities Board in Kiribati could be fragmented into three smaller organisations as an alternative to privatisation.

Duncan et al. (1999) and Hughes (2004) suggest that a decision on the most appropriate reform policy is made on a company-by-company basis and should be formulated on the country's own level of development in terms of its social and cultural, economic and political status. In other words, development policies designed and developed for other countries cannot be replanted into another country, for example, reform strategy, that is, successful in the United Kingdom will not yield the same outcome in the Pacific Island countries.

### **2.2.5 Rationales of Privatisation**

Different countries at different stages of economic development have adopted different policies in the name of privatisation (Gupta, 2000:19). In the developed countries, privatisation is motivated by three major factors: the move towards the market economy; the need to roll back the frontiers of the state; and adoption of new public management principles (NPM) or “managerialism”. NPM (Hood, 1990: 210) is all about improving performance, making government more cost-conscious, efficient and effective, responsive, customer-oriented, flexible and transparent.

In the developing countries of the Pacific like Kiribati, privatisation is both an internal and an external pressure. In Kiribati as in many Pacific Island countries, the adoption of privatisation policy was a reaction to both an internal pressure on government to meet its budgetary needs and lack of a local capital market following the decolonisation that took place in the late 1970s (Tisdell, 2000).

Privatisation is also an outcome of an external pressure from the World Bank, IMF and ADB (see Appana, 2003; and Narayan, 2005) which seek to influence these small island states to become a free market economy. As Gupta (1990, 9) argues, granting financial assistance to recipient countries of the Pacific Islands even in the form of a loan is subject to commitment to reform. Ladeur (2004); APSC (1996) argue that globalization is another intervention strategy used by those powerful nations, particularly the United States, to reinforce the adoption of their social cultural, economic and political systems by weaker nations like the PICs and Kiribati. From such an outside perspectives, it makes sense that commitment to privatization provides the qualification to recipient countries like Kiribati to access external aid donors’ fund.

Pollitt (1993:49) suggests several broader macroeconomic objectives of privatisation including private sector development, increased economic growth, stimulation of investment and increased employment.

Hughes (1998) claims that the main objective of privatisation is to eliminate the tall hierarchy and bureaucratic system of government that is imbedded in the traditional public administration. The rationale behind this is to improve public enterprise managers' accountability and autonomy in the management and operation of a public enterprise that will in turn improve performance.

## **2.3 INTERNATIONAL PERSPECTIVE**

### **2.3.1 Historical Perspective of Privatisation**

The origin of the privatisation policy that has influenced the entire world is often attributed to the electoral victory of Margaret Thatcher in the United Kingdom in 1979 (Nolan, 2001: 102-103). The concept of privatisation first arrived in the political mainstream in the UK in 1978 as a policy document. The apparent success of the UK in privatising the BP-British Petroleum and sale of shareholdings in enterprises in 1984 drew the interest of many developed countries. As a result, privatisation became a central plank of government economic policy. In general, Prime Minister Thatcher, from the Conservative party, led the move to privatisation. The UK's main concern was to reduce the size of the public sector by turning the public enterprise sector activities to the private sector (Farazmand, 2001).

### **2.3.2 Public Sector Reform in the United Kingdom, New Zealand and Australia**

The radical public sector reform that began in the United Kingdom, New Zealand and Australia in the early 1980s has attracted the interest of many developed and developing countries (Hughes, 1998). One notable feature of the reform in these three countries in the early years of that decade, has been the conversion of many crucial public enterprises to privatised enterprises and introduction of market incentives into public sector organizations where state ownership and/or legislation has limited private ownership and new entry (Wollmann, 2003; Pollitt, 2000 et al.).

#### *The UK Experience*

The UK reform programme under the Thatcher government (1979–1990) then continued by the later government under Major John (1991–1997) was conducted at both the micro

and macroeconomic levels. This means, large scale of privatisation took place with many crucial enterprises, including the utilities and accompanied by series of reforms. The UK policy of enterprise privatisation can be described as liberalisation — the introduction of market incentives into industries where state ownership and/or legislation had limited private ownership and new entry. The UK liberalisation often consists of the interrelated policies of ownership transfer (conventionally defined privatisation), structural change of the industries concerned, strengthening financial institutional capacities, adoption of different privatisation strategies to different enterprises and the introduction of statutory regulatory bodies to oversee the behaviour of incumbent firms (Pollitt, 1993).

The reform of the 1980s and 1990s marked important developments in the UK economy. Some significant changes as a result of enterprise privatisation has been the development of capital markets to replace a landscape of national, over regulated monopolies in fragmented markets and improved investment. Other notable developments have been the widespread of individual shareholders where some individuals hold shares in two or three privatised company, including the explosion of private enterprises, leading to the provision of employment opportunities (Pollitt et al., 2000). More importantly, the political power in commercial activities was weakened as well as improvement in managers' accountability. As a result, the UK economy turned into a competitive market. Interestingly, there has been significant reduction of employment in nationalised industries from 1.8 million employees to fewer than 400,000 (Gupta, 2000: 174).

The UK methods of sale included flotation on the London Stock Exchange through either complete or partial privatisation, denationalisation and contracting out. What is clear from the UK experience is the importance of the reform of both micro and macroeconomic policies (Gupta, 2000: 56). Lessons for the PICs can be drawn from the privatisation techniques and their applications and practical lessons that might be observed from the UK privatisation experiences since the beginning of the programme until to date.

### *New Zealand*

New Zealand privatisation policy has to date been one of the most ambitious and widely observed in the OECD countries. The New Zealand privatisation policy dates back in 1987 following the establishment of the State-Owned Enterprises Act in 1986. NZ, one of the smallest countries in the OECD has been very successful in reducing public sector inefficiency through its corporatisation policy that quickly absorbed into privatisation (Wollmann, 2003: 83). The most impressive indicator of this success has been the sharp cut in government subsidies to virtually all its state-owned enterprises. Another impressive result of the NZ reform has been a reduction in unemployment rate, which fell from 11% to 5.9% between 1986 and 1996, but rise again to 6.7% in 1997. In addition, individual contract became the primary basis for employment (Hector and Hobby, 1998).

The NZ methods of sale favour joint ventures and contracting out. The NZ model has been pronounced to be successful and well managed. Lessons to be drawn from the New Zealand privatisation is the formulation of a regulatory framework incorporating public interest or security of consumers including the reform at both the microeconomic and macroeconomic levels (Wollmann, 2003).

### *Australia*

Australia's privatisation policy started in 1991, by Prime Minister Hawke (1983–1991) and continued by Keating (1992–6). The policy aims at introducing free market policies into the public sector organization. The Australian government, although it started much later than the UK and NZ, enterprise privatisation increased dramatically. Some significant changes as a result of the privatisation has been the reduction in the size of the public sector, from 30% to 22% and cut in the number of government departments from 28 portfolio departments to 18 (Drago and Wooden, 1998). The Australian policy of privatisation has been very successful in turning the Australian economy into a competitive market. Like the UK and NZ, Australia's privatisation processes followed the sequence of commercialisation then corporatisation, but no rush to privatisation (Botsman and Reilley, 1990:12; Halligan, 1997).

Australian method of sale favours joint venture and contracting out. Australia's reform model has no framework as a set of reforms were evolved over time prior to the official set of consistent, logical and integrated frameworks, whether it be in relation to financial management, industrial relations or people management (see Halligan, 1996; and Sedgwick, 1994: 141).

Unlike the UK, the NZ and Australian governments aim were to improve economic efficiency rather than to see public enterprises returned to the private sector (Gupta, 2000; Wollmann: 2003:83). One of the biggest impacts of public sector reform in the developed countries, as reflected in the three countries: the UK, NZ and Australia has been the sale of many crucial state owned enterprises and turning the whole economy to a competitive market (Halligan, 1996).

## **2.4 PUBLIC ENTERPRISE REFORM IN THE PACIFIC**

### **2.4.1 Policy Background**

The evolution of the privatisation concept in Pacific Island countries (PICs) soon after decolonization has been based on poor economic growth. Privatisation came as a policy instrument for the PICs brought about by external aid donors, in particular ADB and the World Bank, which form part of the financial assistance toward development (Hughes, 2003; Pearson, 1997). In the process of development several problems were realized. Some notable common problems faced by the PICs include the limited subsistence base, lack of local capital markets and government budget constraints and fiscal deficits. With some urging from external aid donors, almost all PICs have accepted the adoption of privatising public enterprises as an immediate option (see World Bank, 1988; IMF, 1989; and ADB, 1993). In supporting this policy, almost all PICs have implemented public sector reform targeting public enterprises; some started in the late 1980s, others in the early 1990s. Table 2.2 illustrates the budget position of seven countries in the Pacific from 1996 to 2002.

**Table 2.2: PICs Budget Figures as Percent of GDP (US\$m), 1996 – 2002**

Country	Revenue		Expenditure		Fiscal Deficit	
	1996	2002	1996	2002	1996	2002
1. Cook Islands	36.2	43.4	43.1	43.1	-6.9	0.3
2. Fiji Islands	N/A	20.1	-	27.0	-	-7.0
3. Kiribati	98.6	119.1	110.0	125.0	-11.4	-5.9
4. FSM	76.6	69.1	76.4	66.7	0.2	2.4
5. Samoa	50.5	33.4	49.0	35.5	1.5	-2.1
6. Solomon Is.	34.7	25.0	38.6	37.2	-3.9	-12.2
7. Vanuatu	24.9	21.7	26.6	23.8	-1.7	-2.1

Source: ADB (2003) (based on individual government papers).

Table 2.2 slight changes in the six Pacific Island countries used for comparative analysis. The data provides evidence that change takes time to realise. The budget position represented by government fiscal deficit could determine that there has been limited impact of public sector reform on public sector efficiency. The exceptional cases are the Cook Islands and Federated States of Micronesia both showing good progress in reducing public deficit. Solomon Islands and Vanuatu budget constraints may have a connection with political instability. The unavailability of data for Fiji's financial status in 1996 limits the researcher's ability to make proper assessment of current position on government budget.

#### **2.4.2 Public Sector Reform in the Pacific**

Public sector reform started in PICs much later than in the developed countries. Some began in the late 1980s and some in the early 1990s (World Bank, 1991a).

The *Cook Islands* public sector reform was one of the first reform programmes supported by ADB (2002c). It started in 1996 with an ambitious economic restructuring of the public service including government organisations, which led to the sharp cut in public service staffing (by 60%), reduced salaries (by 15%), halved total government ministries and agencies, and introduced fiscal responsibility adopting out-based budgeting. Other changes could be seen in the improvement of accountability and transparency within the public

service including its public enterprises. Nevertheless, there have been concerns by the people about the lack of contestability in government in handling one major sale of public assets. Furthermore, the lack of local capacity has hindered public sector efficiency (ADB, 2002c).

*Fiji* public sector reform began in 1989 with a restructuring of the economy that resulted in the emergence of three popular reform strategies of commercialisation, corporatisation and privatisation (see Narayan, 2005). In general, *Fiji's* privatisation policy implemented by the Prime Minister Rabuka (Nationalist) in 1997 has been unsuccessful (see Appana, 2003; and Reddy, 1998). In fact, the rush privatisation showed government's failure in getting stakeholders views and acceptance of the change prior to its implementation. Prime Minister Chaudhry (Labour/Peoples Coalition) when assuming office in 1999 reversed 13 corporatised PEs to government and all employees who had been laid off were reinstated. The earliest corporatisation of the four companies namely, the *Fiji Posts and Telecommunications Limited* (1990), *Ika Corporation Limited* (1990), *Fiji Pine Limited* and *National Corporation Limited* (1992) has since had not further development. However, the more controversial case was the reversal of the only privatised Shipyard and Public Slipways to government organization in April 1996 (Narayan, 2005). Some interesting development can be seen in the establishment of the Public Enterprise Act in 1996, the Ministry of Public Enterprises in 1996 and a Committee for commercialisation, corporatisation and privatisation (see McMaster 2001; Narayan, 2005). Notwithstanding political instability and early reform failures, *Fiji* is progressing better than its Pacific Island neighbours in creating a competitive private sector.

*Federated States of Micronesia (FSM)* public sector reform was also the first country's programme to receive ADB sponsorship. *FSM* reform focused on both micro and macro policies, which include fiscal reform; and extensive public service downsizing leading to 20% cuts in personnel and salaries. Commercialisation and corporatisation of PEs were the prominent strategies adopted in reforms. Achievement was also evident in privatisation and contracting out some state services and amalgamation of state-owned and government ministries/agencies. In addition, wholesaling and retailing are privately owned. Notwithstanding this progress, lack of political involvement in the formulation of reform

legislation has led to the loss of thrust by these powerful elites in the reform process, resulting in the lack of legislation reinforcement and monitoring of the reform process (ADB, 2002c).

In *Samoa* public sector reform began in 1989, focusing on both the micro and macro policies that encourage private sector growth. Privatisation started in 1989 with the sale of telecommunication services to New Zealand. Samoa has to date been one of the most progressive reformers in the PIC region. It has been able to build an environment that is conducive to private sector development by reduction in tariffs and income tax, liberalisation of the financial sector and establishment of appropriate legislation for business activities. Commercialisation and corporatisation of state-owned enterprises, which are common features of the Samoan reform, have progressed. This has accelerated GDP growth rate from 4% in 1996 to about 6.2% in 1999 (see Commonwealth of Australia, 2004; and ADB, 2000b).

*Solomon Islands* public sector reform started in 1989 with the sale of its telecommunications, which raised the net proceeds of SBD48.9 million. Notwithstanding the ethnic crisis and resulting setbacks, the reform policy has made some progress in implementing some key actions, such as enactment of new forestry legislation and an arrears reduction programme on domestic and external debts. The Solomon's government is also involved in comprehensive reform of the public sector focusing on the downsizing of the public service, relocation of staff, and redundancy payments. Funding for the reform was received from ADB in the form of a loan of US\$4.2 million (ADB, 2002c).

*Vanuatu* public sector reform started in June 1998 with the downsizing of the civil service, improved access to social services and enactment of a supporting legal framework through good governance legislation (ADB, 2002e). Most public enterprises are still in the stage of corporatisation. Some notable achievement of the Vanuatu reform can be seen in the reduction of the number of ministries from 34 to 9. Vanuatu's recent success can also be seen in a newly introduced tax and in making government's decisions more transparent. Additional changes taking place has been the closing down of the Development Bank of Vanuatu and successful transfer of its assets to the National Bank of Vanuatu.

### **2.4.3 Privatisation of Telecommunication Sector in the Pacific**

The process and implementation of partial privatisation of the telecommunication sector in most Pacific Island countries appears to have shown little progress. Most PICs adopted a joint venture approach by which many have formed partnership with overseas companies, either Telstra from Australia or New Zealand Telecom. For example, the Cook Islands, Fiji, Kiribati, Marshall Islands, Papua and New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu have either corporatised or entered into joint venture with New Zealand and some with Australia (Kolone Vaai & Associates, 2004).

From the above analysis, it is evident that overall, the results of public sector reform in the selected PICs have shown little variant, with the Federated States of Micronesia and Samoa achieving both the micro—macroeconomic reforms. To date, no Pacific country has achieved complete privatisation or complete sale of public assets or ownership to private ownership. The current position in the selected PICs shows that there is full reliance on commercialisation and corporatisation strategies for the development of public enterprises. The problem is that even in corporatised enterprises, government ownership remains, which allow political interference, thus, making it difficult for PEs to be commercially viable and competitive.

Some key lessons learnt from the PICs reform experiences are not new. Public sector reform that involves transfer of public ownership and control is not an overnight process. The way reforms have been implemented in the Pacific has in part failed due to greater influence of external aid donors and lack of ownership in the reform programme by the implementing country. Furthermore, most PICs have failed to provide appropriate legislation (see Larmour, 1998; Prasad and Snell, 2002), weak private sector and financial institutions, which are integral part of the reform process. The PICs' reforms concentrate more on structural adjustments at the microeconomic level. Thus, reform at both the micro and macroeconomic levels, which most PICs are now implementing, may be an appropriate step towards growth.

## **2.5 THE CASE OF KIRIBATI**

### **2.5.1 Policy Background**

The concept of privatisation is not new to Kiribati. Privatisation was first introduced to the Kiribati government by the Australian government with the complete sale of the Post Office Saving's Bank in 1970 to the Australian Westpac (ADB, 1993). The policy is a response to many economic problems, but more emphasis is placed on maximizing investment of PEs to cater for budgetary needs by cutting subsidies and job creation through private sector development. For example, the period following independence, subsidies for PEs averaged A\$1.2 million in 1979 – 1980 to \$2.6 in 1982 (KMFEP, 1979).

With external aid donors' influence, a more concrete plan for privatisation entered the Kiribati government mainstream in 1987 as a policy document. One could assess that the policy contains much of the Western ideologies brought about by external funding agencies, such as the World Bank and ADB. Notwithstanding Western influence, the policy has gained wider acceptance, dominating the national development policy in Kiribati and most PICs since the late 1980s. This is reflected in the National Development Plan (KMFEP, 1979, 1996, 2000, 2003).

### **2.5.2 Public Enterprise Reform in Kiribati**

In supporting the privatisation policy, the programme of public enterprise reform began in 1989. Almost all existing public entities and organisations went through the restructuring process through commercialization and corporatisation. In essence, the initial process began with Government's establishment of the privatisation Task Force Committee in 1991. With the help of a Consultant from ADB, the Committee began with the formulation of a long-term plan, policies and a legal framework passed by an Act of Parliament. Table 2.3 illustrates composition of the Privatisation Task Force, which comprises 2 politicians and 4 government senior officials.

**Table 2.3: Composition of the Privatisation Committee**

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Deputy President	Chair
Minister of Commerce	Member
Cabinet Secretary	Member
Permanent Secretary, Finance	Member
Chief Planning Officer	Member
Managing Director, Development Bank	Member

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Source: ADB (1993).

### **2.5.3 Legal Framework of Reform in Kiribati**

The National Development Plan (1979 – 1991), National Development Strategies (1996 – 2007) and the Medium Term Strategies (1997) provide a framework for reform programs in Kiribati. The Company Ordinance and Constitution 1977 also provide the legal framework for early reform in Kiribati (ADB, 1993). Since the 1980s, the House of Parliament has passed a number of Acts for public enterprise (KMFEP, 2003).

### **2.5.4 The Process of Privatisation**

The process of privatisation in Kiribati follows similar pattern of the UK, New Zealand and Australia and other Pacific Island countries, like Fiji (ADB, 1993; World Bank, 2002). It follows the three stages of privatisation processes by which public organizations and entities (divisions and departments) went through commercialisation first and later corporatisation (Figure 2.1).

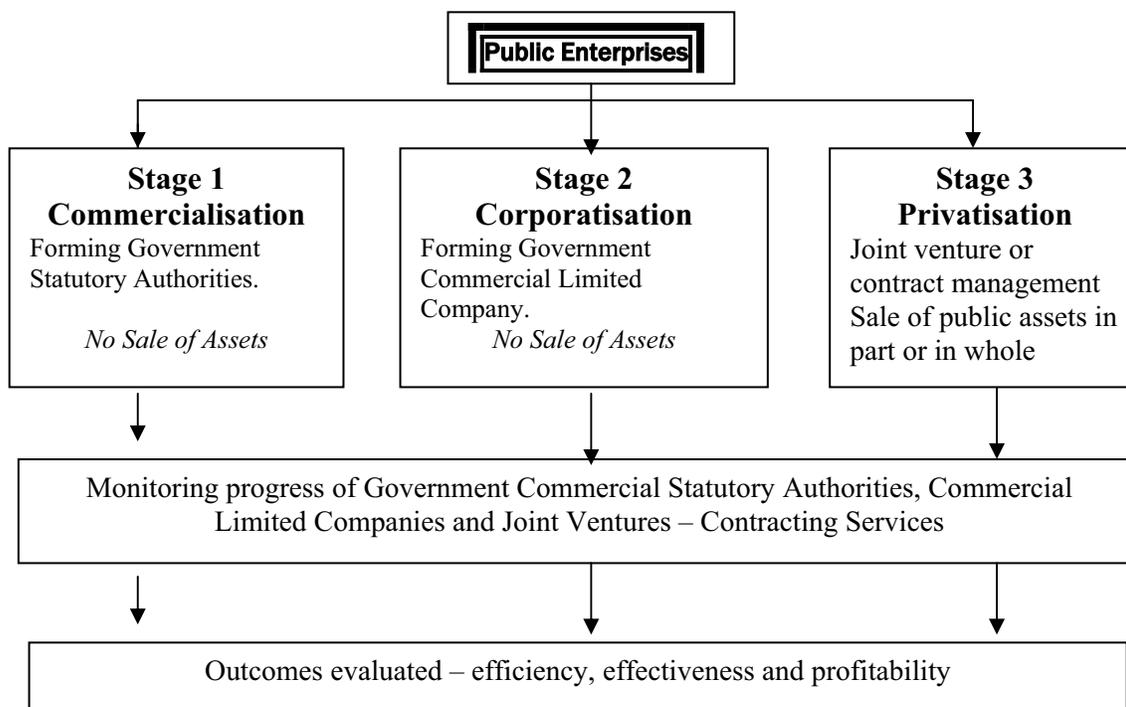


Figure 2.1: Public Enterprise Reform Model

Source: World Bank (1998); ADB (1993).

### Stage 1: Commercialisation

The commercialisation stage begins by nomination of a minister who is accountable in parliament for results achieved and for monitoring performance. The second step involves the appointment of interim Board of Directors who are responsible for setting strategic goals of a new enterprise based on commercial principles. In the process three government departments/divisions were turned into statutory commercial entities (Table 2.4).

**Table 2.4: Government Statutory Commercial Authorities**

	<b>Department</b>	<b>Ministry</b>
1.	Housing Corporation	Home Affairs and Rural Development
2.	Printing Corporation	Home Affairs and Rural Development
3.	Government Philatelic Bureau	Information, Transport and Tourism

Source: World Bank (1988); ADB (1997).

These three departments became commercial entities under their respective ministries and assuming new commercial objectives; for example, the Printing Corporation is no longer

restricted to government only, but serve both government and the public at a commercial price. The primary objective was to assist government in generating sufficient revenue while at the same time meeting its social obligations.

### **Stage 2: Corporatisation**

Corporatisation of public enterprises (SOEs) in Kiribati began in 1989. Every corporatised company was registered under the Company Ordinance through the Act of Parliament. Despite the rush into privatisation by the Committee, the law or legislation providing for corporatisation was made in reference to the principles of the existing Company Ordinance 1977 which was made for that period in time, and thus has limitations in appreciating changes (ADB, 1993; Prasad and Snell, 2002). Politicians who were highly represented in the Committee prevented change in the legislation as required by the corporatisation process because of the public pressure. The public voiced their strong resistance for foreign entry (ADB, 1993).

In contrast, commercial limited companies are those transformed through an act of Parliament. Consequently, twenty commercial entities were transformed into commercial limited liabilities, to name a few, the Kiribati Insurance Company Limited, the Shipping Company Limited, the Public Utilities Board and the Kiribati Oil Company Limited. These new public enterprises assumed new commercial objectives, change their legal status and were no longer governed by the National Condition of Service (NCS). Most public enterprises formulate their own terms and conditions of service, including the formulation of new salary structures. Nevertheless, they remain fully owned by government. Prasad and Snell (2002) argue that changes in the company status has notable deterioration in many benefits, such as home leave, cash grants, travel expenses which were previously available under the NCS.

### **Stage 3: The Application of Privatisation Policy in Kiribati**

Privatisation in Kiribati began in 1989 with identification of 12 public entities for reorganization. Like Fiji, the implementation of privatisation in Kiribati has been very disappointing because the whole process was back to square one. The process was turned

into a disaster considering several problems emerged as a result. It was the first time in history in Kiribati for the union strike (BKATM – National Body of Union) and use of a gun bullet by a policeman causing one labour employee disabled until today (MacDonald, 1998).

In the process, the Task Force Committee in charge of the privatisation process identified 12 companies for reorganisation, which was to be carried out into three phases (see Table 2.5).

**Table 2.5: Candidates for Privatisation**

<b>Phase 1</b>	<b>Privatization Method</b>
Captain Cook Hotel Ltd	Tender
Kiritimati Marine Export Ltd	Tender
Kiribati Supplies Co. Ltd	Tender
Otintaai Hotel Ltd	Tender
<b>Phase 2</b>	
Abamakoro Trading Ltd	Tender
Air Tungaru Ltd	Tend or Contract Management
Betio Shipyard Ltd	Tend or Contract Management
Government Print Division	Tender
<b>Phase 3</b>	
Atoll Motor and Marine Services Limited	Tender
Housing Corporation	Tender
Kiribati Insurance Corporation	Tend or Contract Management
Kiribati Shipping Services Ltd	Tend or Contract Management

Source: World Bank (1988); ADB (1993).

The preferred methods of sale include sale by tender, contract management and liquidation, considering the weak private sector and lack of entrepreneurs' skills and associated financial implications. This was accompanied by widespread advertisement to local investors as well as foreign investors, using major newspapers in Hawaii, Auckland, Fiji, Singapore, Malaysia, Marshall Islands and Hong Kong.

However, a public share offering is not appropriate as there is no share market nor is there ever likely to be an effective share market. In line with this policy, Telecom Kiribati was signed a management contract with Telstra Australia. The joint venture commenced in October 1990. The contract has ended and Kiribati Telecom Services is now fully owned by government since June 2001. The Bank of Kiribati and Otoshiro Fishing Company Limited were also gone through the joint venture process (ADB, 2002). However, the idea of privatising the 12 companies identified has been unsuccessful and none materialised today.

From the outset, the policy of privatisation requires greater transformation of a long established with communal base to one based on self-reliance and/or individualism. In this context, such a policy needs care and caution to handle it by seeking the wider citizen consensus. This is particularly so in a place like Kiribati where strong communal based was part of the people's survival, in the sense that people depend on each other (Larmour, 1998; Jayaraman, 1999).

The early implementation of the privatisation policy was a greater disappointment to the Committee as all their efforts were reversed. The Housing Corporation was returned to the Ministry of Home Affairs and the implementation of privatisation ceased. The intention of privatising the 12 companies gave rise to disagreement by the wider citizen, putting pressure on the government of the day, which has in part led to the electoral victory of the Tito government. In keeping with its election manifesto, the Tito's government introduced new policies, some of which reverse those of the first government. Although this former government had accepted some views of external aid donors to support the policy of privatisation, reflection of resistance by the Tito's government could be seen in the enforcement of price control and restrictions on foreign investment when it assumed office 1994 – 2003 (see MacDonald, 1998). At the end of this government's eight-year term, there has been no development in PEs since they were replaced.

Recent development in the policy has been liquidation of 2 PEs, by the current government. The first was *Abamakoro Trading Ltd*, which deals with wholesaling.

Government has approved entry of a private company from Fiji, namely the *Punjas Limited*, to provide wholesale activity. In effect, the Kiribati Government paid back shares of those local investors in the liquidated company. The second was the *Atoll Motor and Marine Services Ltd*, which deals with wholesale and retail activities. Table 2.6 traces the course of important events undertaken in the process of privatisation in Kiribati.

**Table 2.6: History of Privatisation in Kiribati**

<b>Year</b>	<b>Privatisation Process</b>
1970	100% Sale of Post Office Savings Bank
1987	Policy of Privatisation officially advertised.
1988	Part sale of Abamakoro Trading Ltd through public offering. 25% of shares were sold to Kiribati Provident Fund.
1989	Establishing limited liability companies and state-owned companies (see Appendix A)
Oct 1990	(i) Telecom Services Kiribati Ltd (TSKL) was established as a joint venture between the Kiribati government (51% share) and Telstra Australia (49% share). (ii) Tarawa Biscuit Company Ltd and Kiribati Garment Ltd were offered for sale.
1991	Presidential Task Force was established to steer the privatisation process.
1993	Review of the privatisation policy by ADB consultant.
1998	Commercialisation Committee was established to fully commercialised Otintaai Hotel.
Jan 2005	Liquidation of Abamakoro Trading Ltd and Atoll Motor Marine Services Ltd.

### **2.5.5 The Lead to Privatisation in Kiribati**

The reasons to support the case for privatisation have related to lack of management accountability, constraints imposed by government ownership, the absence of competition and the nature of corporate governance.

*Accountability* has been the first and foremost fundamental issue in managing PEs. In Kiribati, for example, lack of accountability has been a major problem in PEs as it often discouraged managers, CEOs or even employees from performing at their full potential (see Public Utilities Board Act, 2002). Under the PUB Act, the accountability reporting structure begins from employees to their individual supervisors, then to CEO and to the

BOD and the Minister and lastly to citizens. This reporting structure as shown in the PUB for example, clearly identifies that a CEO must report to the BODs which discouraged the CEO from admitting to underperformance in PE. The same condition applies to subordinates and lower staff. Mudambi (2003) suggests that in private companies, managers and/or CEO are accountable for their credit and mistakes. General accountability can then be pinned down to individuals.

*Government ownership* is a major problem in PEs because it prevents these enterprises from working more autonomously and commercially focused. PEs are inherently less efficient than private firms because they tend to forgo maximum profit in the pursuit of social and political objectives, such as full employment, income redistribution and political stability. Ownership problems viewed in the earlier work by Hayek and Friedman. More recently, in a theory of privatisation, Boycko, Shleifer, and Vishny (1996) argue that politicians often create pressure for PEs to employ excess labour. Krueger (1990) also suggests that PEs tend to hire politically connected people rather than those best qualified for the work.

*Competition* is one major problem in PEs because they lack incentives like those in private enterprises. Competition (see Jayaraman, 1999) can be alleviated if product market competition is introduced in a company. Mudambi (2003) argues that competition reduces managerial slack and contains cost for both public and private firms, and in turn, compels PEs to perform. In addition, competition provides information about costs and manager effort to the owners and with this information the owners can design better incentive systems and evaluate manager efforts more accurately.

*Corporate governance* has negative impact on the performance of PEs in terms of efficiency and effectiveness. As Mudambi (2003) argues, public enterprises are less efficient than private enterprises because the respective disciplinary mechanisms and bureaucracies that governed them are imperfect. This view emanates from the fact that PEs are normally subsidised and owned by government, which imposes many restrictions

on a CEO or a manager in the operation of a PE, most notably to carry out commercial objectives that are not consistent with political will.

### **2.5.6 Policies and Programmes in Support of Privatisation**

A number of policies and programmes have been put in place since the 1980s in support of the privatisation policy. Firstly, the National development plan/strategy is main policy documents began in the late 1980s and continue today. The NDS document provides a framework for reform programmes for the four-year planning period (KMFEP, 1979, 1996, 2003). According to NDS 2004 – 2007 (KMFEP, 2003), a number of Acts have been passed by Parliament and took effect in 2003, which include the Small Enterprise Development Act aimed at strengthening and encouraging growth of local small enterprises. In 2002, the Procurement Act was passed, requiring transparent and competitive tendering for supply of goods and services to the government and PEs. Furthermore, the Consumer Protection Act took effect from 2003 to safeguard entrepreneurs and customers.

The Ministry of Commerce, Trade and Industry (1999) provides development programmes to facilitate private sector growth. The medium term strategy introduced in 1997 provided a framework for private sector development. The MCTI also offered training in “Starting Your Business”, which began in 1999. Private Sector Consultative Committee and a Guarantee Corporation were approved by cabinet in 2002 to provide the link between the private sector and public sector, which aims at improving private sector participation in public activities.

The Kiribati Public Service Office (2001 and 2004) also provides capacity building programmes to both public and private enterprises. Firstly, a symposium was held on “Renewing the Spirit of Public Enterprises in the New Millennium” which sought to identify relative problems and issues causing poor performance of PEs for future development. Second was a workshop on “Corporate Governance” delivered in February 2004 to strengthen the capacity of public enterprise CEOs and/or managers.

### **2.5.7 Policy Issues**

A number of policy issues have delayed full implementation of privatisation in Kiribati and until today, privatisation has been limited to the sale of minority interests in the banking, fishing and telecommunication. In June 2001, Testra Australia ended its contract with Telecom Kiribati, thus the Kiribati government fully owned the company. Some of the notable privatisation policy issues are:

#### *Political Changes*

The change in government is one major impediment to implementation of the policy. This is evident in the delay of privatisation policy, which was initiated by the first government, and at the time of implementation, a new government came with a new vision and priorities (KMFEP, 1996).

#### *Staff Redundancy*

Staff redundancy is a major policy issue despite strong political influence to lay off employees. The public service reform in Kiribati in 2001, which aimed at downsizing the civil service, is a good example. According to the KPSO (2001), there were a number of positions identified for redundancy but this was not implemented due to political rejection on grounds that these people may lose jobs, which would threaten government. There had been redundancy carried out with the PUB in 1993 with the Kiribati Telecommunications Limited and PUB (see World Bank, 1993). Notwithstanding progress in eliminating unnecessary jobs, this led to political crisis. This was evident in the electoral victory of the National Progressive Party under President Tito in 1994 (MacDonald, 1998). The majority of the public were opposing the Liberal Party's policy of privatisation.

#### *Weak Private Sector*

The private sector in Kiribati is very weak and cannot provide goods and services now offered by the PEs, for example, wholesale and retailing is still with government. As KPSO (2001) notes, the Kiribati government is not yet ready to accept privatising its enterprises because the market is too small and cannot meet the increasing demand of the people.

### **2.5.8 Current Projects**

Currently, there are several ongoing reforms in support of the policy. Firstly, the reform of fiscal and/or monetary policies by the Ministry of Finance including the reform of the financial institution Act. The rationales were to strengthen capital institutions, such as Bank of Kiribati, Development Bank of Kiribati, and Kiribati Provident Fund. Furthermore, the reform of the Foreign Investment Act and regulations is still underway with the view to provide a conducive environment for private sector growth. The tax reform including the Ministry Operational Plan for performance targets for public enterprises are also ongoing and anticipated to be completed at the end of 2005. Nevertheless, some have been implemented recently. The restructuring of the Public Utilities Board is still ongoing, which is a continuation of previous reforms. Finance comes from the ADB in the form of loan to the Kiribati government in the sum of \$0.7 million. Other donors involved in the restructuring process of the PUB include the Australian government, Japanese International Cooperation Agency (JICA) and Sanitation Public Health and Environment Project (SAPHE) funded by ADB and expected to end in 2007 (KMFEP, 2005).

## **2.6 Public Sector**

### **2.6.1 Structure of the Public Sector**

The public sector in Kiribati as in other PICs is undergoing several reforms (ADB, 2002a). The public sector has played a major role in the development of agriculture, forestry and fisheries through direct investment in productive government-owned enterprises. As elsewhere, Kiribati public sector is very large, comprising general government and public enterprises. General government has two major components: the first is the central government comprising 13 ministries and 7 departments and 30 public enterprises; and the second refers to local government as represented by 33 Island Councils. The two biggest councils are the Betio Town Council (BTC) and Teinainano Urban Council (TUC). These two councils have become strong arms of local government and play a critical role in the provision of public services, such as rubbish collection and controlling and monitoring

commercial activities on South Tarawa. The size of the public sector is very large as determined by its share of employment (Figure 2.2).

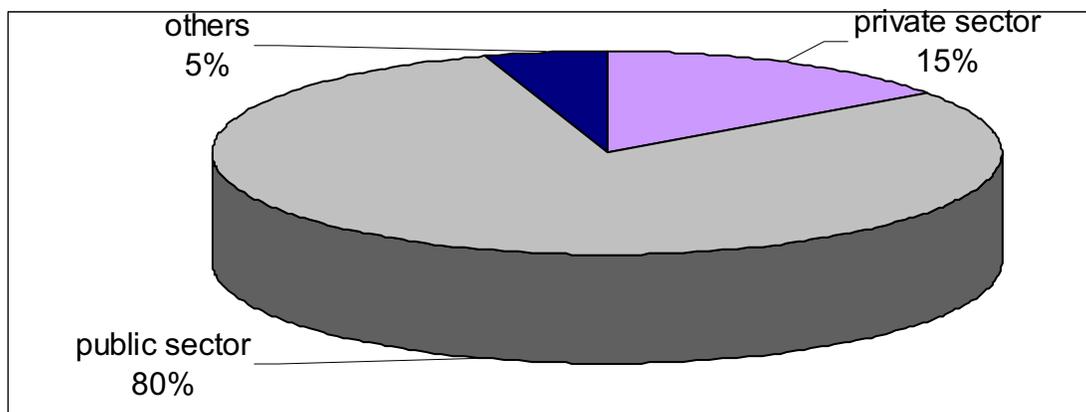


Figure 2.2: Public Sector Share of Employment 2002

Source: Kiribati Statistics Office (2002).

Figure 2.2 shows the public sector accounts 80%, 15% to the private sector and 5% represents employment by churches. The public sector also plays a critical role in supporting the living standard of the people via its main role as the service provider through its public enterprises.

### 2.6.2 Public Enterprise Sector

As in many Pacific Island countries, the public enterprise sector dominates the economic activities of Kiribati (ADB, 1997). There are at least 30 PEs as of June 2005 of which most are owned by government, with the exception of the Bank of Kiribati, the Kiribati Otoshiro Fishing Company and Kiritimati Maintenance Company Limited, which are joint ventures with foreign partners (see Appendix H). These enterprises are large providers and consumers in the economy, providing and producing a wide range of public and private goods and services.

Traditionally, all public enterprises in Kiribati were governed under the Company Ordinance 1977 until the late 1980s, when three typical public enterprises emerged as a result of a public sector reform in 1989. The first type is a limited liability enterprise (company) or a registered enterprise (fully owned by government), which normally is

incorporated under the Company Ordinance or Act, passed by the Parliament. The Betio Shipyard Limited provides a good example of a limited liability company. The second type is a statutory corporation fully controlled and owned by government with monopoly power and/or oligopoly, for example the Kiribati Printing Corporation. The third type relates to joint venture companies, for example the Bank of Kiribati.

### **2.6.3 Public Enterprise Financial Performance**

The financial performance of PEs is a crucial indicator in assessing the enterprise viability and growth. As demonstrated in the financial accounting report for PEs in Kiribati for the year ended 2002, the result is mixed (see Appendix K). The more impressive performance is the joint venture, like the Bank of Kiribati. Some PEs like the Bobotin Kiribati Ltd, Otintaai Hotel achieved reasonable results in their competition with the private sector, which shows the potential for future improvement. Some monopolies, like the PUB, Telecom Services Kiribati and others, are unlikely to earn sufficient return because they have an obligation to undertake services that are not commercially viable. Price restriction is another major problem. The Kiribati Provident Fund and some others are performing well. Most public enterprises, though, were established to undertake activities that are not commercially viable.

### **2.6.4 Issues and Problems of PEs in Kiribati**

The failure of public enterprises in Kiribati is not different from other countries. The Kiribati Service Office (2001) outlines several problems associated in managing PEs in Kiribati. First is the lack of capital and untrained staff. Most public enterprise started with small capital, some with aged plant or equipment, especially those requiring plant and more technical equipment, such as the Tarawa Biscuits Company Limited. These aging generating plants have caused frequent technical breakdowns incurring substantial costs as well as poor service delivery.

The second problem area relates to public monopoly, which requires the enterprise to perform two conflicting goals, which are social and commercial objectives. In most circumstances, the social obligations often undermine commercial objectives. For

example, the PUB tariff for electricity is marginal whereas water and sewerage are subsidised by government at the rate of AUD\$1,200,000 annually. All these problems have their roots in political influence on management. However, political interference is varied from one enterprise to another and not always necessary as it depends on individual character (Kiribati Public Service Office, 2001).

An additional burden on public enterprises is overstaffing because most Chief Executive Officers and those senior officials tend to employ more people than the company’s actual needs, as well as employing unskilled workers. These problems are common in a small country like Kiribati because of nepotism; managers often employ their own relatives and friends.

## 2.7 Private Sector

### 2.7.1 Progress of the Private Sector

The private sector in Kiribati includes all economic activities, formal and informal, not owned by government (ADB, 2002: xxii). The private sector in Kiribati is making progress, though it is in its infancy (Figure 2.3).

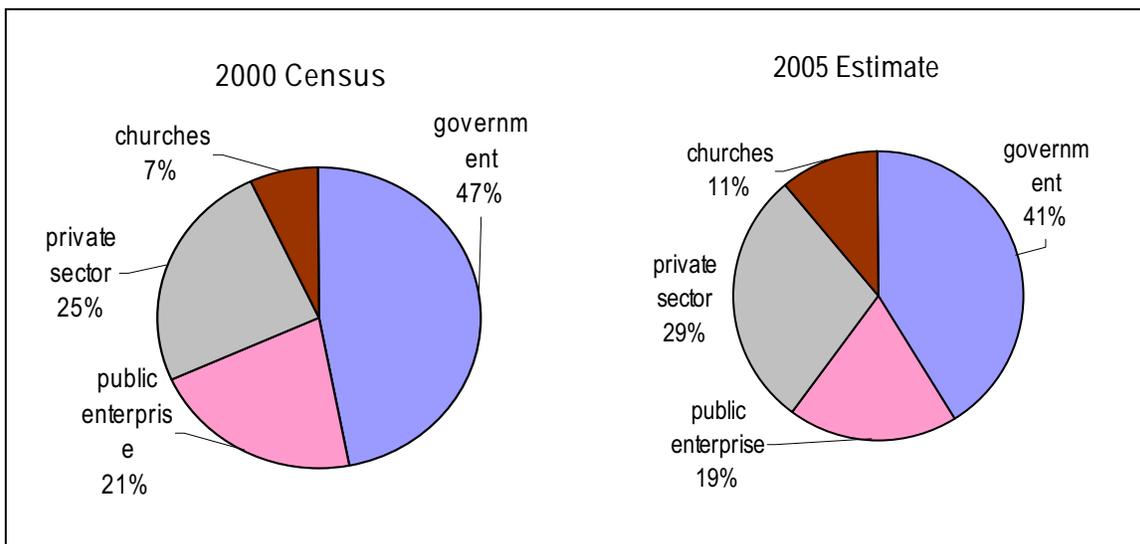


Figure 2.3 illustrates the increase in the private sector share in employment. The 2005 estimate is based on the 2000 figure, and shows an increase from 25% in 2000 to 29% in

2005 and an estimated decline in public sector (government only) from 47% in 2000 to 41% in 2005.

### **2.7.2 Private Sector Development**

In Kiribati, although an opportunity for private sector development is very limited, there has been a proliferation of micro and informal (unregulated) enterprises, particularly on South Tarawa. These include roadside and market hawkers, and kiosk-type stores, dotted along the road, selling a narrow range of imported goods. The more formal enterprises include small to middle-sized retailers of groceries, foodstuffs and beverages, bus operators, video hire stores, cafés, bars, tourist services, petrol, car and bus repairs, small-scale construction, and moneylenders (KMFEP, 1999). The private fishing vessels have increased, estimated to 83% share of the shipping services of which 13% represents churches' ownership and 17% for public enterprise. With the help of the Bank of Kiribati, Kiribati Development Bank, Kiribati Provident Fund, there have been many small local businesses developed.

Recent development of new commercial activities (empirical findings) from foreign investors, such as the Punjas Company Ltd and Fair Price from Fiji and Chinese restaurants has in part contributed to the private sector development, and more importantly, the creation of employment opportunities. This development in the private sector reflected recent improvement in the foreign investment policy and legislation, fiscal and monetary. This is further supported by recent abolition or liquidation of two PEs formerly handling wholesaling and retailing — AMMS and Abamakoro Trading Limited. However, the increase of foreign investors has been a threat to local investors as most do not have big capital and lack entrepreneurial skills to enable them to compete with these big companies. Government should consider the problem with local investors and also the country's unique circumstances in terms of its small market and customer scarcity. It is more wise to look at those areas local entrepreneurs cannot handle and give them to foreign enterprises such as banking and international air links but not wholesaling.

### **2.7.3 Challenges Facing the Private Sector**

Literature reviews (see Hailey, 1985; Fairbairn, 1988; and Kiribati Public Service Office, 2001) provide that the private sector in Kiribati as in other PICs is facing challenges. Nevertheless, some of the more common challenges or problems are discussed in this study. Firstly, public monopoly discouraged and weakened competition, especially in those commercial activities provided by public enterprises like hotels, wholesaling, retailing and many others. Secondly, obtaining credit from commercial banks, like the Bank of Kiribati, Development Bank and Kiribati Provident Fund, was extremely difficult because of local businesses inability to provide security. Third, there is a general lack of entrepreneurial skills among local people. Another problem relates to the bureaucratic red tape regulation, which often frustrates interested overseas and local investors, albeit this has recently improved but not yet fully implemented. In Kiribati, it is common that profit making at the cost of a fellow islander-consumer is looked down upon as something culturally not acceptable. This is still prevailed on outer islands but also could be seen on urban commercial areas on South Tarawa. This jealousy and cultural attitude have tended to hold back the I-Kiribati, whereas part European and Chinese people have made greater progress. Some good examples, the Betio Hardware, Fern Company limited and MOEL are the only big and long surviving companies in Kiribati. Owners of these companies are mainly those with mixed European and Chinese blood.

### **2.8 The Reform of Public Utilities Board (PUB) in Kiribati**

Water supply, electricity and sewerage services provided by the PUB have been a long-standing issue affecting the people and development in Kiribati. The PUB has undergone several major restructures. The first was in the mid-1980s, which resulted in the redundancy of over 25% of the total 220 employees (World Bank, 1993). ADB (2002b) indicates that until to date, PUB continues to employ excessive staff.

The triggers for these reforms have been based on the company's poor performance since its inception both in terms of providing efficient and cost-effective services and reasonable investment. Evidence is given in the company's financial reports for the period 1992–2002 (Appendix L). As clearly illustrated, the company's financial operating loss

increased comparatively from A\$329 net loss in 1994 to A\$1456 net loss in 2000. Evidence can also be seen in substantial subsidies to the PUB recurrent budget. In fact, from 1996 until the present, the problems appear to have increased (Figure 2.4). A dramatic increase in 2002 was formed by a huge injection of \$20 million in Japanese aid for two new 1.4 mw electricity generators and a new powerhouse, all installed at Bikenibeu.

Other donors contributing to PUB include AusAID funding for a water and sanitation engineer for a number of years. The Republic of China contributed 2 desalination plants while ADB granted a loan to the Sanitation, Public Health and Environment project for water supply on South Tarawa (KFMEP, 2003).

The PUB lack of technical personnel and inappropriate prices for electricity, water and sanitation are some major problems, which will remain for a long time. The pricing problems relate more to political influences, which led to continuation of subsidising mainly sewerage and water, in the interests of public health and welfare. Recent reforms have meant no significant improvement in any of the problems identified. The financial performance remains the major problem contributing to government budget constraint and fiscal deficit including the problem with overstaffing. The idea of reducing 220 total employees in 1993 by 25% has brought no change until today. As ADB (2002b) clearly indicates, the 2000 total employees were 230, larger than the number employed in 1993.

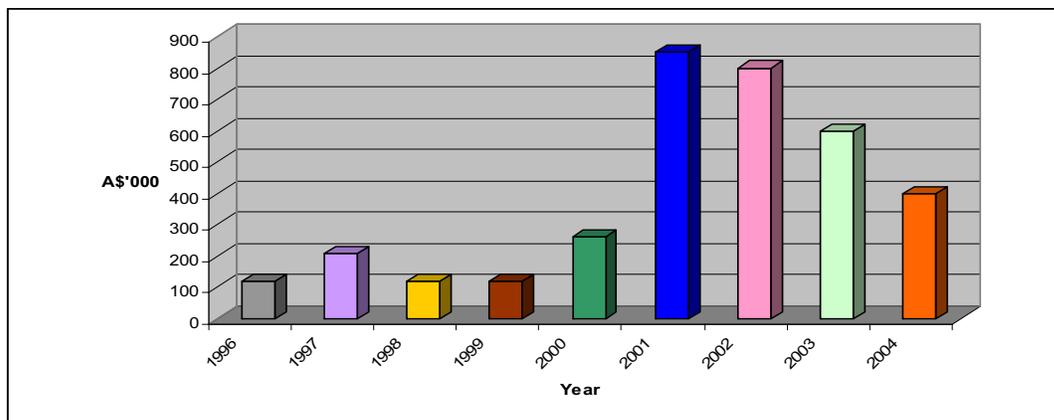


Figure 2.4: Government Subsidies to PUB.

Source: ADB (2002); and KMFEF (2004).

Figure 2.4 illustrates government Subsidies to PUB recurrent budget 1996–2004. This literature provides the motivation for immediate restructuring of the company. These findings will be compared with empirical findings that will be discussed in Chapter 5 of this thesis.

## **2.9 THE ROLE OF GOVERNMENT**

By definition (see Hughes, 1998), Government includes the staff employed by the state to carry out the instructions and to administer or manage its institutions, for example, ministries and departments, and including public enterprises. Traditionally, the role of government in Kiribati, as elsewhere, has expanded extensively to the production of public goods and services. The Kiribati Public Service Office (2001) recommends that the Kiribati government involvement in commercial activities is essential at this point in time because the private sector cannot meet the increasing demands of the people.

The Kiribati Public Service Office (2001) argues that government ownership of public enterprises is not a major concern of this study. The main focus is for government to provide appropriate strategies to make PEs more competitive and commercially viable. The rationale is to cease government subsidies to these enterprises, so that the funds can be reallocated to meet social needs, for example improvement of education and health services, especially on outer islands. There is wide acceptance that government should do everything for the people.

Nevertheless, the growing concern in many countries about what government should or should not do is closely linked with the failure of government in meeting the changing demand of the people (Hughes, 1998:81). Experience suggests that government should deal only with those goods and services that cannot be provided by the private sector. In Kiribati, the transfer of public activities to the private sector can be a threat considering the weak private sector to handle them as opposed to OECD (1995) that government should not involve itself in any commercial activity.

As Musgrave (1989: 4) argues, the private sector relies heavily on government for infrastructure and the system of laws, without which markets cannot operate. On the other hand, government relies heavily on the private sector in the provision of goods and services and for tax revenue. The literature reveals that in the global era, partnership of government and the private sector would yield positive results rather than seeing them as separate actors in the economy. These concerns have raised the question of reassessing the role of government, which provides the motivation for the reform of public enterprises.

Ducker (1969) also argues that improvement in performance of the PEs and private sector requires the continuation of strong government. Strong government is needed to prevent the private sector from chaotic collapse from unscrupulous competitors and from hostile takeover as well as to provide security and safeguards for the business elite and for the orderly operation of the market.

In cases of a weak private sector, like Kiribati (and other PICs), government partnership with the private sector and NGOs or contractual relationships are more essential, rather than leaving everything to government. In another view (see Osborne and Gaebler, 1992: 33) government should be seen as a regulator of the market, peacemaker, educator, trainer, research funder and infrastructure operator.

## **2.10 THE ROLE OF EXTERNAL AID-DONORS' INFLUENCES**

External aid donors have played a key role in the social and economic development of Pacific island countries since independence in the 1970s. As a result, most PICs, including Kiribati relied on external aid donors, which led these poor countries not develop sound production base. Relatively poor economic growth was therefore inevitable. Table 2.7 shows that Pacific governments have received in total US\$50 to US\$100 billion from the 1970s to 1998 (Hughes, 2003:1).

**Table 2.7: Total and per capita aid flows to the Pacific since 1970**

	<i>Total flows since 1970 US million dollars 1998</i>	<i>Average annual aid flow per Capita since 1970, US dollars</i>
Papua New Guinea	15,592	104
Fiji	1,576	65
Solomon Islands	1,477	110
French Polynesia	8,533	1,210
New Caledonia	8,708	1,363
Vanuatu	1,285	217
Samoa	1,086	213
Tonga	698	233
Kiribati	593	217
Marshall Islands	362	232
Cook Islands	407	646
Palau	532	933
Wallis & Futuna	274	457
Micronesia Fed. States	630	178
Nauru	18	51
Tuvalu	214	647
Niue	182	3,558
Tokelau	91	3,026
Pacific Islands (trust Tr.)	5,193	
Oceania Unallocated	1,449	
<b>Total</b>	<b>48,900</b>	<b>13460</b>

Source: Hughes (2003: 1).

The largest bilateral donors are Australia, Japan, New Zealand and the US. The European Union is also a significant grant donor. The Asian Development Bank (ADB), the International Monetary Fund (IMF), World Bank, and United Nations continue to provide financial and technical assistance geared towards public sector and economic reforms. It is

clear that since independence, external aid donors have been greatly involved and influential in PICs' development policies.

Dubsky and Pathak (2002); Hughes (2004); and Sharma (2002) argue that public enterprise reform and privatisation policy adopted in PICs and Kiribati since 1989 were initially developed by external aid donors and brought into the country for implementation. There is wide acceptance that external aid donors' have brought inconsistent policies. Not surprisingly, none have achieved expected outcomes. The failure of Kiribati and Fiji privatisation policies are good examples. They seem to have been forced upon the people for implementation, with insufficient understanding of the local situation and culture, and with very little attempt at meaningful consultation with and involvement of local people, who will have to implement and live with the effects of the policies.

Hughes (2004) argues that reforms in the Pacific Island countries since the 1980s have shown no evident effect to accelerate economic growth because much of the policy contents have been based on external aid donors' own experience and priorities.

Larmour (1998) highlights the importance of incorporating indigenous culture in the reform programme. He argues that the lack of people's involvement in the reform design and process has in part contributed to the failure of reform in Kiribati as in other PICs in the 1980s and 1990s. Larmour recognizes that the design of a reform programme should embrace PIC and Kiribati cultural contexts. From the Kiribati perspective, successful decisions and even development policies have been those decided and formulated by elders "unimane". This was based on the fact that elders decisions more often sought consensus of their members as well as community based.

Pearson (1997) recommends that it is the responsibility of government to initiate growth and to get appropriate development strategies fine tuned to appropriate and acceptable levels in the first stage, then adjusting the next stage so that the influence of donors is properly monitored and contained within suitable limits.

Stratigos and Hughes (1987) point out that reform and privatisation were imported to PICs like Kiribati, thus they tend to contain much of the international perspective and little of the local own experience. From this viewpoint, it may not be surprising that these policies are often contradicting with the existing systems, thus causing public resistance. For example, the last reform of the public service in Kiribati (see Public Service Office, 2001) has resulted in the increase of required minimum qualifications of all top management levels to the Master's Degree, and a first degree requirement for senior management, not bearing in mind that the majority of employees in Kiribati, even those at the top levels, do not possess the required qualifications.

## 2.11 Conceptual Framework

This study employs the following indicators based on which data will be collected and analysed on the performance of the PUB in Kiribati. The indicators are provided as follows (Table 2.8):

**Table 2.8: Performance Indicators**

<b>A Broad Indicators</b>	<b>Appendix E</b>
Government subsidy	
Employee performance	
Customer performance	
Financial performance	
<b>B. Specific HR Indicators</b>	<b>Appendix F</b>
Communication	
Change leadership	
Openness	
Reporting process	
Employees preparedness	
<b>C. More HR Indicators</b>	<b>Appendix G</b>
Training	
Work environment	
Technology	
Reward system	

## **2.12 CONCLUSION**

The literature findings clearly indicate that the future of privatisation in Kiribati (as other Pacific Island countries) is uncertain. Partial privatization through joint venture and contracting out may be an immediate option for Kiribati and other PICs. In addition, commercialisation and corporatisation have their potential in lessening PE problems.

What makes corporatisation in Kiribati and Pacific Island Countries unsuccessful in achieving full commercial and competitive PEs has been the adoption of an inappropriate legislative framework and a corporatisation model that allows continuous political intervention and weakens managers' accountability.

External aid donors argue that strong political influence has contributed to unsuccessful reforms in most PICs. ADB (1993, 2002c) and World Bank (1988, 2002) and IMF (1999) share common views, highlighting the political interference as the main barrier for the policy.

From the local perspective, the major problem in implementing the policy lies in the donors' influence, because the implementing country lacks ownership of the policy. This is evident in the words of Appana (2003); Hughes (2003), Narayan (2005) who argue that the reform programme and process are all in the hands of external aid donors; thus it is very difficult for the implementing body, the national government to support it.

The international experiences (UK, NZ and Australia) are a useful means of learning (Duncan et al., 1999; and World Bank 1992), thus such experiences could be further scrutinized to observe what is best for the reformer's own situation. The comparative analysis shows that the PICs cannot replant the models of these developed countries because of the difference in the levels of their developments. The common problems in the PICs and Kiribati have been the lack of good governance and greater dependence on external aid donor funds. Formulation of any mechanisms for improvement must, if it is to have any chance of success, consider the country's unique circumstances, such as social-cultural, economic and political dimensions.

The role of government in reform is important and should be influential in decision-making on policy development and throughout the life of the project. External agencies and institutions, such as the World Bank and ADB, could play a more active role in providing funding and technical assistance, with specific focus on training and development and be more flexibility to their member countries needs and priorities. But they must not forget the importance of empowering the recipient government by involving it in all stages of policy formulation and development.

The public enterprise reform model provided in this study does not mean “an end to the solution” of public enterprise problems, rather it provides guidelines for several reform strategies. Some important key elements of the strategies are:

- ✓ Micro-macro economic reforms, such as fiscal and monetary reforms including existing financial institutions, e.g. the Bank
- ✓ Reform of the enterprise concerned
- ✓ Regulation of the economy to encourage competition
- ✓ Improve corporate governance of the enterprise to be reformed
- ✓ Appropriate legislation is provided, e.g. removing barriers such as reducing tax, customs
- ✓ Strengthening the private sector.

It is important to note that successful application of reform strategies identified in the model depend entirely on government’s full commitment, with the support of stakeholders and those involved in the process as well as prior awareness of those who may be affected.

UNDP (1994 and 1999) claims that “sustainable human development” is seen as the necessary counter to the internal and external challenges and problems small Pacific Island countries will continue to face in a globalising world.

## **RESEARCH METHODOLOGY**

### **3.1 INTRODUCTION**

The term ‘research’ is defined as “a systematic approach to obtaining new and reliable knowledge” (Ethridge, 1995:16). This chapter deals with the research methodology that underlies this thesis. The chapter is divided into four main sections. The first section provides an introduction, which briefly outlines the chapter. The second sections deals with the research topic. The third section describes the research methodology including data collection methods, research limitations and problems encountered during the research. The last section provides a conclusion.

### **3.2 THE RESEARCH TOPIC**

This research attempts to examine public sector reform (PSR) and its impact on public enterprise using the case of the Public Utilities Board (PUB) in Kiribati. The research will investigate both the reform process and outcomes, particularly reform strategies that have been implemented and also to find out significant changes in the PUB corporate culture — social systems, feelings and behaviour of an individual within an organisation. Therefore, viewpoints of stakeholders and people in an organisation and external stakeholders’ views will be examined. Social indicators, such as improvement in qualification level, staff turnover, customer service will be used to identify and determine any change in the organisation’s culture (see Walters et al., 1993; Reddy, 1998). The impact of reform on public enterprise will be investigated using variables, such as an enterprise’s effectiveness, efficiency and productivity. Economic indicators, such as the company financial performance in terms of its total expenditure and revenue and government annual subsidy will be used to identify and determine the company’s productivity, efficiency and effectiveness.

### **3.3 RESEARCH METHODOLOGY**

The methodology for this research entailed a literature review and primary research through a three-week's interviews and discussions with PUB employees and by regular observations and data collection on sites. The fieldwork was conducted on South Tarawa in Kiribati (full details of the study area are presented in Chapter 4). The research methodology used both qualitative and quantitative methods.

#### **3.3.1 Qualitative and Quantitative Approaches**

The World Bank (1997:1); Creswell (1994) argue that employing a combination of qualitative and quantitative methods is crucial in investigating complex views. Firstly, qualitative research (see Patton, 1990) is used to collect data about the nature of reform processes within the Public Utilities Board working environment. In this, the researcher examined employees' views and experiences and studied their daily interactions in their work places. The qualitative approach adopted includes a literature review, a case study, semi-structured interviews, in the field observations and questionnaires.

The quantitative method is preferred in this case study to allow the researcher to gather financial information and statistical data in relation to the performance of public enterprise, in particular the PUB. The quantitative method adopted in this research includes numerical methods, such as statistical report, graphing and tabulation. The use of qualitative and quantitative (see Yin, 1993; Liebscher, 1998; Johnson, 1986) is not mutually exclusive and can be used in combination in the same case study.

#### **3.3.2 The Case Study Approach**

The case study approach (see Patton, 1990; Giddens, 1991) is used to compile comprehensive, systematic, and in-depth information related to a single, bounded unit of analysis. In this case study, the unit of analysis was the Public Utilities Board in Kiribati. The case study approach has the advantage of eliciting the peoples' own views, the exchange of ideas and studying workers' relationships and feeling within their work environment. This means the researcher worked as one of the PUB employees to study the culture of the organisation by speaking and sharing ideas with them and at the same

watching their interactions in the real world (see Yin, 1994; and Stake, 1995). This approach is more effective as the researcher uncovers evidence that is specific to the PUB. However, in order to gain insights into the public enterprise related problems, the researcher extended the boundary of research to include government ministries/department, some private businesses and the general community (represented by NGOs).

The selection of the PUB for this case study was centred on three major issues: firstly, the utilities services like electricity and water are central in development; secondly, the PUB in Kiribati has received the highest subsidies from government and external aid donors; and thirdly, it is based on the global trend in reform, focusing on this one sector.

### 3.4 DATA COLLECTION METHODS

#### 3.4.1 Sample Size and Characteristics

A random sample of 64 participants for this survey was selected from three main urban centres of Betio, Bairiki and Bikenibeu on South Tarawa in Kiribati. As Singleton et al. (1993) argue, the selection of an appropriate sample size is crucial in any survey. For the purpose of this survey, a sample was drawn randomly from the PUB, and from the list of government ministries/departments, private businesses and NGOs in Kiribati (Appendix D). Table 3.1 shows the four categories and characteristics of the sample.

**Table 3.1: Sample Characteristics**

No.	Categories	Population Characteristics	Total Sample
1.	Public Utilities Board	Directors, CEO, Senior management and lower staff.	32
2(a).	Government Ministries/departments	Permanent and senior secretaries directors and senior officers	8
3.	Private Business Sector	Managers and Business Owners and staff employed	12
4.	Civil Society – NGOs	Management and members	12
<b>TOTAL</b>			<b><u>64</u></b>

**Category 1:** Employees of the PUB including two members of the Board of Directors. The selection of these people was based on the need to gather various views of both senior officials and lower level staff. Data collection methods included a case study, semi structured interviews and in the–field observation.

**Category 2:** Government officials’ information will give the background to the study and information that cannot be provided by the PUB employees. Senior officials are often involved in reform programs and in making decisions about change. The data collection methods used include questionnaire survey and discussion with two politicians.

**Category 3:** Private businesses are also good sources as they are central to private sector development. Information acquired included managers’ views concerning problems they face in their operation in relation to PUB services — electricity, water and sewerage including government related policies on investment, for example price control. Questionnaire surveys were used to collect this information.

**Category 4:** The NGOs were also chosen to represent views of civil society and communities concerning government services in the provision of utilities’ services – electricity, water and sewerage and problems associated. Questionnaire surveys were used to gather this information. The selection of participants was based on several criteria (Table 3.2).

**Table 3.2: Specific Criteria for Selecting Samples**

- 
- Major selection from the PUB to represent different levels of job positions and responsibilities within the company;
  - Minor selection from government officials category, private business and NGOs;
  - Adequate representation of the three urban areas of Betio, Bairiki and Bikenibeu;
  - Private enterprises breakdown was based on their core business and experience;
  - Government ministry breakdown was based on responsibility and involvement in the reform process and private sector development, for example, the Ministry of Finance and Economic Planning and the Ministry of Commerce, Industry and Commerce; and
  - Non-government organization breakdown was based on equal representation of the three urban areas and to reflect different social functions.
-

The final structure of the four samples is given in Table 3.3.

**Table 3.3: Lists of Sample**

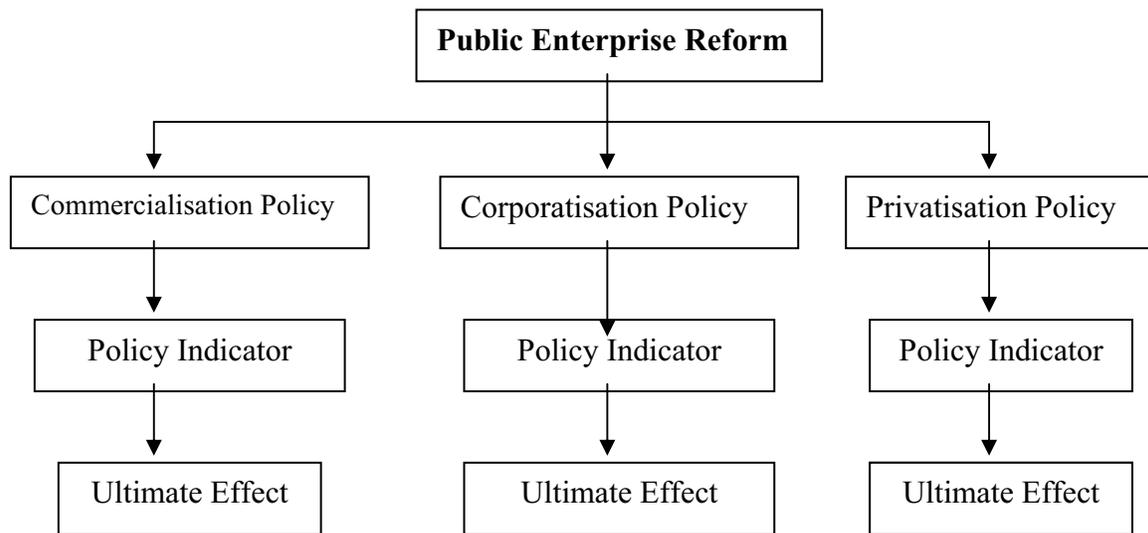
<b>Category 1: Public Utilities Board</b>	<b>Sample Size</b>
▪ Public Utilities Board (case study)	<b>32</b>
<b>Category 2: Government Ministries/Departments</b>	
▪ Ministry of Finance and Economic Planning	3
▪ Ministry of Commerce, Industry and Cooperatives	3
▪ Public Service Office	1
▪ Local Government Department	1
<b>Category 3: Private Business Secto</b>	
▪ Managers (4 companies)	4
▪ Lower Staff	8
<b>Category 4: Non-government organizations (NGOs)</b>	
▪ Aia Maea Ainen Kiribati – AMAK	2
▪ Teitoi-ni- Ngaina	2
▪ RAK	2
▪ Churches – KPC, Catholic, Mormon, and SDA	3
▪ Unimane – Elders	3
<b>TOTAL</b>	<b><u>64</u></b>

### 3.4.2 Literature Survey

The literature survey as reported in chapter 2 involved examination of existing unpublished and published sources using both the internal and external data. As Creswell (1994) argues, the literature survey helps the researcher to expand his/her knowledge on the issue and at the same time relate the present study to the ongoing debate in the literature in order to provide a framework for comparing the findings of this study and previous studies.

For the purpose of this study, *internal* data were obtained from the PUB documents, such as annual financial reports, corporate plan, organisational chart, and condition of service, staff list and previous studies on the company reform. Government documents were also reviewed, which included the national development strategies (NDS documents), annual financial reports for public enterprises including the PUB obtained from the audit office, population census documents, budget documents, business reports, and public enterprise

acts. *External* sources were mainly from the external aid donors' reports, such as the Asian Development Bank, World Bank and International Monetary Fund (IMF). A few sources were obtained from the internet. Some of the OECD reports on reforms in the United Kingdom, Australia and New Zealand are used to form the basis for public enterprise reform and privatisation theories. Figure 2.1 below illustrates the type of reform and strategies adopted from which analysis will be presented as follows. Figure 3.1 illustrates a graphical model for analysis.



### 3.4.3 Field Survey (Primary Sources)

Primary sources are crucial in any research work as they provide details of the most current and emerging situations in an organization (see Shipman et al., 1987; Tessler et al., 1987). The fieldwork was carried out on South Tarawa in Kiribati for a period of more than five weeks – December 2004 to January 2005.

### 3.4.4 Semi-structured Interviews

The basic data collection method was administration of semi-structured face-to-face interviews using a pre-prepared questionnaire (Appendix D–G). Semi-structured interviews mean that there were open and closed ended questions.

The largest category of interviewees was the PUB's employees (BOD, top management level and lower level employees). A different set of questions was designed for the different groups: the Board of Directors, Chief Executive Officer, Senior Managers, and staff at the lower level. Questionnaires for the interview were disseminated one week before the actual interview was conducted to allow ample time for the respondent to familiarize with the questions. However, names of companies and people interviewed were kept confidential for the purpose of this survey. The use of a questionnaire helped the researcher not to lose focus and to ensure that all relevant questions were asked. Respondents were given the opportunity to express their thoughts on the topic of interest as freely as possible. The interview took at least one and half hours for each participant. The four different departments of the PUB were all interviewed. Interviews might be more time consuming and expensive than questionnaires but have a higher response rate than questionnaire surveys (Powney and Watts, 1987).

#### **3.4.5 In-The-Field Observations**

Observation was used in conjunction with interviews. Observation was adopted to allow the researcher to see and observe subjectively employees' experiences such as feelings, attitudes and behaviour towards a particular event. As Walters et al. (2003) suggest that staff feelings, attitudes and behaviour are useful tools in determining the type of culture or system of the organisation. Observations of employees of the PUB in their working environment form part of the interview to supplement information collected from interviews and to affirm practical and/or physical issues that emerged during interview sessions.

There were two main things observed and assessed. The first involved the examination of the experience of the participants and their daily personal interaction. This also involved assessment of employees' relationships with their supervisors and vice-versa. A major part of this assessment was employees' physical signs, such as work attendance, appearance and language and the way they approached customers. The idea was to study the existing culture of the PUB. The second major part involved taking note of the conditions of the

company in terms of facilities, computers, main location and buildings such as powerhouse and other physical assets including the administrative set up.

The principal data collected were based on direct observation and on interaction with individual employees, especially listening to their conversations. In order to develop trust and rapport with the group, the researcher tried to watch and listen carefully and sometimes asked questions.

Data from observation and conversations were recorded in two steps. Firstly, while in the field, the researcher made mental notes and jotted down key phrases and words to aid the recall of particular events. Secondly, as soon as possible after leaving the field, the data were elaborated into a detailed narrative account.

#### **3.4.6 Questionnaire Surveys**

A questionnaire survey was carried out to supplement the interviews. The questionnaire survey comprised open-ended and closed questions and collected four broad types of information. It is divided into four sections:

- Section A comprised personal details of the respondent;
- Section B provided background information of the main study;
- Section C contained information on main issues and problems; and.
- Section D provided recommendations.

There were three sets of questionnaires prepared for three separate surveys. The first questionnaire (Appendix H) was intended for senior officials of government ministries and departments including some politicians. The second (Appendix I and J) was designed specifically for private businesses and stakeholders in non-government organizations (NGOs) at the community level.

The questionnaire survey forms were disseminated one week prior to the field study. Completed forms were sent direct to the researcher. In total, 28 responses from the

questionnaire survey were received, representing a yield rate of 88%. It took almost three weeks to receive all completed forms.

According to Bradburn and Sudman (1983), questionnaire survey has the advantage of collecting a large pool of data and/or information at a cheaper cost than interviews. Notwithstanding this benefit, questionnaire survey has the limitation in collecting the reliable and most required data, unless accompanied by personal interviews.

#### **3.4.7 Data Processing**

The data and evidence gathered from the fieldwork and secondary sources were coded to prepare for the analysis and interpretation. The coding procedure involved first listing each response given by the total respondents. Tally marks, tabulations, and calculations of averages, percentages and total expenditures and revenues and other variables were made. These patterns were then classified together to build interpretations and descriptions that will be presented in the empirical findings or data analysis and interpretations in Chapter 5.

#### **3.4.8 Ethical Consideration**

In order to obtain adequate information on the topic, respondents were clearly informed of the confidentiality of information collected. The researcher clarified the main purpose of the survey to the Chief Executive Officer and divisional heads prior to the interview. No respondents are identified in this thesis.

#### **3.4.9 Research Limitations**

During the fieldwork, the researcher encountered several problems. The budget and time allocated for the research was insufficient. The researcher faced difficulties in hiring an assistant researcher and was unable to obtain adequate resources like a tape recorder.

Another problem has been the lack of up to date information. Although there were available data these were held by individuals and were cumbersome and difficult to acquire. A good example was the PUB, where the Financial Controller, the only person who holds financial reports was very hard to access, especially when this person was not in

the office. In addition, available information on financial reports was outdated. The most recent report has been for years 2000 and in some cases 1999. There were data for 2002–2004 used in this research but these were not yet verified by auditors and may have shortcomings.

### **3.5 CONCLUSION**

Research is vital in understanding a particular issue or problem. The use of a literature survey was mainly to relate the present study to the ongoing dialogue in the literature and to provide a framework for comparing the findings and previous studies. Primary sources are very useful as they reflect new emerging patterns of the problem, more importantly; empirical results have the potential for higher reliability. The problems encountered during the fieldwork were centred on the limited budget and time allocated for the research. With the lack of up to date information, the researcher finds it difficult to uncover important information that is crucial to the provision of a completely reliable report. This is particularly the lateness of financial report, the most recent available for use was 1995.

In achieving meaningful results for this study, available sources were used, much of which are used to forecast the future trend. A detailed discussion of the background of Kiribati including urban centres in South Tarawa will be provided in Chapter 4.

## Chapter 4

### BACKGROUND INFORMATION OF KIRIBATI AND SOUTH TARAWA

#### 4.1 INTRODUCTION

In terms of land area, the Republic of Kiribati is one of the smallest countries in the Pacific region, formed of a chain of 33 coral reefs and atolls. Kiribati lies astride the equator in the central Pacific, some 2200 km north of Fiji, 5000 km northwest of Brisbane Australia, and 3000 km west of Hawaii (Van Trease, 1993). Its closest neighbours are French Polynesia to the south, the Marshall Islands and Hawaii to the north, Nauru to the west, Solomon Islands to the southwest and French Polynesia to the southeast (Figure 4.1).

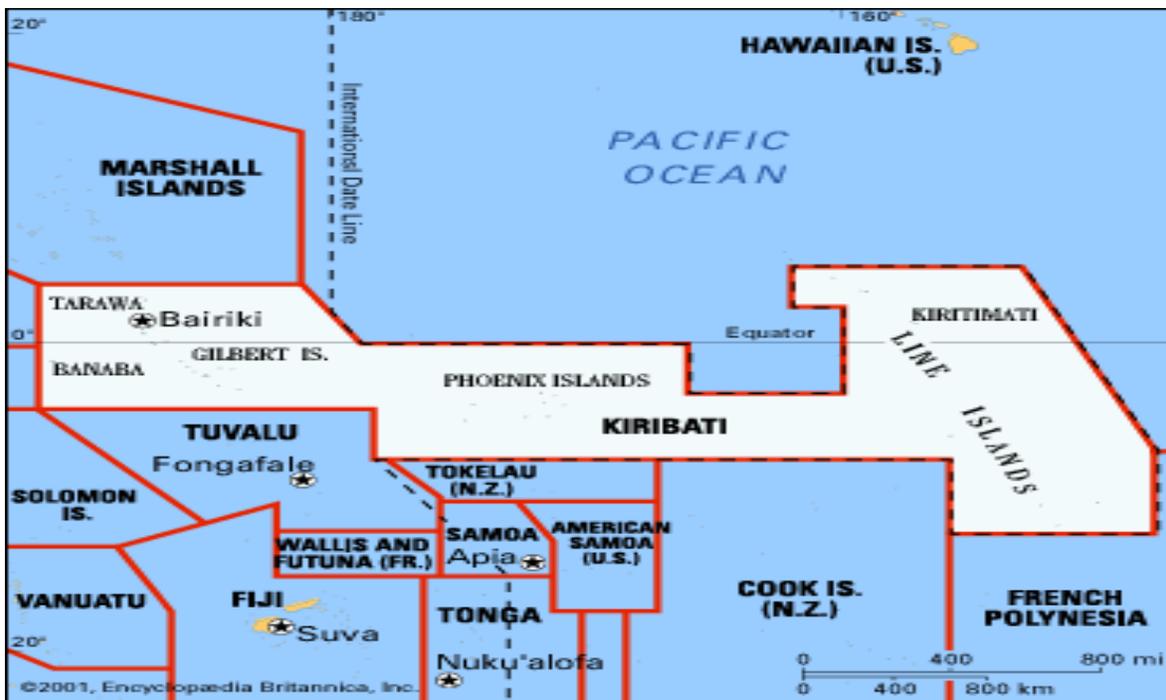


Figure 4.1: The Republic of Kiribati in the Pacific

Source: Quanchi (1991).

This chapter provides background information on Kiribati and South Tarawa in terms of geography, history and culture, population and demography, and political, economic, and environmental and social factors. These factors will be further examined to study unique

challenges and problems facing development in Kiribati. The chapter will also identify past and current trends and recent developments of greater importance.

## **4.2 GEOGRAPHY**

### **4.2.1 Land and Ocean Area**

Kiribati is mostly ocean. As illustrated (Figure 4.1), the nation's 33 coral islands are small in size, isolated and widely dispersed over a land area of 823 square kilometers within an exclusive economic zone (EEZs) of some 3,550,000 square kilometres. World Fact Book (2000) compares the Kiribati ocean area as much larger than the continental United States of America. The 33 small islands are divided into three main groups. The first are the Gilbert Islands, which form a chain of 17 low land atolls spread over 680 km in the western sector and include Tarawa, the seat of Government. Secondly, the Phoenix and Line Islands lying east of the Gilberts and comprising a cluster of eight atolls including Kiritimati (Christmas) island, contain over half the land area of Kiribati. The third is the isolated island of Banaba (known as Ocean Island), the only coral limestone formation, with the highest point above sea level of 4–5 metres, much higher than the rest of the Kiribati islands (see Pacific Island Travel, 2001; and SPREP, 1992).

### **4.2.2 Environment**

Kiribati has a hot climate because of its geographical positioning within the equatorial ocean climate zone, with the average annual rainfall in the Gilbert group varying from 1000 mm per annum for drier islands in the south (for example, Arorae and Tamana) to 3000 mm for Butaritari and Makin in the far north. Sometimes, prolonged drought is experienced in the southern Gilberts, Banaba and the Phoenix Islands and on Kiritimati. The soil is poor and the water is generally slightly brackish and becomes markedly during droughts (SPREP, 1992; and Pacific Island Travel, 2001). Like many PICs, Kiribati is experiencing sea level rise (Photo 4.1).



Betio-Bairiki Causeway – 2005

Eita Village

Photo 4.1: South Tarawa during the High Tide

The photos (Photo 4.1) reflect some major problems constraining sustainable development in Kiribati. High sea level rise seems to increase as compared with the past decade; dwellings and property as shown in Betio and one village on South Tarawa are now disturbed almost every high tide.

Kiribati has limited natural resources, especially land and good fresh water for the production of sufficient resources to serve as the commercial and subsistence base of current and future generations of the people of Kiribati. The vast ocean area is rich in marine resources, although it is difficult to fully utilize and manage within its extended Exclusive Economic Zone (EEZ) of 3.55 million km (Yeeting, 1988). This problem is further intensified by the lack of adequate fishing gear and capital resources (big fishing vessels).

Kiriati has limited agricultural base due to the poor climate and soil. The main food crops and vegetation surviving in Kiribat are coconut, pawpaw, pumpkin, breadfruit, pandanus and the cultivation of the “giant swamp taro” in pits dug through the freshwater lens, which needs special care for its survival, especially in dry places of the Southern Gilberts. Fish and coconut are the mainstay of the I-Kiribati and the only commercial export. However, the current pattern of living in Kiribati shows that people are more dependent on cash subsistence both on urban South Tarawa and outer islands, causing urban drift and the bad urbanisation.

### 4.3 HISTORY AND CULTURE

Kiribati was formerly known as the Gilbert and Ellice Islands Colony (the Ellice Islands are now known as Tuvalu) consented to becoming British protectorates in 1892. The modern history of Kiribati began in the nineteenth century when the first Europeans came to the islands, such as whalers, missionaries, traders, and administrators (Pacific Island Travel, 2001: 1-2).

Throughout the 1960s and early 1970s, political developments towards self-government gained momentum resulting in the separation from the Ellice Islands and independence for Kiribati. The separation took place in 1976 and in 1978 Tuvalu became an independent country. The Gilberts obtained internal self-government in 1977, and formally became an independent nation on July 12, 1979, under the name of Kiribati (MacDonald, 2001).

The people, known as I-Kiribati (Gilbertese), are of Micronesian descent. The term Kiribati comes from the word Gilberts. The people of Kiribati have brown skin, straight or wavy black hair, and beautiful smiling faces. Land is highly valued and land tenure is subject to many disputes. Traditionally, the social, economic and political life of the I-Kiribati people fully depended on the (**kaainga, or te utu**) a small group of extended families related to a common ancestor. Accordingly, (**batua or ikawai**) the oldest male who was in charge of the distribution of work including lands and all matters concerning the members of (**kaainga**) extended family. Kiribati traditional social and political organisation was among the pure democracies, by which (**unimane**) older men were the head of individual kainga and given full respect (see Maude, 1989; and Eritai, 2003). It was based on the **maneaba** system, which governs the affairs of the village people. (**Unimane**) old men play critical role in harmonising and organising their respective communities (**kaainga**) ensuring that no one goes hungry.

The term “maneaba” refers to a village meeting hall or village parliament for (**unimane**) old men where each elder represents its (**kaainga**) family in decision making. The maneaba decision-making system is that old men always sought consensus (Koch, 1986).

These factors are still reflected in the current system of community regulation and the local government. The (**maneaba**) system in particular, was based on good governance principles in terms of participation, transparency, accountability and creditability, where the system requires

that all village members should participate in decision-making through their elders (**unimane**) and to ensure that a decision is based on collective views reflecting communities' (**kaainga**) values. This means good governance is not new to Kiribati; it has long existed as an integral part of community integration and government system (see Koch, 1986; and Maude, 1989). The literature (also the empirical finding) reveals that good governance has been the basis for decision-making in Kiribati at the village level, albeit this is less practical in the public sector organisations. The problem in most policy making lies in the bureaucratic system which strongly inherits the British colonial administrative legacy of a “centralized decision-making” system. From this viewpoint, bringing about effective change has been very difficult because of the existing traditional and colonial administrative systems.

Today, the traditional culture is undergoing several changes, particularly on South Tarawa. The arrival of the Europeans has brought new ideas and way of life, which subsequently changed and modified the Kiribati's traditional culture. The most influential among the group were the missionaries, traders and the British administrators. The missionaries' values and beliefs had greater impact on the lives of the people since they inculcated the Christian way of life that appears to have influenced the traditional beliefs. What is seen today is the predominant of church social gathering instead of village or family integration. In other words, the whole church theory has become 'new traditional' — which is what neotraditional means. But for the newest young generation, even the neotraditional church may be becoming old-fashioned. In this connection, on South Tarawa the traditional village **maneaba** is being replaced by small church **maneaba** and the majority of the people have been converted to Christianity (Pacific Island Travel, 2001). Table 4.1 illustrates that almost all people in Kiribati belong to a particular denomination.

**Table 4.1: Religious denominations in South Tarawa, 2000**

<b>Religious Group</b>	<b>South Tarawa</b>		
	<b>Kiribati (Percentage</b>	<b>Populatio</b>	<b>Percentage</b>
Roman Catholic	54.56	19,445	52.96
Kiribati Protestant Church	36.95	13,036	35.50
Latter Day Saints	2.73	1,706	4.65
Bahai	2.43	984	2.68
Seventh Day Adventist	1.66	678	1.85
Church of God	0.62	272	0.74
Other	1.05	541	1.47
Not Stated	-	55	0.15
<b>Total</b>	<b>100.00</b>	<b>36,717</b>	<b>100.00</b>

Source: Kiribati Statistics Office (2002).

Table 4.1 shows that the Roman Catholic (RC) is the dominant religion in both Kiribati as a whole, and second is the Kiribati Protestant Church (KPC). South Tarawa, in particular, has about 53% Catholics and roughly 36% Protestants.

The administrators, on the other hand, modified the traditional political organisation by introducing a western type of government. Accordingly, island governments (now known as Local Government) were formalised to incorporate high chiefs and elders as magistrates or councillors in charge of island affairs and responsible to the central government through the local government.

Although these changes have become the permanent basis of the existing way of life today, the Kiribati people still value their traditional culture. The **unimane** remain the decision makers in island affairs, especially on the outer islands, despite the existence of island governments (Local Government, 2005). Furthermore, the community and family ties have been weakened to some extent and people are associated more for church activities. This is apparent on South Tarawa where people live in extended families amid the many aspects of a changing and modern urban life. The present reality is that South Tarawa has become the focus for cultural change and possibly social disintegration.

## 4.4 POPULATION AND DEMOGRAPHIC ISSUES

### 4.4.1 Population

The population of Kiribati as of the 2003 Population Census is estimated at 89,700 with a growth rate of 1.6%. Table 4.2 provides demographic characteristics of the population in Kiribati (Table 4.2).

**Table 4.2: Demographic Indicators**

Total population 2004 (000)	89.7
Annual population growth rate (2003)	1.6
Urban population as % of total population (2003)	47.4
Estimate 0-14 age group as % of total population (2002)	40%
Total fertility rate (2002)	3.6
Life expectancy at birth (2001)	
Male	62
Female	66

Source: Kiribati Statistics Office (2004).

By population distribution, 47.4% were on South Tarawa, which is classified as an urban area, and 53.6% in the rest of the islands of the Gilbert group. Of the total population, 40% were young population between 0 to 14 years of age, 49 % comprised those adult between the age of 15 to 49 and 11% comprised old population of over 50 years of age. Life expectancy in Kiribati has improved for males from 50.6 years of age in 1878/85 to 62 in 2001 and for females, it increased from 55.6 in 1978/1985 to 66 in 2001 (Kiribati Statistics Office, 2002).

Kiribati's population is made up of four major ethnic groups. These are I-Kiribati, Kiribati Mix, Tuvaluans, and Europeans. The others<sup>3</sup> ethnic group comprises persons who do not belong to any of the specified ethnic groups.

### 4.4.2 Urban South Tarawa

In South Tarawa, the dominant ethnic group is I-Kiribati, which constitutes 97% of the population. Other ethnic groups found in South Tarawa are Kiribati Mix, Tuvaluan,

<sup>3</sup> Refers to persons that do not belong to any of the major ethnic groups.

European, and Others, which together comprise the remaining 3% of the population (Table 4.3).

**Table 4.3: Ethnic Groups in South Tarawa (2000)**

<b>Ethnic Group</b>	<b>Number</b>	<b>Percentage (%)</b>
I-Kiribati	35740	97.3
Kiribati Mix	519	1.4
Tuvaluan	209	0.6
European	88	0.2
Others	161	0.4

Source: Kiribati Statistics Office (2002).

Figure 4.2 shows the map of South Tarawa and the location of urban areas of Betio, Bairiki and Bikenibeu.

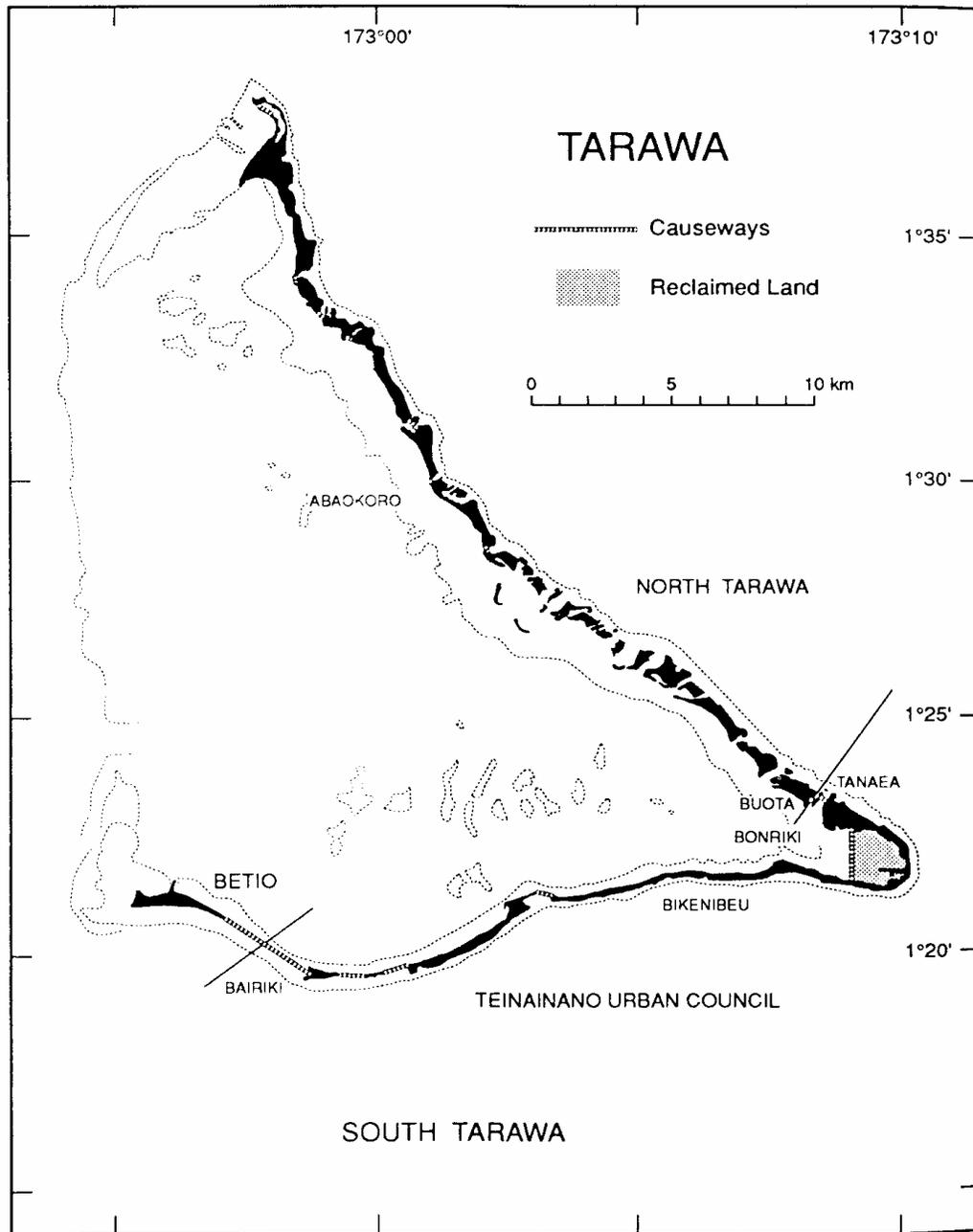


Figure 4.2: Map of Tarawa in Kiribati, seat for government (Kiribati Lands Office, 2004).

The fast growth rate supplemented by population densities on South Tarawa since pre-colonial time have led to bad urbanisation, given the soil infertility, limited fresh water supplies and limited land area (Kiribati Statistics Office, 2002).

**Table 4.4: Population Growth Rates in Kiribati and South Tarawa, 1931-2000**

Year	Kiribati		South Tarawa		
	Population	Growth Rates (%)	Population	Percentage share population to Kiribati	Population Growth (%)
1931	29,751	-	3,013	10.1	-
1947	31,513	0.38	1,671	5.1	-3.88
1963	43,336	2.02	6,101	14.1	8.20
1968	47,735	1.73	10,616	22.2	9.89
1973	51,926	1.68	14,861	28.6	6.73
1978	56,213	1.59	17,921	31.9	3.74
1985	63,883	2.00	21,393	33.5	2.77
1990	72,335	2.26	25,380	35.1	3.11
1995	77,658	1.42	28,350	36.5	2.21
2000	84,494	1.69	36,717	43.5	5.17

Source: Kiribati Statistics Office (2002).

Table 4.4 shows that South Tarawa has experienced a fast population growth rate since 1963. More significantly, the increase in population in South Tarawa is matched by high intercensal growth rates. South Tarawa population growth rate almost tripled the size of the growth in the rest of Kiribati group, particularly for the years 1963 and 1968, but then declined in 1973. Although growth rate has been inconsistent — there has been fluctuation in population growth rates — the population growth increases constantly. Furthermore, the intercensal growth rates for South Tarawa are markedly higher than the figures for Kiribati. This implies that the population on South Tarawa increases at an exceptionally higher rate than that of the country as a whole (Figure 4.3).

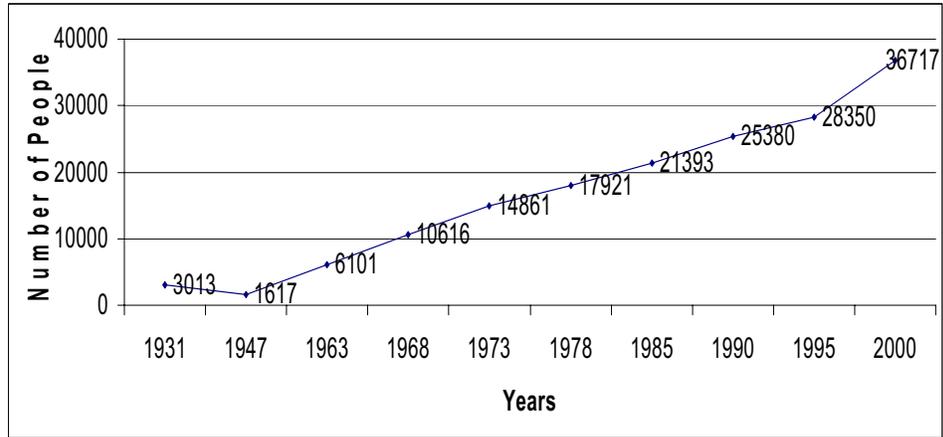


Figure 4.3: Population Trend of South Tarawa, 1931–2000  
Source: Statistics Office (2002).

As Table 4.4 illustrates, the bulk of South Tarawa’s population is found in the three urban centres of Betio, Bairiki/Nanikaai, and Bikenibeu. However, the share of population in these urban centres to the total South Tarawa population has been declining faster and it declined from 73% in 1985 to 63% in 2000. In other words, the urban population of South Tarawa is now dispersed away from these centres to minor centres or villages such as Temwaiku, Eita, Taborio, Ambo, Banraeaba, and Teoraereke in South Tarawa, where population has increased dramatically between 1985 and 2000.

**Table 4.5: Population Trend in South Tarawa by Urban Centres, 1985–2000**

Year	South Tarawa	Urban Centres			Urban Centres Population	Percentage Share	Population Growth
		Betio	Bairiki	Bikenibeu			
1985	21,393	8,387*	2,614	4,697	15,698	73.3	-
1990	25,380	9,443	2,849	5,894	18,186	71.7	15.8
1995	28,350	10,344	2,859	6,228	19,431	68.5	6.8
2000	36,717	12,268	3,346	7,542	23,156	63.1	19.2

Source: Kiribati Statistics Office (1986, 1997 and 2002).

\* The figure includes people on ships in port Betio.

In Table 4.5, Betio has the highest population density, accounting for about one third of the population of South Tarawa, followed by Bikenibeu, comprising one fifth of the population of South Tarawa in 2000. It illustrates that the urban centres (Betio, Bairiki/Nanikaai, and Bikenibeu) are growing at faster rates.

Initially, the drift to South Tarawa (see Banibati and Watters, 1977; Itaia, 1983) signalled poor services on outer islands. Thus, people move in search of jobs, better education, good health care services and living conditions to earn more money, with the added incentive that urban areas are thought to provide better entertainment and employment opportunities. In line with Itaia (1983), migration is attributed to the fact that developments are centrally located on South Tarawa. Figure 4.4 demonstrates that in the main residents on South Tarawa comprise people belonging to other islands, apart from South Tarawa itself. In fact, 16% originates from South Tarawa, while 81% are from other islands in the Gilbert Group, 1% from islands in the Line and Phoenix Groups, and the remaining 2 % from outside Kiribati.

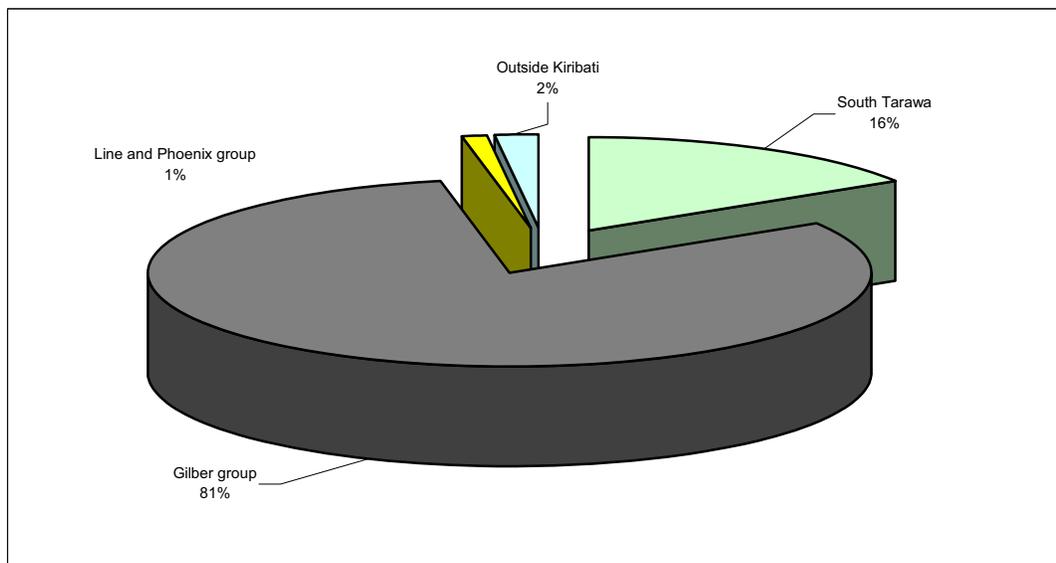


Figure 4.4: South Tarawa Residents by Home Island

Source: Kiribati Statistics Office (2002).

In addition, the concentration of population has made South Tarawa the most densely populated area in Kiribati, and over the years the number of people per square kilometer

increased alarmingly, particularly in the urban centres of Betio, Bairiki/Nanikaai, and Bikenibeu (Table 4.5). Furthermore, population densities in three urban centres greatly exceed the figures for South Tarawa. In 2000, Betio had a density of 9,196 persons per square kilometer, followed by Bairiki/Nanikaai and Bikenibeu with densities of 7,403 and 6,354 persons respectively. These are much higher than the comparison figure of 3,184 persons for South Tarawa as a whole.

The increasing proportion of Kiribati people now living in the urban areas causes the problems of limited land area, unemployment and housing shortages, which have led to social problems including reliance on nutritionally-inferior imported foods and squatterisation, all of which places increasing pressure on existing resources, water supplies and food systems. Although some atoll countries like the Cook Islands, Tokelau and Tuvalu have declining or stabilized population because of migration to New Zealand, there has been limited potential for this in Kiribati (SPREP, 1992).

#### **4.4.3 Rural Areas**

Rural areas comprise all islands outside South Tarawa and Kiritimati. Huge disparities exist between the economic conditions in South Tarawa (Tarawa is the capital) and Kiribati's outer islands, where many still follow a subsistence-based lifestyle. The need for cash jobs, good education, and better social services is causing an urban drift or depopulation in terms of “brain drain”, which has led to the overcrowding of South Tarawa, where almost half the population is now concentrated (Kiribati Statistics Office, 2002).

Recent development on outer islands is evident, particularly observable as improvement in infrastructure in terms of communication facilities (telephone), medical services and establishment of junior secondary schools by government and churches, all of which have improved the life of the people on outer islands and at the same time reduced constraints of their relatives on South Tarawa. Furthermore, government has provided more than \$1 million for development projects on outer islands (KMFEP, 2004). However, this does not end the sad story; government must be more committed to close monitoring and continuous review of these projects if sound sustainable growth is to be achieved.

## 4.5 POLITICAL BACKGROUND

### 4.5.1 Political Structure and Policy Formation

Kiribati has a democratic government adopting a unique mixture of presidential and parliamentary systems reflecting the Westminster model. It also provides for a single tier system of government, with an executive president, known as the Beretitenti, as the Head of State and Head of Government. He is elected by universal suffrage from among a short list of at least three or four candidates nominated by the (**Maneaba ni Maungatabu**) Parliament (Van Trease, 1993).

The single chamber of legislature comprises forty-four elected members as at December 2005. Nominated members from outside the chamber normally elect the speaker. There are three informal political parties in Kiribati, which are the Liberal Party, the National Progressive Party and the New Movement Party. Nevertheless, an individual member is free to choose which party to join and also to change party as he/she wishes. The voting age in Kiribati is 18 years, much like the United States (World Fact Book, 2001).

The central government's term of office is four years. The Beretitenti and the Attorney General appoint ministers. Local government is an arm of the central government and provides its own form and social organisation at island level. Although, the western government model is prevalent, the traditional village "Maneaba" has remained for many years, as the focus of local control and more often become the main source of conflict with local government administration. The local government comprises seventeen rural island councils and two urban councils on South Tarawa known as the Betio Town Council (BTC) and Teinainainano Urban Council (TUC) (Local Government Act, 2004).

Kiribati has had a stable government since independence, albeit political conflicts does occur and is felt by the people. Consequently, an individual citizen belongs to a particular political party. The more fundamental issue is the involvement of churches in election campaigns, especially the largest churches in Kiribati, namely, the Catholics and the Kiribati Protestant.

During the period 1979–1991, the election of the first government under President Ieremia Tabai from the Liberal Party marked a shift towards a free market economy. The Tabai

government's first move towards development was introducing a policy of privatisation in support of his vision of "self-reliance and self-sufficiency" (KMFEP, 1979). Tabai is known by the completion of his 12-year term and remarkable success in building the Revenue Equalization Reserve Fund (RERF) which has become the foundation for the Kiribati's budget and other developments. Although Tabai showed success in leading the country for such a lengthy period of time, his failures could be seen in the rushed implementation of his policy of privatisation, which led to the labour party strike in 1992. This was due to staff redundancy, especially from the lower levels (World Bank, 1993).

In 1992–1993, President Teatao Teannaki from the same Liberal Party came to power with the idea that he may complete some of the incompleting tasks from his predecessor. Teannaki lost his seat because of a no confidence motion in Parliament and had insufficient time to complete most of the activities continued from his predecessor.

When President Teburoro Tito came to power (1994–2003), he abandoned the privatisation policy and introduced a different vision and priorities. President Tito won the election over his opponent Taberannang Timeon from the Liberal Party on the notion that the National Progressive Party led by Tito showed their support to the peoples' strong resistance to the privatisation policy initiated by the Liberal Party (MacDonald, 1998; and ADB, 1997).

The Tito government emphasized the importance of "working together for prosperity and peace" to be supported by strengthening fiscal and monetary policies. However, with the influence of donors in harmonising policy formation, Tito later accepted the policy of privatisation. NDS 1996–2003 clearly highlighted that public enterprise reform and privatisation of Otintaai Hotel and Plant and Vehicle were advocated, but no privatisation took place. The lack of government commitment could have its origin in the lack of interest in the first place. Tito is known by his strong leadership, character and success in wide spreading monetary benefits by increasing the number of in-country and overseas scholarships including establishment of primary and junior secondary schools (JSS) on outer islands and building a new Parliament House at Ambo using the RERF. Other notable developments include the establishment of an overseas mission in Suva, securing sufficient

funds from the Green Passport and increasing employment at around 30% since 1997 (KMFEP, 1996). Nevertheless, Tito's government has failed to impose appropriate and fair discipline on the Korean Fishing vessel, namely Jasmine No. 9, in 2001 causing heated debate in Parliament and peoples' discontent. This was a Korean fishing vessel put in prison at Kiribati harbour for fishing unlawfully in the Kiribati Ocean. The ship escaped with two policemen taken away (two men have returned) without proper discipline (New Star, 2001). Tito lost his presidential seat at the commencement of his third or final term because of the no confidence motion in Parliament.

President Anote Tong from the Liberal Party commenced in July 2003 (government of the day). When he assumed office, President Tong began by terminating the Kiribati diplomatic relations with China and forming an alliance with Taiwan. In conjunction, the Tong government abandoned the sale of the Green Passport and reduced retiring age from 55 to 50 years. In supporting its vision of "enhancing growth and ensuring equitable distribution", government introduced social security for elders. Furthermore, government also introduced a contract appointment for the permanent secretary positions, which are to be reviewed annually. This is accompanied by several key policies one of which involves an output based budget. In this, all government ministries would be assessed along the lines of the four-year programme laid down in the NDS (2004–2007). From the outset, the change has been radical and put greater pressure on the wider citizenry.

#### **4.5.2 Foreign Relations**

Kiribati maintains close relations with its neighbour countries including Australia and New Zealand. In February 2002, Kiribati opened its first overseas mission in Suva and has full diplomatic relations with 44 regional organizations, for example Pacific Island Forum, the Commonwealth and many others. However, the country has been very cautious in developing its foreign relations and this is an area in which the Beretitenti takes a keen interest as Minister. Although the country leans towards the West, its inherent egalitarian ethic prevents it from readily accepting capitalism in full (Ministry of Foreign Affairs, 2005).

## 4.6 ECONOMY

### 4.6.1 Economic Issues

Kiribati continues to maintain its solid record of financial stability and fiscal prudence. Yet it remains one of the least developed Pacific Islands economies with low growth in per capita real incomes (IMF, 1989; KMFEP, 2000, 2003). Economic growth has been strained by a number of structural impediments, including a large and inefficient public sector that limits the private sector growth, inefficient tax system, price controls, government subsidies and cumbersome procedures for direct investment. Since independence, economic strategy had been based on two pillars: a cautious fiscal policy and market-led development. These two pillars have become the guiding principles in the Kiribati National Development Strategies since independence.

### 4.6.2 Recent Economic Performance

Gross domestic product (GDP) per capita at current market price has increased from A\$720 in 1995 to A\$1005 in 2004, that is, at the rate of about 72%. Gross national productivity (GNP) is estimated to A\$1803, thus the difference of A\$798 is being income from abroad. Real GNP growth is largely influenced by fishing license fees, interest from the Reserve Fund or RERF, and remittances from seamen and fishers on overseas fishers. Figure 4.5 illustrates GDP growth rate for period 1995–2004 (Kiribati Statistics Office, 2004).

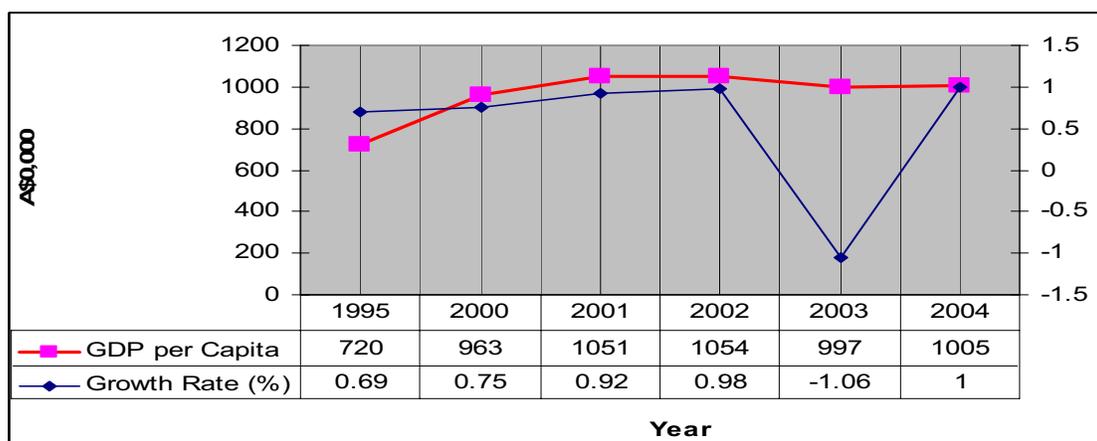


Figure 4.5: Kiribati Pattern of Growth from 1995 to 2004 (GDP Growth Rate)

Source: Kiribati Statistics Office (2004)

Figure 4.5 shows that the growth rate has, however, not been consistent and uniform; with real rise in GDP some years (2000–2002) being largely offset by declines in some years (2003 and 2004). Growth has been reinforced through the increasing wholesale and retail trade mainly in food commodities. Such development was further exacerbated by a shift to expansionary in fiscal policies in 1999 and comparable increasing in recurrent expenditure (2000 to 2001) to finance a large public sector wage increase and form two ministries including donor spending and rise in construction actively largely from government development projects (ADB, 2005).

The decline in 2003 GNP also affected GDP for 2003. Other contributing factors include a short-run fluctuation in relation to the rise in government price policy on copra, stabilisation in the residential investment, government purchases and net exports, and flexibility in exports and imports mostly affected by international prices and flexibility in investment by constant changes in exchange rates and external influences. Furthermore, the decline was also caused by the domestic instability and greater dependency on foreign aid (KMFEP, 2003).

However, the inflation rate decreased from 6.0% in 2001 to 5.1% in 2002, reflecting a fall in the price of food, beverages, and transport. The overall budget balance deteriorated from a surplus of 15.0% of GDP in 2001 to a deficit of 5.9% of GDP in 2002, primarily due to increased spending from a wage and salary bill, subsidies to government-owned enterprises, the copra industry and the government's contribution to development projects. The Kiribati external debt was about \$11m or about 6% of estimated GNP, but there is no domestic debt. All dollar figures refer to Australian Dollar, the official currency in Kiribati (KMFEP, 2003).

Presently, the monetary economy is dominated by the public sector which account for 78% of GDP (Figure 4.5):

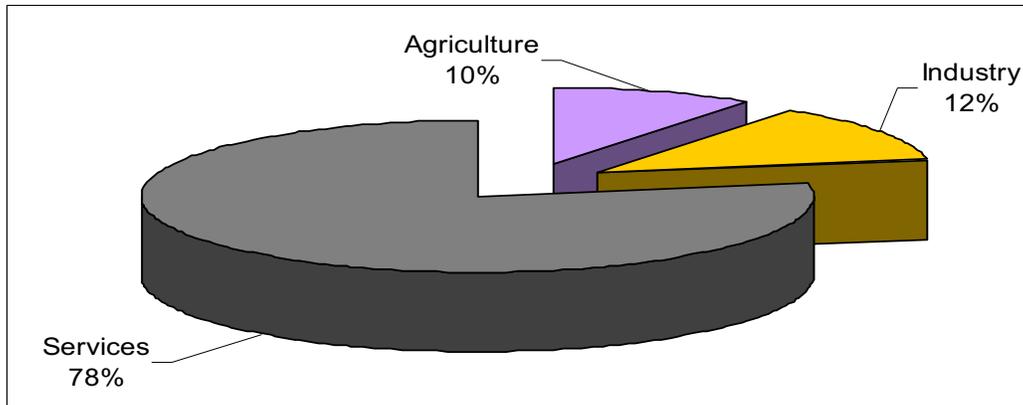


Figure 4.6: Percentage share of public sector in GDP (%) at current prices as of 2004

Source: Kiribati Statistics Office (2004)

As clearly illustrated in Figure 4.6, the two main export products provided by the rural areas, agriculture (mainly copra) and marine products (sea-weed and aquarium fish) dropped sharply. Together they represent only 10% of GDP.

#### 4.6.3 Nature of the Monetary Economy

Changes in the national income of Kiribati are determined more by earnings from foreign investment, which appear to dominate the national monetary economy. According to KMFEP (2003), GNP represents earnings from the RERF that has a market value of \$576m as at 2002 and estimated increase in 2005 to \$608m, earning from fishing license fees (25% of GNP in 2003) together with the smallest earning from remittances of Kiribati seamen and fishers on overseas fishers (8.2% of GNP in 2003).

Revenues from abroad reflect the level of public and private disposals, which are useful means of domestic tax and greater portion form part of the GNP. The fall in foreign access fees in 2003 also has a significant influence on GDP, as is evident in the decline in GNP in 2003. However, revenue from green passports has ceased since the new government assumed office in 2003, therefore, a sharp drop in revenue is expected in 2004 and 2005.

Tourism is currently making a small contribution to the economy, estimated to 3% of the GDP. Figure 4.8 shows an increase in the total number of visitors between 2000 and 2002 from 1426 to 1619 to Tarawa.

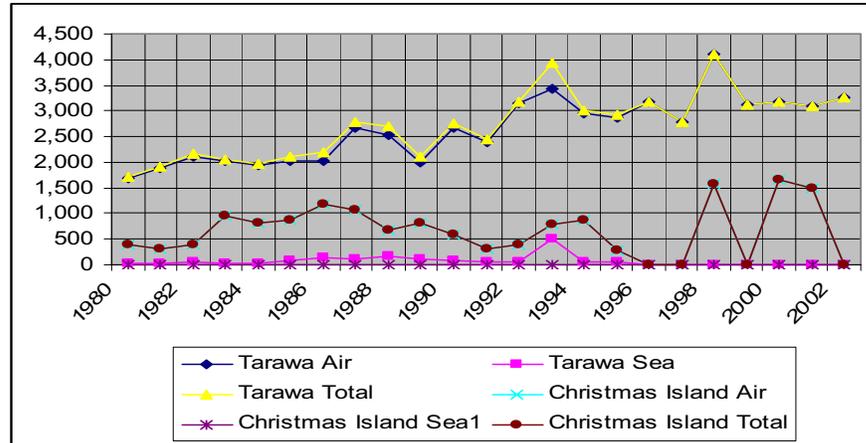


Figure 4.7: The Number of Visitors to Kiribati, 1980–2002

Source: Kiribati Statistics Office (2004)

Tourism is an important sector of the economy that can assist private sector development. In maximizing the benefits from tourism, government needs to look into the sector more seriously.

## 4.7 SOCIAL AND INFRASTRUCTURE ISSUES

### 4.7.1 Access to Education

Kiribati people suffer a lot from the lack of good education and inaccessibility to some extent, especially on rural outer islands. The situation seems to have slightly improved over the past five years. ADB (2002a) provides evidence that the overall primary school enrollment in Kiribati in the year 2001 was 82% to 87% for South Tarawa and 78% for the outer islands. This ranges from a low of 65% on South Tabiteuea to more than 95% in the Line Islands. This change reflects recent development of the junior secondary school (JSS) accompanied by the introduction of a policy of free education from primary level to junior secondary school or Form 3 level. There are now 24 junior secondary schools all fully staffed (KMFEP, 2003). Since Kiribati has only few highly qualified teachers, these new JSS are not compatible with available resources including the lack of adequate facilities, especially on outer islands. Because of these deficiencies, the quality of schools on outer islands is still below the standard of education on South Tarawa. This is in the sense that all schools on South Tarawa have proper classrooms with desks and chairs, access to library both in school and outside using the USP and the National libraries as well as access to computers.

#### **4.7.2 Access to Health**

Kiribati people are one of the lucky nations in the PICs receiving free health services. However, one outstanding issue facing government and the people today relates to unfair distribution of good health services to citizens on outer islands (WHO, 2001). Recent studies revealed that for the last three years, access to health services on outer islands has been slowly but steadily improving. There were 10 new clinics established on outer islands supported by the increase in the number of qualified nurses, that is, to the population ration from 1:450 to 1:375 increases in 2002. In addition, the number of qualified doctors increased by 5% in 2002 coupled with the assistance of Village welfare groups. Peace Corps Volunteers have been recruited as community health workers to make the primary health care system more responsive to community need and supervisory visits have been increased. The remaining problem on outer islands has been the lack of appropriate health facilities and good medical supplies, including availability of transport and communication facilities to medical emergency needs (KMFEP, 2003). More effort from government is required in solving these problems.

Nevertheless, outer island people can have better health than those on South Tarawa because of the less crowded environment and the healthier food harvested daily from their own small farming and fishing grounds. On outer islands, life is fully dependant on fresh crops and vegetation, fish and toddy, which has the added advantage of involving physical activities such as planting, fishing and other social activities. From this perspective, people on outer islands are healthier than those in urban areas, as they do not eat “junk food” like those imported goods feeding the people on South Tarawa. The World Health Organisation (2001) provides that the rate of sicknesses such as polio, hepatitis, diphtheria and tetanus is higher on South Tarawa than Outer islands, that is, 90% to 62% respectively. Lifestyle sicknesses like diabetes and heart disease are experienced more on South Tarawa largely because of the lack of involvement in physical jobs and full dependence on imported foods.

#### **4.7.3 Transport and Communications**

Kiribati suffers from the lack of appropriate transport and communication facilities in terms of sea and air transport and communication facilities. Both the government and private operators

provide inter-island sea transport services. The Kiribati Shipping Company Limited (KSCL) operates 4 vessels: *MV Nei Matangare*, *MV Mataburo*, *MV Nei Momi*, and *MV Tebetiraoi* (a landing craft). There are also twenty other locally based private ships, five of which have shipping capacity of 100 tons or more. Fifteen of these private vessels carry freight and/or passengers, servicing between Tarawa and the closest neighbouring islands in the central part of the group (Abaiang, Maiana and Marakei). Most of these private shipping vessels only serve within Kiribati. Despite the need for imported goods, the KCLS also provides international transport mainly to Fiji for freight and passengers. However, because of the limited number of vessels to serve all islands in Kiribati, the KSCL can serve each island only once a month. This has caused the problem of frequent cargo shortages, especially on outer islands (KMFEP, 2003).

In response to the need for imported goods, the KSCL vessels provides an international link to Fiji and also to the Line and Phoenix group, which runs once a month only. The other two vessels serve outer islands once a month and sometimes, twice a month to visit one island.

Unfortunately, Air Kiribati Ltd, the National Airline and the sole provider of inter-island air service, only once a week to each island, is now facing severe financial difficulties in providing reliable, safe and good standard air service. The domestic air service has been a problem for a long time and there is no development on this has yet been made. At present, the Kiribati link to Fiji and other regional arenas is fully dependent on Air Nauru service, which runs twice a week.

Communication on the other hand is improving. Currently, there is ongoing project to install communication facilities on all outer islands, such as telephone, fax and e-mail. The project was expected to complete in 2004 but only a few islands have completed (NDS, 2004–2007). On South Tarawa and Kiritimati, the wide spread of new technologies like computer, mobile phone, e-mail and other technologies reflects major change in telecommunications. This improvement in telecommunications, basically on South Tarawa, has been the result of a joint venture between Kiribati Telecom Services Limited with Telstra Australia (KMFEP, 2000). It is worth noting that the Kiribati Telecom Services Limited joint venture with Telstra Australia

has ceased in June 2001, although this has brought significant improvement in Kiribati telecommunication services.

#### **4.7.4 Sharing and Caring Culture**

Like other PICs, Kiribati society is more communally oriented with deeply imbedded principles of sharing and caring for each other and respect for elders. Such social characteristics influence all economic and commercial activities. It does not favour the private initiative and individual efforts for promoting oneself above others in a material sense (ADB, 1996; Jayaraman, 1999). There is an emerging trend towards social disintegration, such as more emphasis on the nuclear family (on urban South Tarawa and Kiritimati) and including broken families, prostitution, lack of support to elders, signs of weak family headship, where women are becoming the boss of home instead of a man. Nevertheless, many are still maintaining family support and family ties. Such communal ties have significantly influenced the nature of public policy in Kiribati. This has been the case for people resistant to the policy of privatisation, because the element of the policy that requires pursuance of self-interest or individualism is inconsistent with the existing culture of community ties.

#### **4.7.5 Employment Opportunity**

Cash employment opportunities are limited to South Tarawa, and there is less access to cash employment on outer islands. In 2000, there were 5889 total civil servants, of which 64% are employed on urban areas—South Tarawa and Kiritimati and 36% are on outer islands. In 2003, the total number of civil servants increased to approximately 6,183, of which, 41.5% worked on outer islands and 59.4 on urban South Tarawa and Kiritimati. It is clear that recent development in education and health medical centers on outer islands have contributed to improvement in cash employment on outer islands (Figure 4.8).

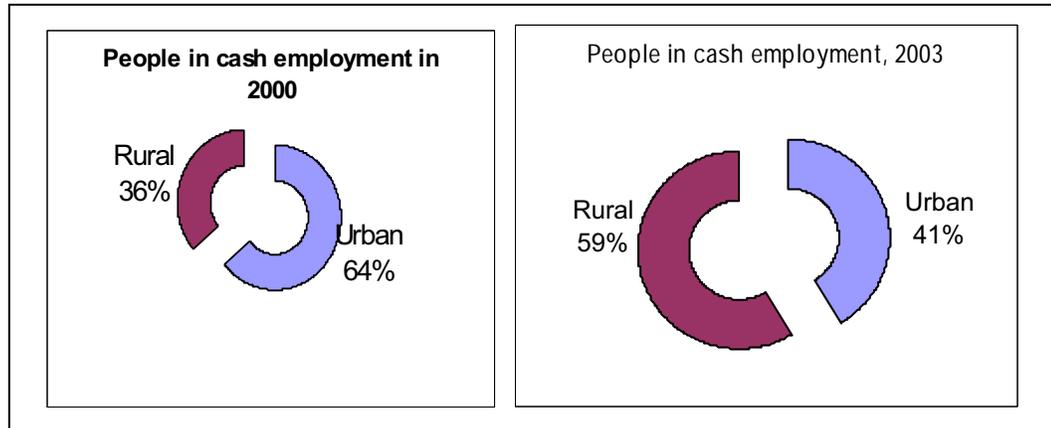


Figure 4.8: Pattern of Cash Employment in Kiribati (Kiribati Public Service Office, 2004).

However, employment opportunities for women in Kiribati are improving as the result of equal opportunities in education. This is more evident on South Tarawa, but the case for outer islands remains in the traditional way, where women are confined to domestic duties, such as cooking, baby caring and so forth. Women's participation in employment is significantly increased. Overall, women comprise 51.5% of 6,115 total employees in Kiribati in 2005, of which, 37% are in paid employment in 2005. There are two women in parliament and 44% of administrators and managers, 51% of professionals (mainly teachers and nurses) are females. Currently, women are still minority in technical areas. The case of the PUB is a good example, where there is no female working in engineering.

Empirical finding reveals that women in marine science is increasing and estimated to one-third of total employees in this particular area. At the beginning of 2005, government has approved women employment on foreign vessels. As a result, approximately 35% of the total intake for 2005 overseas sailors comprised women. These developments together with the increased in the number of women in education at both secondary and tertiary levels show future prospect for women's participation in economic activity.

#### 4.7.6 Challenges for Youth

Of course, challenges for youth also seriously challenge their elders. Some notable challenges facing the young generation is associated with urbanization — robbery or stealing and drinking alcohol, prostitution by young females. This problem is more feasible on South Tarawa, where a significant number of youths are not attending school and also not working.

Economic pressure is a key factor driving young people to form in groups and trouble others for money, such as stealing and drinking alcohol. In some cases, these young people are staying with their relatives and thus do not receive proper support and care from their own parents.

At the village level, the problem is limited as youths are more involved in domestic and productive activities, such as fishing, cutting toddy, copra production and gardening. In Kiribati, once the son or girl is grown up (say sixteen years), parents delegates some of their main tasks to them. This has proved successful in minimising crime and domestic violence by these young people. More importantly, it lessens the burden of older parents and families.

#### **4.7.7 Land Tenure System and Limited Lands**

Land is a valuable asset to I-Kiribati, is regarded as the mainstay of all I-Kiribati. Thus, the land tenure system is central to Kiribati culture. Traditionally, land is owned by the (**kaainga**) family, the major land holding group. Under the traditional customary distribution, the eldest male always receives more land than other children or members of the family. Nevertheless, everyone through the customary land system is entitled to own land or have rights to a piece of land. This traditional land ownership and distribution system prevails in the current land tenure system, where distribution of land among family members has to be decided by the elder son through the approval of the court. Similarly, sale of land is normally decided by the court in line to the distribution process, by which approval of immediate families (next of kin) — children and in the absence of children, brothers and sisters needs to be sought (Kiribati Lands Office, 2004).

The current situation on South Tarawa is that people and government are facing the problem of landlessness. This is also apparent on outer islands and is a direct outcome of the rapid increase in population. There is limited space to set up more buildings for housing and business (Table 4.6).

**Table 4.6: Land Availability in South Tarawa**

Type of Land	Area (square kilometre)	Percentage of land to total land area (%)
Government	6.475	56.16
Private*	4.957	42.99
Others**	0.098	0.85
Total	11.530	100.00

Source: Estimated by using Map Info Computer Programming

\* Includes personal, family, subleased, and private leased land.

\*\*Refers to land alongside causeways.

Table 4.6 illustrates that a total available land area of 11.53 square kilometres, which is available for housing and divided among government, and private landowners. Accordingly, government owns 56% of the total land area while private land accounts for only around 43%.

The limited land area on South Tarawa together with communal land ownership prohibits alienation of land to foreigners and even to other families. These factors have made it difficult for establishing business in Kiribati. In addition, problems of landlessness mean that most people now on South Tarawa do not possess lands as they have already sold their lands and income received from the sale has been spent. This pattern signals a shift from an agricultural base to modern cash employment, with the likelihood of future poverty if employment does not exist (ADB, 2002: 61).

#### **4.8 CONCLUSION**

Generally, achieving sustainable development in Kiribati has been very difficult for a number of reasons. Kiribati position on the equator, its smallness and land scarcity, remoteness from world markets, infertility of the environment, lack of resources, and diversified economy are further exacerbated by problems of the fast growth rate and dispersion of population, and social and cultural issues.

These problems have placed Kiribati at a disadvantage in dealings with the rest of the world. Those few goods and services it can produce for sale, such as copra, are restricted and

substantially higher than its original price. These same problems have made it difficult for government-owned enterprises and private enterprises in obtaining and supplying reliable, efficient and cost-effective goods and services. In both ways, the Kiribati people have suffered severely through cargo shortages and very high cost of available goods and services.

Notwithstanding these difficulties, Kiribati's small population enjoys large foreign reserves, a history of sound fiscal management, a flexible subsistence sector and a strong traditional culture that promotes social and political stability and family welfare. These are supported by a solid financial position including a substantial, although imperfect, flow of aid not forgetting our government leaders' efforts in building the RERF sufficiently through use of external aid funds. The problem of limited and remoteness also can offer unique challenges in developing a competitive tourism sector in Kiribati, which indeed is a current issue of concern in developing the private sector. Starting from scratch, the country has made reasonable progress during the past decade. Government revenues from the RERF, fishing licensing fees and fish catch, export of copra and marine species, development of a few domestic manufacturing units all together with improvement in human resource capacities (see UNDP, 1999) are some notable developments, slow but sound environmentally and culturally sustainable manner. The next chapter will deal with the empirical research focusing on case of the Public Utilities Board and the report of the research results.

## **CASE STUDY: PUBLIC UTILITIES BOARD IN KIRIBATI**

### **5.1 INTRODUCTION**

#### **5.1.1: Overview of the main thrust of the study**

This field study was undertaken in the Public Utilities Board (PUB), one of the public enterprises in Kiribati fully owned by government. The general objective of the fieldwork was to examine the impact of public sector reform on public enterprises, by studying the PUB reform process and significant changes that have taken place after the reform, to see whether or not these changes have had significant impact on the PUB corporate culture (employees, structure and systems) and the environment in which it operates, as well as the company's overall operation. The study also examined factors contributing to PUB's inefficiency. These formed the basis for analysing the impact of reform on the enterprise, in the hope of gaining further insights into problems and challenges faced by the PUB and their likely influence on the people and overall development in Kiribati.

The primary focus of this chapter is to provide the results of empirical surveys with the 64-member random sample. The chapter is divided into four main sections. It will begin with an introductory section, briefly summarizing the main thrust of this research and literature review in conjunction with main objectives of the study. Section two will provide data process and analysis, including explanations of sample characteristics. Section three will provide key findings and discussion including research limitations. The final section four will provide a conclusion, highlighting key findings, policy implications and recommendations obtained from the survey.

#### **5.1.2 Literature review in conjunction with objective**

As an important sector of the economy, government subsidy to PUB accounts for a preponderant share of 15% of the GDP in 2003 (KMFEP, 2004). PUB has clear national financial and fiscal implications, for its activities with their direct impact on government expenditures and revenues, and further negative impact on economic growth. Discussion with the current board of directors revealed that government continues to maintain PUB

because of its pervasive role as having a major input in almost all typical developments. However, government efforts to reform PUB since the mid-1980s and 1990s have no significant effect in improving PUB efficiency. It is already more than a decade after the company's first reform but there has been no change in the company's public service status, even though PUB has become a corporatised company. The PUB continues to concentrate on its social obligations and employs excessive staff. The PUB staffing level since 2000 has increased: by 2001 the number of employees increased to 234, above the staffing level in 1993. Until today, PUB continues to receive a government subsidy of A\$1,200,000 annually for the provision of water and sewerage services.

With the support of external aid donors, in particular ADB and the Australian government, the Kiribati government puts excessive efforts into reforming its public enterprises. The emphasis has been on poorly performing public enterprises like PUB. In effect, PUB has gone through several restructuring exercises since the 1980s. The current reform of the PUB under the SAPHE project and other aid donors' assistance has been an integral part of earlier reforms aiming at improving the company's productivity, cost effectiveness, and efficiency. The project cost US\$12.8 million funded by ADB through a grant of a loan to the Kiribati government. This loan will be repayable within 40 years' time and is free of interest. In addition, the Australian government provided two technical assistants costing US\$1.5 million. The TA is directed towards the Management and Financial Advisory Services for restructuring of the PUB for Community Development and Participation Initiatives. The Foundation of the South Pacific (FSP) also contributed to the sewerage project by providing public education programme on environmental improvement leading to the introduction and installation of decomposed toilet facilities in rural areas. According to KMFEP (2003), phase one of the SAPHE project was completed in July 2000. Phase two is still underway and anticipated to complete in 2007.

## **5.2 KEY FINDINGS AND DISCUSSION**

### **5.2.1 Data Recording and Analysis**

Data collected from the interviews were transcribed each day after the interviews. Similarly, the questionnaire survey results were also analysed as soon as the completed

survey form was received. The recording of data was coherent with the structure of questions set for interviews and questionnaire surveys, grouped and analysed under the following headings:

1. Analysis of employees' personal characteristics in terms of:
  - (i) age;
  - (ii) gender;
  - (iii) education level attained; and
  - (iv) work experience.
  
2. Analysis of PUB background in terms of:
  - (i) company establishment and growth;
  - (ii) organisational structure and level of employment;
  - (iii) role of the Board of Directors (BODs) in the company;
  - (iv) management structure and lines of responsibilities;
  - (v) corporate culture and strategic management in terms of HRM; and
  - (vi) financial performance.
  
3. Analysis of the problems faced by the company in terms of:
  - (i) internal problems; and
  - (ii) external problems.
  
4. Analysis of opinions of stakeholders outside the PUB in terms of:
  - (i) quality of the PUB services;
  - (ii) impact of PUB poor performance on government and the people;
  - (iii) suggestions to improve the PUB performance.

### **5.2.2 Sample Characteristics**

#### *PUB Employees' Age Structure, (%)*

The age structure is crucial in determining the culture of the organisation. Table 5.1 illustrates the age structure of those employees interviewed.

**Table 5.1: Age Structure of the Survey Respondents, %**

<b>Age-group</b>	<b>30 Employees Interviewed</b>	<b>CEO/Managers (Divisional Heads) (%)</b>	<b>Middle Management (%)</b>	<b>Grassroots Level (%)</b>
< 30	2	0	0	7
31-39	9	0	13	17
40-45	10	7	23	3
46+	9	13	0	17
<b>Total</b>	<b>30</b>	<b>20%</b>	<b>36%</b>	<b>44%</b>

Of the total number of 30 employees interviewed, 30% of respondents fall in the 46–50 years age group; 33 % were within the range of 40–45 years of age; 30% were from 31–39 years of age; and only 7% were under 30 years of age. Not surprisingly, all divisional heads with the exception of a water-engineering manager are above 46 years of age. This age group comprised the CEO, Personnel Manager and Manager Power House. These people are all on contract appointments. Among respondents from the middle management group, 13% were within the age limit of 31 to 39 and 23% in the 40–45 age categories. Amongst those at the grassroots level, 7% of total respondents were below 30 years, 17% were between the age of 31 and 39, 3% were between the ages of 40 and 45, and 17% were above 46 years.

Discussion with the CEO shows that this age structure is a reflection of change in government retirement policy with the lowering of the retirement age from 55 to 50. This was accompanied by the introduction of contract appointments for top positions. This policy applies to both the private and the public sectors, for example, Manager or CEO and Permanent Secretary positions. Another finding was that due to limited skills in technical areas and the importance of work experience, some retired people, especially at the top level, were still maintained on contract, this happens for instance in the PUB. It was also found that the board of directors normally made the appointment of a CEO and to some extent the process attracts a significant degree of political pressure. The CEO in turn

appoints heads of divisions and to some extent, political pressure through directors has influence the recruitment, for example, appointment of a retired Personnel Manager.

*Respondents by Gender, (%)*

The result of the interview well indicated that the number of males was higher than females at the rate of 69% and 31% respectively (Table 5.2).

**Table 5.2: Interviewed Employees by Gender**

<b>Gender</b>	<b>Total Number</b>	<b>%</b>
Female	9	31%
Male	23	69%
<b>TOTAL</b>	<b>32</b>	<b>100%</b>

The high rate of males over females was based on the technical nature of the work provided by PUB. This reflects the traditional workforce culture in Kiribati, where female involvement has been discouraged in physical activities, like mechanical engineering. Females are found mostly in the administration and accounting departments.

*Educational Attainment, (%)*

Educational attainment on the one hand, shows the company strengths, thus the increase in the level of education of employees determines changes in the company’s culture to some degree. Table 5.3 sets out data on education level of those interviewed.

**Table 5.3: Educational Attainment Structure, %**

<b>Educational Attainment</b>	<b>Senior Managers</b>	<b>Middle Management</b>	<b>Junior/Lower Level Staff</b>
	<b>Samples (8)</b>	<b>Samples (12)</b>	<b>Samples (12)</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
Primary	-	-	33
Secondary	-	42	67
Tertiary	100	33	-
Ongoing study	-	25	-
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Interestingly, a slight improvement in educational attainment is evident. As a justification, for this claim it is noted that all (100%) senior managers have attained tertiary education. The level of educational attainment for middle management level has also improved: 33% have attained tertiary education, 42% completed secondary education and 25% are undergoing tertiary studies. Two of the ongoing trainees are with the FIT and one at the USP doing a bachelor's degree in Industrial Relations. In general, the CEO and Chief Engineer for Water were the only two amongst the senior management group who have attained degree level. For those at the grassroots level, most have attained either primary or secondary education. Accordingly, 33% come from primary school and 67% from secondary education. This group represents different departments and working groups, such as the administration and accounting, customer service including assistants in the Water and Power Generation departments, security guards, drivers and general office cleaners.

In Kiribati, there is no autonomous university, thus most tertiary education for PUB staff (as other public civil servants) has been obtained either in Australia or New Zealand, or in Fiji with the University of the South Pacific (USP) and Fiji Institute of Technology (FIT). An interesting observation was that those with primary and secondary education have gone through basic training within their specialised field, some with the Tarawa Technical Institution in Kiribati or some with USP extension centre in Kiribati. Those in the Power Generation section were normally given in-house training upon their commencement.

#### *Related Work Experience*

Related work experience was also evaluated to see the rate of turnover in the company and to identify any policy established for those who have been working in the company for a long period of time. It is argued that work experience can contribute to higher education and also to the development of a flexible, highly-skilled and enterprising labour force (see Blackwell et al. 2001). Table 5.4 illustrates related work experiences of respondents from the survey.

**Table 5.4: Related Work Experience, %**

	<b>Work Experience</b>	
<b>Number of Years</b>	<b>Number</b>	<b>Percentage (%)</b>
< 5 yrs	11	37
5 – 15 yrs	12	40
16 – 25 yrs	4	13
26 and above	3	10
	<b>30</b>	<b>100 %</b>

Table 5.4 indicates that only 10% of the respondents have worked for more than 26 years, 13% falls between 16 and 25, 40% were between 6 and 15 years and 37% have less than 10 years' work experience. Almost all those at the grassroots level have worked in the PUB for more than five years but less than 10 years. A very small number of workers has more than 26 related work experience. Those falling within this category include the CEO, Chief Engineer in the Power Generation department and the Personnel Manager. Unfortunately, the Engineer in the Power House and his subordinate who have gained extensive work experience with adequate qualifications, were among those who have been made redundant because they have reached their retirement. During the interviews in this department, it was clear that the loss of these experienced staff handicapped the power house in the long term run, particularly while the PUB has no strategic plan for staff development in this area. The new incumbents, who were new graduates from FIT but do not have the related work experience, may require several years before they are able to manage and monitor the generators without supervision.

It is worth noting that those with extensive work experience at the senior management level appear to have built their work experience from other organizations, mainly government ministries, in particular the CEO, Manager Finance and Personnel. Managers of the Water and Power departments including senior managers and even lower staff have spent their entire working lives with the PUB.

### 5.2.3 Company Background

The Public Utilities Board is one of the public enterprises (government-owned enterprise) in Kiribati operating on a monopoly basis. It is a company under the Ministry of Works and Energy's portfolios, thus the Minister appoints the PUB's Board of Directors. The incorporation of the PUB in 1997 was part of the Kiribati government corporatisation policy. It is envisaged that the corporatised PUB would be subjected to less political interference than was associated with its traditional status. The PUB has three core business functions:

- (i) generating and supplying of electricity;
- (ii) sourcing and supplying of potable water from underground water services; and
- (iii) collecting and disposal of general sewage and wastewater.

However, the PUB services are limited to the people on South Tarawa, that is, from Betio to Buota and to Kiritimati Islands.

The company administrative headquarters are located in Betio, with depots located in the two urban centres of Betio and Bikenibeu. Photo 5.1 shows the PUB headquarters and powerhouse in Betio.



Photo 5.1: Public Utilities Board Administrative Headquarters

PUB Administrative Headquarters, Betio



Old Power House in Betio

### Corporate Strategic Plan

The PUB Corporate Strategic Plan for the period 2001–2006 was developed by the ADB technical assistance as part of the financial assistance package. The Plan covers the four-

year period, from 2002 to 2006 that clearly defined the company vision, mission statements, objectives and strategies. The Chief Executive Officer (CEO) and management in its adoption made amendments together with approval of the Board of Directors (BOD). Discussion with two members of the BODs concerning the corporate plan revealed that the adoption of the corporate plan is subject to the BODs' approval and full support of the CEO and its management and employees. In addition, the plan of the PUB should be consistent with national priorities that can be implemented within the time frame of the existing National Development Strategies.

### **Vision**

The Public Utilities Board strives to be the leading supplier of electricity, water and sanitation services in the Pacific region. PUB adopts a responsive and customer service focused culture committed to delivering quality services, safeguarding and improving the environment where appropriate and ensuring that it has the right ability to find its infrastructure development, operations and maintenance through the implementation of prudent and profitable financial strategies. In achieving this vision, the following mission statements are embraced.

### **Mission Statements:**

- (i) Ensure the provision of a supply of electricity that is safe, adequate, reliable and affordable, and effectively distributed to PUB customers;
- (ii) Ensure the provision of a supply of water that is safe in quality, adequate in quantity, reliable and affordable, and effectively distributed to PUB customers;
- (iii) Ensure the provision of affordable wastewater collection and disposal facilities in a manner that safeguards the health of the community and has no adverse environmental impact;
- (iv) Establish and observe the highest possible safety standards;
- (v) Encourage good relations between the public and PUB management and employees; and
- (vi) Encourage all staff to develop skills by further training and education (PUB Corporate Plan, 2004)

The CEO revealed that due to lack of qualified water engineers and the need to maintain a sustainable provision of public utility in the three functional areas, technical resources were drawn from the Public Works Division of its mother Ministry, that for Works and Energy (MWE).

#### **5.2.4 Company History and Growth**

The PUB was established on the 1<sup>st</sup> July 1977 through the Public Utilities Ordinance Cap 83. The company began as a unit under the Ministry of Works and Energy. Until today, the company remains with government. The key question in this analysis is, what significant changes have taken place in the PUB since its inception?

The research result showed that one of the important developments following reforms is the new generating plants installed at Betio and Bikenibeu depots, together with a new powerhouse in Bikenibeu. These new power generators replaced the aging generators that had been proved as the main cause of unreliable electricity supplies, water and sewerage in the past decade. One generator was installed in Betio power station and two at Bikenibeu (Photo 5.2).



Photo 5.2: New Powerhouse in Bikenibeu

Interviews with the powerhouse engineers revealed that the new powerhouse together with two new generators have since their installation improved electricity distribution capacity; more importantly, the power breakdowns is being reduced. Engineers expressed their concerns that there is a need for two or three additional power generators to meet the

increasing demand because of the fast growth of population on South Tarawa, and more importantly, a need for standby generators in case of unexpected technical problems with the current plants. Some critical events and notable developments in the history of the PUB are provided in Table 5.5.

**Table 5.5: Critical events in the history of the PUB**

1977	<p>The PUB was established under the Company Act 1977.</p> <p>ADB Consultant began its study of PUB operation.</p> <p>Australian government started Sewerage Phase 1 project on South Tarawa costing \$3.33 million. It provided salt water system and electric pumping to every household (KNEPO, 1979).</p>
1978	<p>Single tariff system at 12 cents per unit was replaced by a dual tariff system with new charges of 12 cents per unit for domestic users and 15 cents for commercial purposes.</p>
1983	<p>PUB took over the responsibility for sewerage.</p>
1986	<p>PUB received A\$0.7 million loan from ADB to procure 1.0 megawatt diesel generator set to augment the aging and insufficient capacity in Betio power station. Maintenance workshop was conducted to support new installation of new diesel generator.</p>
1989	<p>1<sup>st</sup> Reform of PUB.</p> <p>PUB received A\$0.9 million extension of loan for strengthening of 11 kilovolt underground distribution of water system (ADB, 1999).</p> <p>South Tarawa water supply started, soon after completion of sewerage system.</p>
1993	<p>Staff redundancy – 25% of 220 (ADB, 1993).</p>
1997	<p>Corporatisation of the PUB took effect under the sponsorship of ADB (ADB, 1999).</p> <p>Installation of 3 desalination plants under Chinese aid (KNPEO, 2000).</p>
2000	<p>Restructuring of PUB under the SAPHE funded by ADB.</p> <p>Installation of 2 new 1.4mw electricity generators and new powerhouse at Bikenibeu</p>
2002	<p>branch under the sponsorship of Japan government (KNEPO, 2003).</p>
2003	<p>Appointment of New board of directors (PUB Corporate Plan, 2005)</p>
2004	<p>Construction of new powerhouse in Betio.</p>
Sept 2005	<p>Redundant of all temporaries including permanent employees, estimated to 15% of total employees.</p>

## **5.3 THE PUB ORGANISATIONAL CHART**

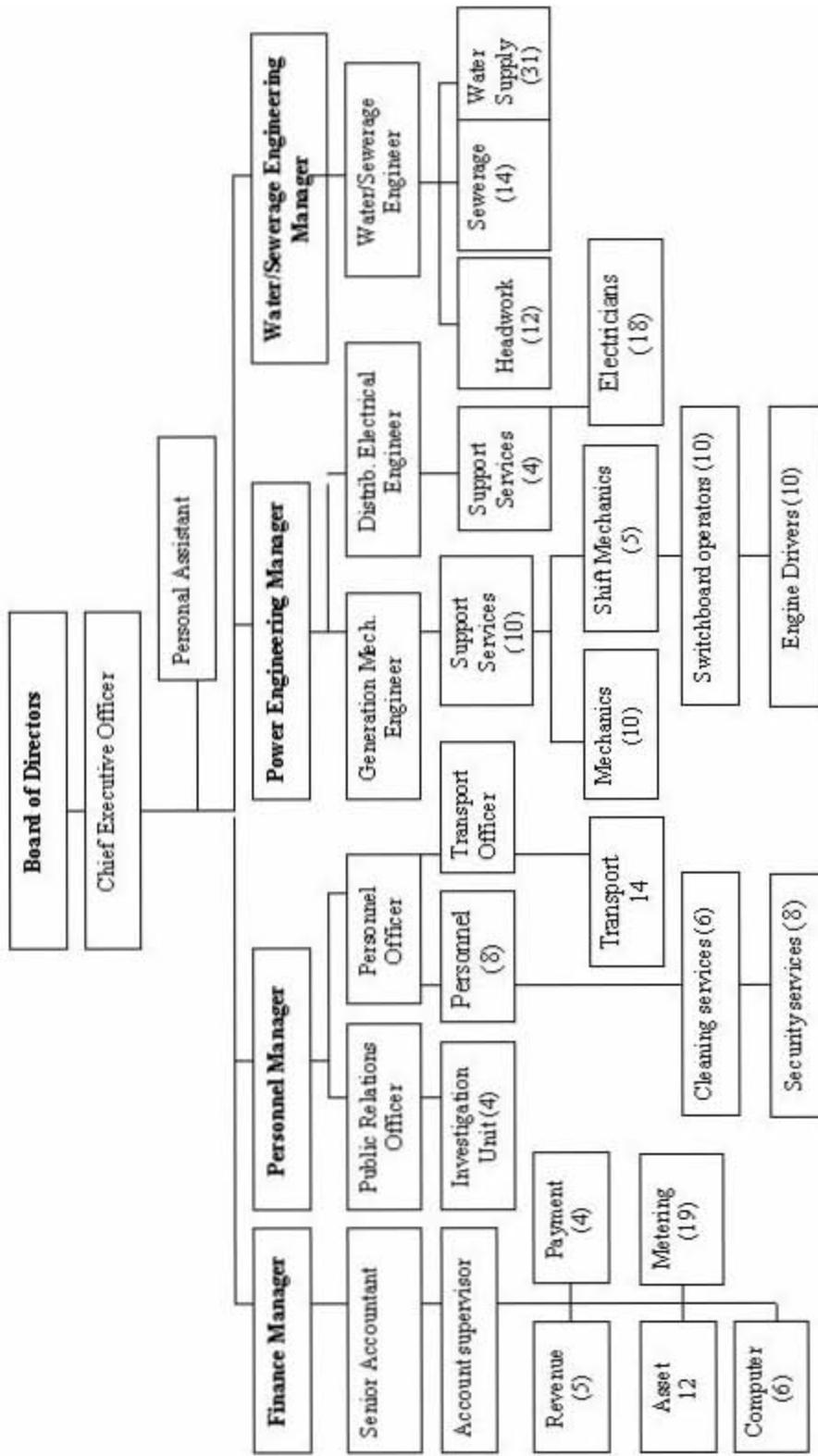
### **5.3.1 Corporate Structure**

Discussion with the CEO shows that Organisational Chart as at December 2004, which is also in use today, was initially developed by ADB. The Organisational Chart was considered appropriate because it provides the PUB with a viable and realistic operational framework that indicates a potential to function well in the current corporate context. However, changes by the CEO have implications for staffing levels and associated costs, but these were made in light of the need to strengthen lines of accountability.

The current Organisational Chart employs 4 levels of hierarchy: the ‘owner’, who is the BODs being at the top; followed by the CEO, personal assistance, divisional managers, and subsections supervisors then clerical or assistants. The bottom line comprises cleaners, security and drivers, who are on contract appointment. The tall hierarchy in the management structure shows the powerful position of the Board of Directors and greater influence over the management and operation of the PUB. Because of the BODs attachment to the company, the structure and management reflects the values and ideologies prevalent in the public service. It is not surprising that the traditional bureaucratic and centralised decision-making remains central in the management of the PUB.

Figure 5.1 explicitly illustrates PUB organizational chart as of 2004. Accordingly, PUB has four main functional areas comprising Administration and Personnel, Finance and Accounting, Power Engineering and Water Engineering reporting to the CEO and vice-versa.

Figure 5.1: PUB Organisational Chart as at 2004



### 5.3.2 Senior Management Structure

The management structure is crucial in determining the lines of responsibility and channels of communication. The personal assistant plays a critical role in facilitating flow of information from the CEO to senior managers and the overall organisation, and vice-versa (Figure 5.2).

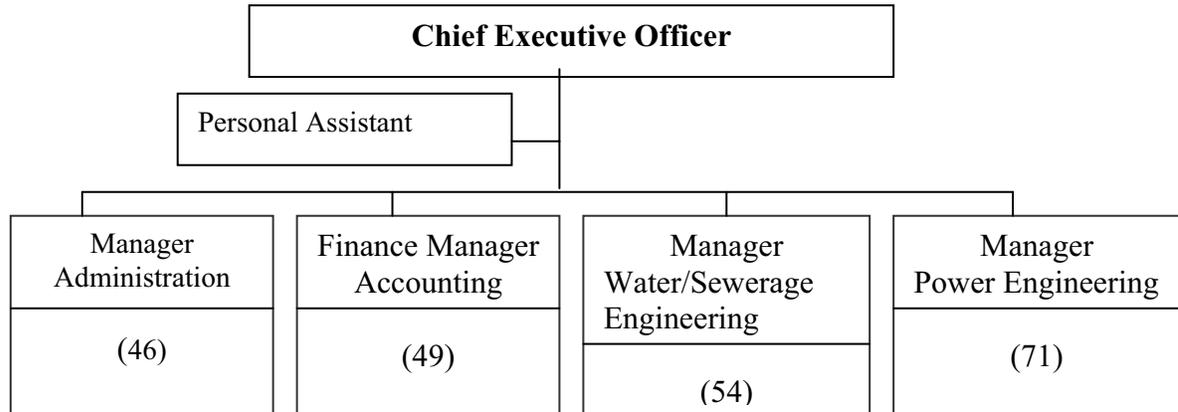


Figure 5.2: Senior Management Structure

The structure shows efficient and effective communication lines downward and upward. The structure does not stand apart but is an integrated part of the whole. Discussion with CEO and senior managers clarified that the structure was developed by ADB copying the structure of the public utilities in Victoria and South Australia that has been also adopted by some Asian countries like Indonesia. Thus, the model represents a mix of both public and corporate bodies, aiming at serving considerably larger populations and service demands. The Senior Management Team comprises four divisional heads or leaders plus the CEO, making a total of 5 persons, such as Manager Administration and Personnel, Finance and Accounting, Power Engineering, and Water and Sewerage Engineering.

## 5.4 PUB Core Functional Areas and Services

### 5.4.1 Administration and Personnel Division

The Administration and Personnel consists of two sections, viz., Personnel and Public Relations. The senior management structure of the Administration and Personnel division explicitly and implicitly shows the lines of responsibility of senior managers and reporting structure upward and downward (Figure 5.3).

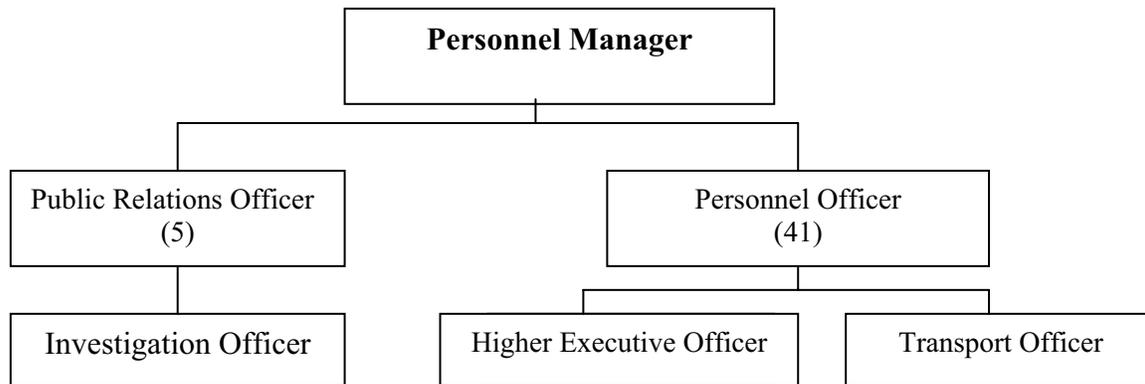


Figure 5.3: Management Structure

The division employs 46, of which 5 are in the Public Relations section and 41 in the Personnel section. The two sections are reporting to the Personnel Manager. The Personnel Manager is responsible for personnel matters and/or human resource management functions and works closely with the CEO. The present Personnel Manager, a 64-year-old, who has been retired from the public service for almost ten years now, is a political appointment. He was formerly Secretary for Cabinet and has extensive work experience in government administration.

*Personnel and HR Management Functions (HRM)*

Interviews with senior management and staff at the lower level showed that PUB practices only some of the basic functions of the HRM, such as keeping personnel records, recruitment, staff annual leave and salary administration. Nevertheless, PUB also recognises the importance of other HRM major functions, such as training and development, promotion, reward system, recruitment, information system and performance appraisal. Due to a general lack of knowledge about the ‘modern’ concept of HRM among those who are responsible for the HR functions, some of the critical HR functional areas have not played their appropriate role, such as equal employment opportunities (EEO) and occupational health care.

Table 5.6 provides the results of interviews with the PUB employees concerning the process and practice of HRM functions.

**Table 5.6: HRM functions**

<b>HRM functions</b>	<b>Very Satisfactory (%)</b>	<b>Satisfactory (%)</b>	<b>Unsatisfactory (%)</b>
Training and development	25	11	64
Information system	25	20	55
Promotion	15	20	65
Recruitment	5	25	70
Reward system	3	22	75
Performance appraisal	25	45	30
<b>Total Satisfaction Ratings</b>	<b>16%</b>	<b>24%</b>	<b>60%</b>

Interestingly, training and development, information system, promotion, recruitment, reward system and performance appraisal are increasingly being recognised as crucial functions of the Personnel or HR Manager as key issues in improving the company performance (see Koch and McGrath, 1996; Sheppeck and Militello, 2000). In the PUB case, 25% of respondents were very satisfied with training and development, 25% found the information system very satisfactory, 15% scored for promotion, and failing to only 5% for recruitment, and 3% who were satisfied with the reward system. Some 25% were well satisfied with the way performance appraisal was conducted. One notable observation was that training and development appears to be concentrated more at the senior management level, especially both the long-term tertiary and the short-term training. In fact, there is no strategic HRM plan to guide proper coordination and administration of HR training and development.

Unfortunately, employees at the lower level have limited access to the company's information and are less likely to share the benefits of HR development, promotions and available benefits. Interviews with the CEO and Personnel Manager showed that those with tertiary certificates have better opportunities for promotion. It was also found that recruitment to job vacancies is normally done by the Personnel Manager by means of advertisements placed in the local newspaper and over radio broadcast. Interviews with junior staff members revealed that the CEO and his senior managers usually make informal

or temporary appointments of their relatives and friends. This informal recruitment is later formalized through interviews. It is not surprising that the majority of PUB employees, mostly those junior employees are related to one of these staff. It was observed that one of these staff was a daughter of the CEO, making it difficult for management.

Most employees (70%) were satisfied with the way performance appraisal was conducted, because they were given the opportunity to comment on their respective confidential reports prior to submission to CEO or management meeting. In both cases, personal feedback often leads to personal staff self-esteem and sense of belonging, thus in turn increasing staff performance. The open discussion between the supervisor and an employee over personnel matters reflects management commitment towards open communication (see Walters et al., 1993).

#### *Public Relations*

Discussion with the CEO concerning the Public Relations section clearly indicated that this is a newly developed section under the Administration department. This new section is headed by a senior public relations officer. The section is responsible for customers' and general public complaints, promotional information services, intensive awareness and community education programmes, especially for schools. It was found that the CEO has little doubt about the need to perform effective functions of this new section, due partly to the lack of adequate skills in the company. However, in meeting the challenge faced by the job, especially a leadership position, the most senior officer in the section is currently undergoing three-year training at the University of the South Pacific in Fiji and anticipated to complete at the end of 2006. In the meantime, the public relations section is under the CEO and Personnel Manager to ensure main objectives are achieved effectively.

The establishment of the Public Relations section shows management effort in improving customer service. However, the result of the discussion with the senior officer in the unit, who is on training at USP, revealed that there is an atmosphere within the organisation of employees' disagreement with the purpose of the unit. The wider perception among PUB

staff members is that the unit will spoil staff harmonious relationships, rather than making improvement.

#### 5.4.2 Finance and Accounting Division

Discussion with the Finance Manager revealed that the Finance and Accounting division is responsible for administration and monitoring of the PUB revenue including financial reports to management and interested parties. The department comprises four sections, viz., Accounting, Metering, Asset Management and Computing (Figure 5.4).

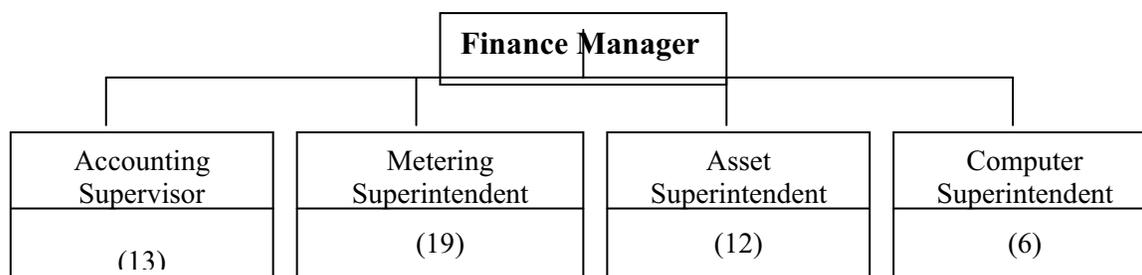


Figure 5.4: Management Structure for Finance

Currently, the Establish Register allocates 46 permanent staff positions to the Finance division. Definite numbers of permanent versus casual was difficult to ascertain because of the current large number of temporary workers—work attachment (pre-secondary school leavers). This is a government scheme for pre-secondary school leavers implemented by both government ministries and public enterprises. However, these work attachment group receive a small amount of pocket money from government. Because of the large number of these people, it made it difficult to evaluate the level of employment. Additional problem is that the small room allocated for accounting staff only appears to be overcrowded and noisy, because at least 3 people sharing one table causing informal meetings. It is not surprising to find that many of these trainees were related to one or other of the senior officers in the PUB.

An interesting development observed has been the adoption of new technology into the accounting process since early 2000. This has enhanced performance in a faster and more accurate process of fortnightly salaries and wages for all PUB employees. Currently,

computing and accounting groups are considered priority in training to enhance sustainable application of the new technology. Thus, the adoption of “Attache” accounting package was accompanied by continuous training. This has made it possible for improvement in the process of salaries and records of revenues. One problem facing the PUB has been the limited number of people with technological skills, especially in Attache programme. Currently, training on computer skills with the TTI is ongoing, especially for those working with the programme.

### 5.4.3 Power Engineering Division

The management structure of the Power Engineering Division is fully operationalised and appears to be efficient and effective (Figure 5.5). There is an equitable distribution of supervisory personnel for workgroups in power generation units and distribution services. The resource allocation across the three sections for generation and distribution is well balanced.

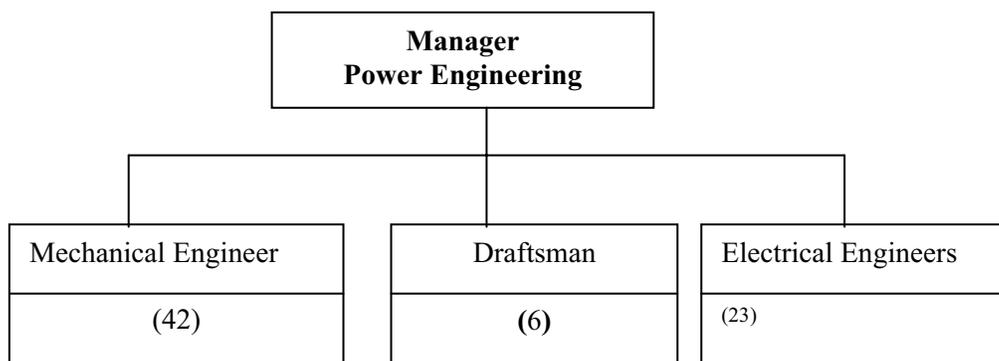


Figure 5.5: Management Structure for Power Engineering Division.

Currently, the Establishment Register allocates 71 permanent staff positions to Power Engineering. In respect of generation, current Establishment Register numbers appear to be over the number required, especially at the grassroots level. Another problem, approximately 15% of these people are on temporary appointment. Discussion with the Power Manager and supervisors revealed that the excessive number of staff was based on previous years’ staffing needs to meet the demand of the Power Engineering Division for overtime work in monitoring and controlling the three aging generating plants. While those new plants are in place, there is no need for a large number of people. The

immediate need is to strengthen performance of individuals in their supervisory roles with better-trained assistant mechanical engineers. With the new generating plants, there is an increase in the need of improved capacity, as new power network cables and metering installations take effect and demand for maintenance increases. Currently, there is one mechanical engineer undertaking studies at the FIT in Fiji and anticipated to complete at the end of 2005.

One major problem facing the Water and Sewerage and Powerhouse employees has been the absence of the officer in charge of the Occupational Health Services (OH & S) and also no standards, and workplace practices put in place or properly written out in a Job Description. The current practice is that each divisional Superintendent also performs this task. The CEO and respective managers have important roles in putting corrective measures.

#### **5.4.4 Water/Sewerage Engineering Division**

##### *Main functions*

Water supply is one of the main problems facing the people of Kiribati, especially as the only sources of drinking are from occasional rainwater collected in water tanks and the underground water lens. All people interviewed obtained drinking water mainly from the Public Utilities Board. Discussion with the Manager Water and Sewerage Engineering indicated that water is extracted from the water lens at two small villages of Buota and Bonriki water reserves. Water pumps installed at various sites around Bonriki and Buota extract groundwater from underground water lens. Bonriki has 18 water pumps while Buota has only 6 water pumps. Each pump is capable of extracting 50 to 70 metric tons of raw water per day. This raw water is pumped to water tanks at Bonriki, chlorinated and then distributed to various water outlets throughout South Tarawa.

The total for household reticulated water supply connections on South Tarawa is estimated to rise from the current figure of 1500 to approximately 3000 by 2006, at which time the service ration will stand at 21.6 operational personnel / 1000 connections. In these calculations, one household comprises on average 8 to 10 persons.

Sewerage on the hand has been a problem in Kiribati for many years causing unhealthy environment and related health problems to the people. With the help of external aid donors, government has made slight improvement in this area. As a result, all government houses including private houses in South Tarawa are using PUB sewerage system. The SAPHE project is currently working closely with PUB and the Ministry of Health to improve this area.

*Management structure*

The Manager Water supply also heads the Sewerage section. Figure 5.6 illustrates management structure of the division and total number of employees in each section. The 5 casual workers are not included in this structure. Accordingly, there are three main sections namely: headwork, water supply and sewerage.

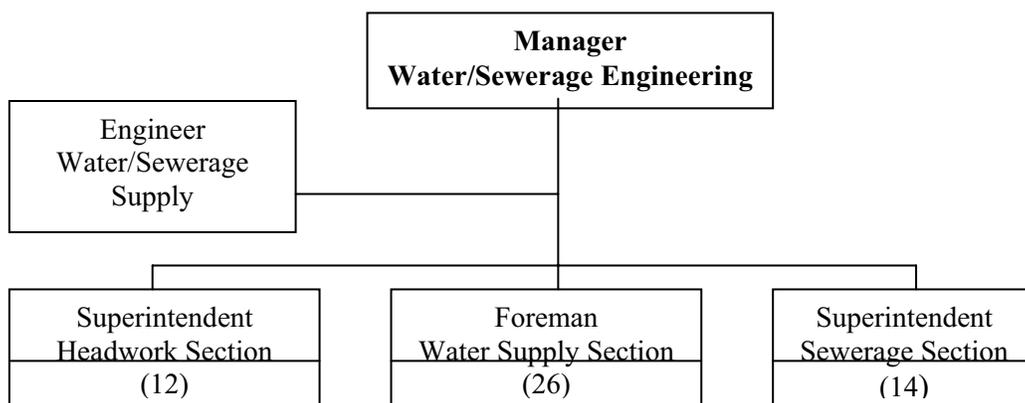


Figure 5.6: Management structure for Water and Sewerage Division.

At present, the establishment registers allocates 54 staff. There is a reduction of 9 posts from 2003. The structure is economical, provided that superintendents maintain their responsibilities in supervising downwards and reporting upwards effectively. The 3 main work groups concerned with operational services.

The current staffing level of water engineering appears to have exceeded its actual needs. One major problem facing water engineering has been the limited number of trained

personnel in areas of electrical, mechanical and plumbing up to technician level. In respect of the recruitment of lower-scale trade personnel, it is very difficult to find suitable recruits in Kiribati. This is due partly in the unavailability of skills in the local labour market, as available trained persons of working age and with appropriate post-secondary technical or tertiary qualifications are already employed by other organisations. Unfortunately, PUB as a public utility has little capacity to offer attractive incentives to attract those in the private sector who might be adequately qualified. Similarly, salaries are also not attractive to suitable persons from neighbourhood Pacific countries. The CEO and Manager Water Engineering may need to take a proactive role in addressing these staffing needs.

Sewerage section employs 14 staff, of which 12 positions for Plumbers Grades 1–3 in Wastewater systems. However, 5 of these employees are on temporary appointment. This is quite credible given that the ‘dirty nature of the work combined with modest salaries at levels (L15–14) and (L17–16). These levels are in the middle management level, which are not attractive to men in terms of the traditional customary division’ of labour and locally accepted gender roles, where in a traditional culture, women handle waste matter. The other two positions were allocated to Tanker Drivers for wastewater (ADB, 2002c).

The number of staff in Water Engineering is considered over the limit required. As a result, staff redundancy takes place in September 2005, of which 5% of the total redundancy was from Water Engineering.

One observation is that water administrative office is also located in Betio, but outside the PUB head office compound. Water engineering office stands alone, located in a crowded area close to private residents. The three old buildings used are small and appear never to have not yet renovated and improperly constructed. However, two of these buildings are used for office administration and one for the department’s inventory storage. The two small buildings have no rooms and can only accommodate at least three tables and 7 employees sharing tables. The Manager’s office is in the PUB head office while the supervisor was sitting among staff members in these old buildings. It was found that these

workers have no urgency in performing their jobs, most have no actual schedule to follow but wait for the need to arise and attend to it. During the interviews, many appear to be relaxing and enjoying their being out of control from the main office.

Further finding was that there was only one computer for the water engineering division, making it difficult for others to feel they have important tasks to do. One problem with some of these employees, which became apparent during the interviews, is that they cannot answer the question properly, basically as they do not have the knowledge on what they are doing.

Overall, the Water Engineering division appears to run outside the PUB. The work environment is another problem requiring urgent attention. All buildings must be renovate and well equipped. There is a need for the CEO and Manager Water to look into this particular division for immediate improvement. Interviews with employees in the Water and Sewerage division revealed that the CEO has limited time to go around and see the needs of the Water and Sewerage division, especially the old and uncomfortable working environment. The CEO appears to have closer contact with the Administration and Personnel as well as the Powerhouse employees.

## **5.5 FACTORS AFFECTING GROWTH OF THE PUB**

### **5.5.1 Board of Directors**

The role of directors in creating the company's culture is straightforward. As an agent for government (the shareholder), they possess the power and vision — as policy decision-makers and advisors. Thus, their beliefs and values are reflected in the structure and systems of the PUB. Table 5.7 shows the composition of the current board of directors reflecting the political influence on the appointment of directors.

**Table 5.7: Composition of the PUB Board of Directors as at 2005**

<b>Members' Names</b>	<b>Position</b>	<b>Current Employment Status</b>
Mr Titaake Binataake	Chairman	Engineer, Ministry of Works and Energy
Mr Taberannang Timeon	Member	In retirement (former member of Parliament)
Mr Toom Awira	Member	In retirement (former Auditor)
Mr Tekiera Ruaia	Member	Senior Accountant, Ministry of Finance

Currently, the Minister of Works and Energy and Minister for Finance appoint members of the Board. Accordingly, PUB directors in 2005 comprise 4 members: 1 member from the Ministry of Works and Energy (PUB mother ministry), who is a chairman; 1 member from the Ministry of Finance, and 2 members from outside the public service. Members from outside the public service were selected on the basis of their related work experience and social political purposes. There were allegations that these two members are politically appointed because of their personal relationships with political leaders of the current government. Mr Timeon was the former Member of Parliament from the Liberal Party, which is now in power. Mr Awira is a suitable candidate because of his extensive work experience in Auditing, but allegations have arisen because he was a great supporter of the present government during the electoral campaign in 2003.

The major role of board of directors in the PUB is to give direction on policy matters, while the CEO acts as the overall supervisor for the day-to-day management and operation of the company. This means all new developments and company policies have to be approved by the Board before they are implemented: for example, the reform process and implementation have to be approved by the Board. From the Board's point of views, the current position of the PUB is slowly improving, although poor economic performance remains one of the main concerns of government and external aid donors. At present, government has no intention to privatise PUB, preferring to seek for possible opportunities to improve the company's performance. The Board expressed the opinion that government is currently putting some strict measures on the close monitoring of the PUB (as other public enterprises) by ensuring a monthly review of the company's progress and problems. The Board meets with management every month as part of its monitoring process, thereby

a monthly financial report is reviewed ensuring that it is up to date and reporting to its mother ministry in a timely manner, that is, every three months.

The result of interviews with PUB employees revealed that 55% of 30 total respondents were satisfied with the Board, 25% not satisfied and 20% have no idea. The CEO and senior managers, in particular, explicitly explained that the Board only intervenes in policy matters. Conflict of interest between the Board and management arises sometimes; especially during Board's meetings, but in most cases there are good relationships between these two groups. An interesting finding is that the Board allows more flexibility and autonomy to management concerning personnel matters and shows a friendly attitude to employees.

#### *Management Philosophy and Leadership Style*

The PUB is a corporatised company with a corporate structure and well-defined corporate plans, however, its operation reflects public sector philosophies. The PUB management attempts to provide quality services, takes care and satisfies its customers and employees while at the same time satisfying political objectives.

As an approach to improving staff performance, the PUB management has adopted an open door policy. This means that individual employee consultation with supervisor and CEO is encouraged. Nevertheless, policy makers' (Board's) influence on the company's objectives, strategies and systems has its negative impact on the management approach for information transparency. New directors come with new ideas and change past approaches to management. As an example of such changes, only the directors and the CEO attended board meeting for the company's important decision making. The previous practice of allowing the Finance Manager to be in attendance was not accepted. Relatively, such changes in the PUB objectives and corporate structure have their implications for decision-making and the company's systems affecting the existing institutional culture. However, such changes are less likely to change PUB public service culture, because it has been there ever since the company was born. It requires more direct action and continuous training of employees in order for changes to emerge.

### **5.5.2 Employees**

#### *Number and profile*

The analysis of the four divisions revealed that the total number of employees as at 2004 as also in use in 2005 is 220. This comprises 65% males and 35% females. Traditionally, technical jobs like engineering were performed by males only, which made it difficult for females in Kiribati to pursue this kind of work. As a result, males occupy all positions in the two big departments of the Power Generating and Water Engineering divisions, at the rate of 57% of the total number of employees. Females can be found in the administration and accounting departments. The present number of employees does not reflect any change in the level of employment. Despite the reduction in staffing level from 220 to 1665 in 1993, in line with redundancy policy, the 2000 and 2002 Establishment Registers show an increase to 224 and 226 respectively.

Most recently, the level of qualification for PUB senior managers has been raised; however, there is still a need to increase the level of qualifications to a degree level as required by the nature of the work and in line with government's minimum requirement for all managers' positions. The current immediate need of the PUB is for more qualified engineers and skills for the new technology.

#### *Staff turnover*

Staff turnover in the PUB is minimal, as over 85% of the total workforce has spent their entire working life with the PUB. Staff turnover is experienced at the senior management level, notably in the administration and accounting divisions. The main reasons for leaving the company are retirement, seeking better opportunities in government or other public enterprises, and in some cases, migration to New Zealand but this is very limited and not a continuous movement. At the end of 2004, the PUB has a staff turnover of 7% of the total 220 employees, as a result of government's new policy of lowering retirement from 55 to 50 years of age. Further staff redundancy of some 15% of the total number of employees takes effect in September 2005. Unfortunately, 60% of the total 15 retired people have extensive work and adequate qualification, mostly from the Power and Water and Sewerage Engineering divisions.

### **5.5.3 Diagnosis of Corporate Culture**

#### *Structures and systems*

The organisational structure tends to be a tall and rigid hierarchy. All business matters with the CEO, even personal consultation, have to go through his personal assistant. Accordingly, the Board and CEO make the final decision for all matters for the company — such as policies, procedures and conditions of work, including price setting for the company's core services. All decisions are cascaded down the organisation, to management and then to employees, through meetings. This has also created communication and motivational problems, resulting in horizontal differentiation. In line with Mudambi (2003), a tall hierarchy as in the case of PUB reflects the bureaucratic and top down management system.

Another finding, the CEO and also senior managers involved greatly in recruitment, where temporary and on contract employment has become the norm. Workers employed in this category appear to be able to bypass the more stringent competition of the civil service appointments and widespread nepotism and prejudice have been a major problem. It is hardly fair to reject people simply because they are someone else relative. What is needed is a way of making sure that people are not appointed only because they are someone else's relatives.

#### *Physical environment*

One observation is that the buildings for the PUB offices in Betio are quite old and are in need of immediate renovation. In the case of the main office, although there has been a little renovation on the walls, the whole building needs proper carpentry and upgrading in order to respond to environmental change. An additional problem has been the lack of proper tables and chairs and the limited number of office equipment. The computer as a tool widely used is limited to senior managers only. The old buildings and inadequate resources affect the type of culture that will be acceptable. Some notable physical changes have been new generating plants together with a new powerhouse in Bikenibeu branch.

### *Influences of external forces on corporate culture*

The culture at the PUB combined a formal and informal structure, influenced by its awareness of developments in its external environment. Often new ideas, beliefs, and philosophies are drawn from external consultants through reforms. Other external forces also come from the outside stakeholders through the Board. This is most influential on internal culture. The CEO and management beliefs and values also influence the internal environment in a formal way. This is mainly through development of strategy, or through the design and implementation of the structures and systems of the company. According to the CEO and managers' views, the Board intervenes in management decisions, if change involves substantial amount of money. In other words, management's autonomy has been limited to basic development, such as staff development. However, while the CEO and Personnel Manager were politically appointed, the culture of the PUB tends to be externally focused.

### *Building a harmonised work culture*

The PUB perceives its recent and current major restructuring as one step in a continuing process of change—in building a healthy and harmonized working culture conducive to its commercial objectives. Several approaches have been adopted including the introduction of staff recreational facilities, like table tennis and pool. This was accompanied by the establishment of a staff canteen, aimed at providing staff personal needs at a reasonable price. The canteen sells basic food items to staff members as well as snack food and drinks for their leisure time. Morning and afternoon tea is one way to strengthen friendly relationships among staff members. In order to overcome the barriers of centralized decision-making and change the bureaucratic system, the CEO meets fortnightly with senior managers and also holds a monthly staff meeting. These have allowed participation of employees at the grassroots level to share views with senior management. The approach also eliminates barriers between senior and junior staff members and at the same time develops workers' rapport with their supervisors and good relationships among group members.

### *Employees' specific behaviour norms*

In this case study, changes in employees' beliefs, attitudes and values are generally seen as a useful means of assessing effectiveness of reform on the company's culture. The survey on employees' satisfaction provides some evidence that external force, particularly from the ADB consultant, offers some flexibility and adaptability to management in cultivating new beliefs and values to employees with the likely positive influence in changing the PUB culture. As a justification, employees' satisfaction interviews revealed the following results:

**Table 5.8: Results of a Satisfaction Survey**

<b>Incentives</b>	<b>Very Satisfactory (%)</b>	<b>Satisfactory (%)</b>	<b>Unsatisfactory (%)</b>
Salary	33	11	53
Supervisor	34	40	26
Work environment	45	20	35
Physical environment	16	20	64
<b>Total Satisfaction Ratings</b>	<b>32%</b>	<b>23%</b>	<b>45%</b>

Table 5.8 shows that approximately 44% were happy with their salaries, 74% were satisfied with their supervisors, 65% were satisfied with the work environment and 36% were satisfied with physical environment.

The research result shows that employees enjoy working in the PUB because it allows greater socialisation and offers recreational activities. They prefer to stay in the office for lunch hours as well as returning home very late after working hours. Almost all interviewees feel that their social interactions with senior officers have created healthy relationships with their supervisors, thus in turn eliminating barriers. However, many were not satisfied with the salaries offered, especially those at the lower levels. The high score for unsatisfactory on physical environment reflects poor infrastructure.

### *Customer Service*

Employees are encouraged to provide good customer service. Although employees have pleasant personalities and friendly customer care, they seem to lack a strongly defined

customer service attitude. During the time of interviews, there were four customers waiting to be served and also four young girls and two boys placed in the customer counter. Surprisingly, one of these officers approached the four customers, one spent time on the phone talking and laughing as though there was no one around while the rest were kept busy chattering to each other. After a long wait, one customer called out to these officers for help and so one came along. There was an impression that these officers wait for the customer to call for help. An additional problem has been that only one computer was allocated to this section to use for recording customers' bills, which slowed down the process. It was also observed that PUB employees were not wearing uniforms and identification cards as practices in many commercial companies like the Bank. This adds to the problem because customers cannot easily call out anybody for help.

Throughout the company, employees appear to be relaxed as though there is no work to do. The situation is worse in the Water and Power Engineering divisions because they are outside of the main office control. The customer service attitude, especially the dressing attitude, is not appealing to customers. The Manager Water/Sewerage and the CEO should be more proactive to staff needs and failures for timely corrective measures. An immediate attention is required for staff training in customer service together with the introduction of staff uniform will enhance improvement of staff attitudes and appearance to customers. There is a need to introduce a time keeper in order to improve staff attendance. Immediate action to establish new offices for PUB is required.

#### **5.5.4 Changes in PUB electricity tariff**

The PUB has three distinct tariff rates — domestic, industrial and commercial. Changes in the rate of tariff in the case of the Public Utilities Board reflect the change in government. However, government subsidised water and sewerage services at the level of A\$1,200,000 annually. Table 5.9 shows different electricity tariff rates for the period, 1977–2005.

**Table 5.9: Changes in PUB Tariff — Electricity Rate per Unit**

Consumer	1977	1988	2004	2005
Domestic	A\$0.12	\$0.32	A\$0.37	A\$0.32
Commercial	\$0.15	\$0.36	\$0.47	\$0.45
Industry	\$0.15	\$0.36	\$0.47	\$0.45

The cost of electricity for 2005 declined slightly, for example the domestic rate dropped from A\$0.37 in 2004 to A\$0.32 in 2005. Government through its board of directors normally set the cost of electricity and other utilities services. It is worth noting that the provision of water and sewerage to public utilities is free of charge. PUB only charge installation fees for water and sewerage at the rate of A\$20.00, a one-off payment. The change in 2005 reflects a change in Government. This set of tariff prices has a great impact on the financial performance of the company.

**5.5.5 PUB Financial Performance as at 2004**

The PUB financial performance as at 2004 is represented in the income and expenditure statement (Figure 5.5). These figures were derived from the PUB’s actual budget for the period 2001–2004.

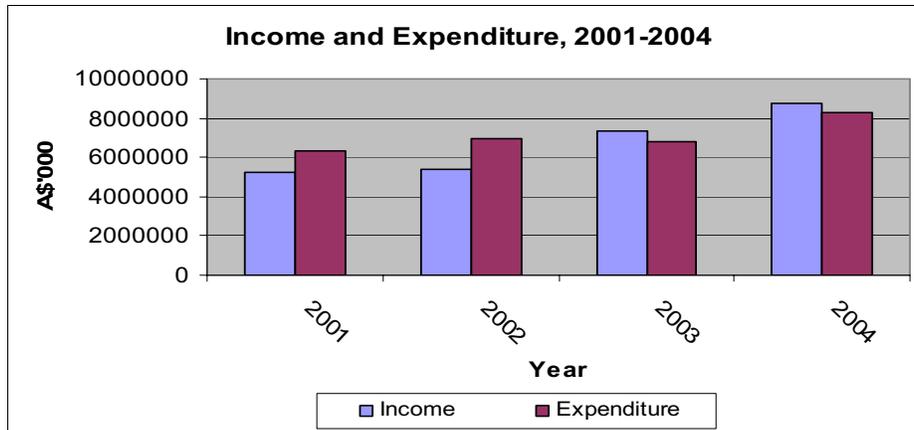


Figure 5.7: PUB Income/Expenditure

Source: PUB Corporate Plan (2004).

The income and expenditure provides that in 2001 and 2002, PUB income remains lower than its actual expenditure. An interesting finding was that income increased slightly in 2003 and 2004, but this is marginal. On the other hand, subsidies declined in 2003 to 2004, by 50%.

## 5.6 FURTHER DISCUSSION ON FINDINGS

### 5.6.1 Problems and Challenges Facing PUB

The PUB is facing problems and challenges posed by the internal and external environmental forces. Under these two broad headings, of the total 30 respondents, 56% found internal problems to be the major problem facing the PUB, whilst 43% blamed the external environment forces. Table 5.10 clarifies respondents' views major problems facing the PUB.

**Table 5.10: Results of Survey on PUB problems**

Areas	Major problems (%)	Very Bad (%)	Average (%)	Minor problems (%)
<b>1. Internal problems</b>				
Low levels of qualification	50	0	27	23
Lack of resources	62	24	0	14
<b>Total</b>	<b>56%</b>	<b>12%</b>	<b>13.5%</b>	<b>18.5%</b>
<b>2. External problems.</b>				
Public ownership	61	23	6	10
Institutional capacity for maintenance	25	0	15	60
<b>Total</b>	<b>43%</b>	<b>11.5%</b>	<b>10.5%</b>	<b>35%</b>

#### *Internal Problems*

Internal problems refer to the PUB's environmental problems posed by poor management, partly due to the lack of appropriate resources, such as money, physical resources, including human beings — skilled workers. Under the internal problems, 50% claimed inadequate qualification to be the major internal problem causing poor personnel or human resource management as well as affecting the financial management. Approximately 62%

blamed the lack of company resources as one major problem contributing to the problems of the PUB.

(i) Lack of Adequate Qualification

✓ *General management problems*

According to the analysis of educational attainment, only senior managers possess qualifications but most of them are only diploma holders. The Personnel Manager and his subordinates, in particular have no knowledge of the modern concept of Human Resource Management (HRM). This deficiency is in addition to their general lack of adequate qualification. Consequently, there is no strategic HRM plan and the strategy for identifying training needs depend solely on the initiative of supervisors of small sub-sections. In practice, staff development is based on an individual employee's interest and support of his/her supervisor. Other HRM functions like performance appraisal, information technology, recruitment and security standards have not formed part of the overall corporate plan, which of course has led to poor performance of employees. A strategic HRM plan with effective implementation across the organisation would lead to increased employee performance, and in turn will improve the organisation's overall performance (see Koch et al, 1996).

✓ Financial management problem

The case of the PUB shows that only 2% of the total accounting staff are qualified employees, namely the Finance Manager and Senior Accountant. However, these people are diploma holders. The remaining 98% hold general secondary certificates, of which 3% is ongoing. With the use of a new technology in accounting processes, the lack of appropriate skills is painfully apparent, as also the lack of confidence by many, particularly in the application of a new accounting package "Attache". Unsurprisingly, the unit failed to maximize the use of the new technology. As a result, electricity billing remains in its traditional manual system and thus, no monthly electricity billing is sent out to customers. Computer usage is mainly for minor processing, basically employees' fortnightly salaries and minor recording of data like revenues. During the interviews, the actual financial profit and loss statements together with balance sheet were not readily available.

(ii) Lack of the Company Resources

Grant (1995) identifies two different types of resources: physical — that is, tangible (e.g., machines, natural resources, financial capital); and human resources (e.g. skills, knowledge, reputation and designs). The lack of company resources in terms of both physical and human resources is a major problem of the PUB, having a tremendous impact on its processes. As a justification for this assertion, 62% of total respondents claimed that the PUB has no financial capacity to make good stock of the required equipment and maintenance spares, engineers' security shoes and proper furniture (tables and chairs) for its employees. Others were concerned with the lack of systematic information or data inventory for the company. The lack of human resources in terms of skills and knowledge, such as communication skills in dealing with customers also has negative effect on the organisation's performance. More importantly, the lack of qualified engineers has in part contributed to the frequent occurrence of power failures.

The CEO and managers must realise the importance of having the right number of resources in terms of computers and other equipment and skills required for all the four departments. Having the right number of resources and adequate skills in the PUB will indeed enhance the company in meeting the challenges from its external environment. Company resources are a crucial part of the overall corporate culture in enhancing competitive advantage (see Hockerts and Meyer, 2000; Porter, 1985; and Hart, 1995).

*External problems*

Table 5.10 provides evidence that public ownership and institutional capacity for maintenance are two major external problems contributing to PUB problems. In justifying this claim, 84% of total respondents blamed public ownership whilst 25% put the blame on the lack of institutional capacity for maintenance.

(i) Public ownership

Public ownership of a public enterprise like the PUB has allowed politicians and bureaucrats to use the public enterprise to achieve numerous political and social objectives.

Recent reforms of the PUB, for example, have not addressed the problems with public ownership or government ownership. The corporate governance structure of the PUB, as with other public enterprises in Kiribati, however, still offers two major channels that allow political interference. One channel was opened by state shareholding (the ownership channel). State shareholding enables the government to remain involved and often even dominate the company's formal decision-making process. The second channel is that the presence of the Board for political interference (the party channel). Clause of the Company Law states vaguely that 'the activities of PUB directors shall be carried out in accordance with the Constitution for public companies'. Likewise, all Institutions, including corporatised enterprises like PUB shall not make any development to the company, unless approved by the Board.

Consequently, political interference in PUB's tariff prices and staffing matters is strong, undermining several efforts to improve the company's productivity, efficiency and effectiveness. The researcher observed that PUB tends to have served both its commercial and non-commercial objectives. Consequently, the enterprise is viewed as a way to provide employment, serve regional development objectives and increase the prestige/status of Kiribati. As utilities occupy a sensitive position in the economy, these patterns have had an important impact on the rest of the economy and the overall allocation of resources.

(ii) Institutional capacity for maintenance

PUB also faces the problem of frequent shortages of spare parts for maintenance, including the fuel problem and cost. Existing companies where the PUB used to get its supplies often run out of stock of these needed items, affecting sustainable maintenance and operation. On the other hand, the Kiribati Oil Company Limited, the sole wholesaler in fuel, does not have the capacity to cater for the needs of the PUB. This problem is exacerbated by the associated high cost of fuel offered to the PUB; as a result, during the field research period the supply of electricity was usually cut at certain times to certain areas. For example, there were times when people experienced the power down, mainly at day times throughout South Tarawa, to save the fuel for priority areas, such as hospitals.

Because of frequent power downs, ministries and departments, even private businesses, used their own standby generators to prepare for unexpected power breakdowns.

### 5.6.2 General problems of public enterprise in Kiribati

The results of questionnaire surveys reveal that currently all public enterprises in Kiribati are still owned by government, with some continuing to rely on the government budget. Further analysis found that public enterprises are active in many areas of the economy, making it difficult for a small enterprise in these areas to emerge or become sustainable. Those that are currently competing with public enterprises, for example retailing, shipping services and hotels, have been unable to earn reasonable profit. This is not surprising, as many have ceased to operate because they cannot compete with government huge business. Consequently, growth of the private sector has been very slow, which in turn has a negative impact on economic growth.

### 5.6.3 The impact of PUB inefficiency on economic growth

PUB inefficiency in the delivery of goods and services has implications for social and economic problems. Table 5.11 provides respondents' views on critical social and economic problems as a result of PUB inefficiency.

**Table 5.11: Opinions of Respondents on PUB services**

Areas	Major problems	Very Bad (%)	Average (%)	Minor problems (%)
<b>1. Social Problems</b>				
Unreliable service	35	23.5	13.5	27.5
<b>2. Economic Problems.</b>				
Limited private sector	49	17	11	23
Budget deficit	55	20	0	25
Subsidies	51	22	8	19
<b>Total</b>	<b>52%</b>	<b>20%</b>	<b>6%</b>	<b>22%</b>

The survey result shows that more than one quarter of total survey recognised that the PUB inefficiency has social implications. Further analysis shows that just over half the respondents believed that the PUB inefficiency has caused many economic problems in terms of slow growth of the private sector (49%), budget deficit (55%) and subsidies (51%).

*Social problems*

(i) Result of survey on PUB services

All respondents claimed that most of their social and economic activities are fully dependent on PUB electricity supplies. However, because of the frequent failure of PUB’s electricity services, most have attempted to use other sources of energy and fuel (Table 5.12).

**Table 5.12: Results of Questionnaire Survey:  
Sources of Energy/Fuel used in Kiribati**

<b>Respondents</b>	<b>Total Respondents (32)</b>	<b>Solar Power (%)</b>	<b>Private Power Generator (%)</b>	<b>Diesel (%)</b>
Government Officials	8	12.5	50	37.5
Private Business	12	0	42	58
Non-government organizations	12	0	25	75
<b>TOTAL RESPONDENTS</b>	<b>32</b>	<b>4%</b>	<b>39%</b>	<b>57%</b>

As shown in Table 5.12, 4% used solar power, 39% have their own private power generators and 57% used diesel. Accordingly, the standby generators and other means of energy and fuel are useful in the case of Kiribati because PUB electricity supplies are unreliable. From respondents’ viewpoint, all government ministries have standby generators, as they see it essential in preventing work interruption when the PUB electricity was down.

(ii) Unreliable services

PUB inefficiency in the provision of electricity, water and sewerage has caused other services to be inefficient and unreliable.

✓ Electricity supplies

It was evident that the power breakdowns have constrained the people and overall development. In Kiribati, all businesses and individuals are fully dependent on imported foods, mostly frozen items (meats, vegetables, and ice creams) that need proper refrigerated storage. However, due to unreliable electricity, it is very difficult for many businesses to order these items in abundance. As a result, people on South Tarawa suffer cargo shortages on such items, particularly as Kiribati is now depending on imported goods. Some departments and private businesses and non-government organisations do not have standby generators and have suffered power breakdowns, especially as many now are using modern technology — computers and e-mail or fax.

✓ Water supplies

Almost all respondents are fully dependent on PUB for their water drinks. As a matter of concern, 55% of respondents used water tanks to catch rainwater apart from PUB water whilst 45% are fully dependent on PUB water. A further finding is that 78% have dug water holes (wells) beside their houses for cleaning purposes. Well water is used for bathing and washing by many people in South because PUB water was kept for drinking only, due to insufficient water to cater for these needs. Almost all respondents argued that PUB water was not sufficient. As a result, some have forced themselves to drink well water, which is considered contaminated.

✓ Sewerage services

The PUB sewerage system has been unreliable for a long time, causing an unhealthy environment all over South Tarawa. All respondents indicated that PUB sewerage system is not sufficient to cater for the need of all the people on South Tarawa and also is unsustainable. Most of the time, the sewerage system fails to pump water into the sewerage tanks. These failures have encouraged people to use the beach for their toilet. This has caused an unhealthy environment with the likely consequences of poor health and contamination to water.

### *Economic Problems*

#### (i) Result of survey

The result of the government official survey illustrates that PUB lack of investment has an immediate impact on government's budget deficit, subsidies and slow growth of the private sector, all of which have affected the overall economic growth. As such, 33% claimed that the budget deficit has been the result of PUB poor investment in financing its own commercial activities, 45% believe that subsidy to PUB is another economic problem whilst 22% indicated that slow growth of the private sector is the result of PUB inefficiency.

One of the immediate impacts of PUB inefficiency has been the government budget deficit and substantial subsidy. The PUB inefficiency has increased government borrowing from overseas financial institutions. PUB has no problem with competition because it has no strong competitor apart from the Solar Energy Company Limited. Solar Energy is also a government owned company but serves outer islands' needs in energy. PUB's main problem lies in government's interference in the company's commercial objective, where PUB was mandated to focus more on its social obligations.

Discussion with PUB directors revealed that Government wishes to maintain PUB because of its significant contribution to all government and business processes and all households. In order for PUB to provide efficient and sustainable services, government must realise the importance of reintroducing commercial objectives, rather than enforcing social obligations. In support, government should retain a legitimate and very important role as the guarantor of an adequate provision of these fundamental services.

#### (ii) Slow growth of the private sector

PUB inefficiency in the delivery of reliable electricity and water supplies has in part contributed to slow growth of the private sector. PUB inefficiency is one of the problems in Kiribati constraining growth of the private sector. Likewise, while PUB services are fundamental foundations in the development of industries and even small enterprises, PUB inefficiency may have the likelihood of threatening this development. The researcher

observed that improvement in this area may lead to faster growth in the private sector, which in turn will accelerate economic growth.

## **5.7 RESEARCH LIMITATIONS**

Several limitations must be reported in this study, starting with the methodology used in obtaining information from participants outside the Public Utilities Board. The use of a questionnaire survey has limitations in deriving sufficient and relevant data required for the research. Some of the responses do not match with the question asked, making it difficult for analysis purposes. Questionnaire surveys followed by personal interviews are more reliable and effective in obtaining the required data (see Imenda and Muyangwa, 2000).

Finally, limitation derives from the fact that this is not a comparative study; thus the research results may have low reliability. Further research should distinguish among groups from different public enterprises and assess whether the model proposed is supported across these groups, or whether it applies for some groups and not for others. Comparative case studies will enlarge the model so that the process and application of the policy can be compared to see whether or not the policy has a similar effect on different enterprises.

## **5.8 CONCLUSION AND RECOMMENDATIONS**

The findings of the fieldwork support the literature review that structural reform at the microeconomic level has made little progress in making changes of public enterprise at the microeconomic level. These changes can be seen in the legal status of the PUB, including a well-defined corporate plan, improvement in the level of qualification for senior management together with the widespread use of a new information technology in the four departments. Nevertheless, these changes have been slow to realize.

Notwithstanding these changes, the principal objective of commercialising and corporatising the PUB to assume full commercial responsibilities has not been achieved. PUB commercial objectives suffered severely from political interference that is deeply imbedded in public ownership and shareholding. The finding holds the view that the

corporatisation policy has limitations in removing political intervention because government full ownership and shareholding remains, and thus has legitimate power to intervene in the business's decision making. These findings cast some light that change in ownership and shareholding is the only way to change the PUB culture, thus in turn, will change the structures and systems, with no doubt that the political interference will be minimized, and with the greater probability of improving accountability and competition. All these factors will lead to PUB efficiency.

Some important lessons from the early reforms lead this study to suggest that reform should begin at the macroeconomic (national) level. In this approach, a consistent and coherent economic development policy will provide well-designed and coordinated implementation mechanisms (e.g. a legal framework) that will minimise the power of interventionists. This, in turn, will facilitate the process of organisational restructuring and human resource development — the foundation for change. This is more essential in a small country like Kiribati, given the limitations and scarcity of resources and the poor conditions of infrastructure. Against this background, some recommendations and suggestions are drawn from various views and experiences of PUB employees and outside stakeholders involved in the research.

The finding strongly recommends privatisation as the best option for increasing public enterprise (including PUB) performance and at the same time removing political interference. Out of 60 respondents, 47% supports privatization policy. Other views recommend that partial privatisation is also an option supported by 33% of the total respondents, of which, the majority were government officials. In the partial privatization model, contracting out and joint venture are two preferred strategies, given government budget problems and the lack of qualified engineers and skills in information technology in PUB. The final view represents mostly PUB employees who believe that fragmentation of PUB is an immediate option given that it does not involve sale or privatisation. Over 76% of 32 PUB employees' interviewed suggest that water services should be managed by a new management, seeing that its current position needs a complete change.

## **CONCLUSION AND SUMMARY**

### **6.1 INTRODUCTION**

This final chapter discusses the policy implications of the results, the limitations of the study and recommendations for future improvement. Clearly the empirical findings cover a fairly wide ground and while some results may have policy implications, others are likely to be more academic. In view of this, the following discussions will focus only on those results that seem to have fundamental policy implications.

At this stage, it is important to highlight that the critical factor to consider is not to find ways to put an end to government-ownership of public enterprise but rather to consider several strategies that could possibly assist in minimizing and controlling the negative impact of public enterprise problems on economic growth. Current trends indicate that the poor performance of public enterprises and the impact of this on economic growth will continue to intensify, affecting both government and the people at large.

The starting point in this comprehensive discussion is a brief review of the main thrust of the study, reemphasizing where the important considerations lie and the general underlying philosophy assumes significance. Hopefully, this should give more perspective to the analysis and to the study as a whole.

### **6.2 BRIEF OVERVIEW OF METHODOLOGICAL APPROACH**

The study starts off with the identification of the main problem and then develops a conceptual framework based on existing theories relative to the main thrust of the study – public enterprise reform theories. The literature results were evaluated to see if there are significant and important differences in the effectiveness of reform undertaken in the developed countries when this is compared with the reform occurring in the developing countries of the Pacific including Kiribati. This will provide broader understanding of where the main problems originate concerning the reform in Kiribati and other PICs. The empirical results and related hypotheses were evaluated with regard to public enterprise

reform, followed by examination and evaluation of the different changes that occurred in the PUB since the reform process was initiated in 1989. The two fundamental questions this study wishes to explore are: (i) Does public enterprise affect development in Kiribati? and (ii) How does government achieve a successful public enterprise reform?

As discussed in the introduction and in the literature review chapters, this is a long-standing issue that has affected or intrigued economist, and scholars, but more importantly policy-makers, since the Thatcher economic reforms in the early 1980s, which first conceived the notion of *public sector reform and its impact on public enterprise*. However, in the past the focus has been more on developing the theoretical explanations of import substitution strategy (in the late 1970s) and a highly regulated economy, whereas the subsequent interest and trend (for the 1980s/90s) has been towards economic growth, with many governments looking towards the private sector as the engine for development.

In reviewing the methodology adopted in this study, it is worthwhile to stress that this study used both published (including unadjusted data) and empirical data. Based on available data, it is established that in Kiribati case, public ownership allows political interference. Price restrictions and preserving employment in PEs have been the most politically sensitive and hence the most constraining non-commercial objectives. Consequently, we have seen that regulation, that is, legal provisions giving political leaders some veto over public enterprise commercial activity that deems detrimental to growth of the company. This, in turn, has constraint government budget and deficit and affected the overall economic growth.

In the analysis emphasis is placed on the privatisation stages and the sequential ordering, as depicted in each theoretical privatisation stage. More generally, the possibility for challenging existing monopolies was considerably enhanced by allowing foreign firms and investors to participate in the provision of public services, for example water services or electricity. Considering the cases of Bank of Kiribati and Telecommunications, joint venture and contracting out can be looked at as alternative strategies in improving the company's corporate culture. These models have the advantage of importing expertise,

new skills and technologies and investment capital into the company with the likelihood of changing the existing culture of the company — structure, systems (personnel and financial management) and employees' attitude, behaviour and values towards achieving the organisation's commercial goal. Implicitly and explicitly, change in employees' behaviour, beliefs and values may lead to the increase in public enterprise economic performance. Conversely, partly and wholly privatised companies are freed from stringent regulatory requirements that often limited the viability of commercial objectives. Government can retain a legitimate and very important role as the guarantor of an adequate provision of legal framework.

### **6.3 LIMITATIONS OF THE STUDY**

All studies, in particular the empirical ones, always have shortcomings or limitations and this study is no exception. Discussed here are some notable limitations that could have important influences on the outcomes of the study.

The research is a single case study, thus it is unable to provide comparative evidence on the impact of reform on public enterprise. As such, it may not provide sufficient data to allow wide-ranging generalization and a more reliable outcome. It would have been interesting to compare different reform processes and policies adopted by a variety of enterprises, as a basis for suggesting strategies that may more influential and how to go about it. It is likely that another approach may be more effective in reforming public enterprises.

The survey for the research is focused entirely on public enterprise problems on urban centers of Betio, Bairiki and Bikenibeu. Therefore, the findings only reflect public enterprise problems in the three urban centers. Thus, the effect of public enterprise inefficiency to those on rural areas in particular, on outer islands and Kiritimati is excluded. To examine the problem of public enterprise on outer islands in Kiribati requires another study.

Last but not least is the limitation of the analysis, but this is applicable to the reform process framework in general. The fact is that it is not possible to isolate the impact or effect of a single factor on another variable. That is, the response of output or result, or any variable for that matter, is that resultant of several disturbances, including its own lagged values. This would mean that discussion of the impact of government ownership on the performance of public enterprises is referring to the situation where the ‘initial’ problem or disturbance originates. That is, the initial chain reaction comes from the policy instrument, but what is seen in the case of Kiribati has been the implications of several factors.

#### **6.4 RECOMMENDATIONS**

Apparently most of the recommendation/suggestions will be related to the limitations discussed above, while some are just extensions to the present study.

The study has focused exclusively on the effects of public enterprise reform on public enterprises and its related impact on private sector development, a sensitive indicator for economic growth. Another useful approach would be to consider privatisation of public enterprise as an immediate alternative for private sector development and/or economic growth. With many countries around the world, for example the United Kingdom, New Zealand and Australia, focusing on the reduction of the public sector and the increase in participation of the private sector in the economy by way of privatisation, this approach would be relevant and practical.

It would also be useful to enlarge the model in order to incorporate more relevant variables. This may include external variables, such as the Australian and New Zealand models, particularly as these countries are known to have much in connection and interaction with the PICs and Kiribati. Furthermore, it would be interesting to derive and use empirical proxies for some of the concepts used in the various privatisation strategies, such as contracting out, joint venture, franchising and non-sale strategies like fragmentation and decomposition. This should be more representative of the reform process and therefore more useful for policy purposes. One major problem here is the subjectivity and ambiguity

of such terms as contracting, joint venture, partnership and so forth. The availability of data, especially in Kiribati, would be another major obstacle.

In view of the difference in response of the increased efficiency and effectiveness in the delivery of public services in three developed countries, and given the importance of the public enterprises reform to economic growth, it would be interesting and useful to extend the analysis using the components of other sectors' reform processes.

Another interesting challenge is to carry out more elaborate studies on the reform of public enterprise introduced in this study with a view to developing forecasts based on the results. Tracing out the serial and parallel impacts of public enterprise reform, for instance, starting from the time commercialisation and corporatisation took place through to the time the effects or impacts are seen or felt on the performance of economy would surely help policy makers to understand where the delay comes from or where the reform process fails and why. These types of information are crucial not only for forecasting purposes but also for making the public understand the uncertainties associated with the reform process approach. The alternative is simply to look at the direct reform process approach that focuses only on the response of output (economic growth). Unfortunately, most studies up to now have chosen to pursue that alternative.

Finally, the findings of this research clearly suggest that ownership transformation by itself cannot be relied upon to create extensive long-term corporate entrepreneurship and further research remains to be done on the importance of product/service market competitive conditions and their interplay with corporate governance changes. Privatisation is just the beginning of a long-term process. The development of corporate governance or entrepreneurship and the liberation of latent entrepreneurial talents in privatized enterprises will not happen by itself or overnight. An important role is likely to be played by supportive and robust corporate governance mechanisms combined with the strengthening of the legal framework and the liberalisation of capital and product markets.

## **6.5 FUTURE RESEARCH**

This study has implications for researchers. First, given the necessarily short period for the study and delay in documentation of recent and current positions of PEs in most PICs, there is a need for longitudinal study in order to compare the development of corporate entrepreneurial strategies and customers (that is, performers and life-cycles of enterprises) as well as to consider more fully the different forces at play in each of the countries examined in this study. There is also a need for continuous study on the subject with the involvement of more case studies in order to represent the three typical public enterprises: limited liability company, statutory corporation and joint venture.

Second, there is a need to compare the quality of market or entrepreneurship in the existing corporatised PEs with entrepreneurship in those joint venture companies, for example, the Bank of Kiribati and Kiribati Telecommunication Services Limited.

Finally, there is a need to compare the performance of the Public Utilities Board in Kiribati with those electricity, water and sewerage services provided by the utility authorities in some other countries of the Pacific like, Fiji, Tonga, and the Federated States of Micronesia and Vanuatu, to see the different effect of the reform. Experiences of these countries are useful to policy makers in Kiribati, most notably, the Fiji government approach in separating management of water authority from electricity.

## **6.6 CONCLUSIONS**

The study has produced very interesting results and useful insights. Some results are consistent with existing theories and past empirical studies while others show contradictory results or totally new insights. With respect to the primary objective of this study, which is to try to understand the impact of public enterprise reform on private sector development and associated problems through the so called framework for successful reform, the main finding is that the issue is complex and cannot be summarised in a single sentence or single paragraph, rather it needs a comprehensive report.

Essentially the results and the analysis show that public enterprise reform in poor countries is possible through many strategies, each with its own unique pattern and lag-period. Furthermore, when the ownership of public enterprise is changed, say from public to private ownership, the organization structure, management of the enterprise and even economic performance all changed, with likely positive outcomes. This really stresses the need to be cautious of what approach or strategy is being used or what model for reform is being investigated. For instance, in the developed countries of the UK, New Zealand and Australia reform through privatisation strategy has been implemented vigorously and its effect on economic growth is quite significant but in the Pacific Island countries including Kiribati, privatisation of public assets has not been achieved because of the lack of political support. Common strategies adopted in Kiribati (as in other PICs) have been commercialisation and corporatisation that appear to have less influential or in many cases unsuccessful because of public ownership problems. This evidence shows that ‘ownership really matters’. The analysis clearly demonstrates that political support and even public awareness are crucial in view of the smooth running of the reform, especially in the accomplishment of reform main objectives, for example, to implement what the reform outcomes require (to impose competitive market price and removing of public service culture including public awareness and qualified workforce).

Another useful conclusion is that the public enterprise reform process is different from country to country as it depends on the social and cultural, and economic status quo, and possibly from period to period depending on the national development strategy goals and financial institutional set up. It is also crucially important to incorporate views of all stakeholders (government, local government, civil society, private sector and communities at large) in the reform exercise.

This study can finally say that although it is possible to conduct a successful reform process using an appropriate legal framework and appropriate reform strategies, for example privatisation and/or not to stay with government but to reorganise in a manner that reflect competitiveness, it is still not possible to generalise a model that has been set up for a specific country, because of the differences in culture, economic and political

regime and none seem fit in another country. In practical terms, the formulation of a framework for reform process or reform model needs careful planning, taking into account not only the direct impact of policy instrument changes but more importantly the factors and circumstances of previous reforms, they too have their own unique story to tell.

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1.1: List of Commercialised and Corporatised Public Organisations 1986 (NDS: 1987-1991)

(Candidates for privatisation in ranking order - 1989)

Public Enterprise	Current Status
<b>i. <u>Priority One Group</u></b>	
Abamakoro Trading Company Ltd	Liquidated January 2005
Atoll Motor and Marine Services Ltd	Liquidated January 2005
Otintaai Hotel Ltd	Limited Liability Company
Government Supply Division	Limited Liability Company
Government Philatelic Bureau	Statutory Corporation
Government Printing Office	Statutory Corporation
<b>ii. <u>Priority Two Group</u></b>	
Government Plant and Vehicle Unit Ltd	Limited Liability Company
Betio Shipyard Limited	Limited Liability Company
<b>iii. <u>Priority Three Group</u></b>	
Public Works Department	Statutory Corporation
Kiribati Insurance Corporation	Limited Liability Company
<b>iv. <u>Priority Four Group</u></b>	
Shipping Corporation of Kiribati	Limited Liability Company
Public Utilities Board	Limited Liability Company

Source: Kiribati Ministry of Finance and Economic Planning (1979).

1.2: Candidates for Privatisation 1996 (NDS: 1996-1999)

<b>Public Enterprise</b>	<b>Current Status</b>
Abamakoro Trading Limited	Liquidated January 2005
Atoll Motor Marine Services	Liquidated January 2005
Atoll Seaweed Company	Remain with government
Broadcasting and Publication Authority	No change
Kiribati Oil Ltd	Monopoly
Kiribati Housing Corporation	Remain with government
Kiribati Supplies Company	Remain with government
Solar Energy Company	Remain with government
Tarawa Biscuit Limited	Remain with government

Source: Ministry of Finance and Economic Planning. 1996.

## 1.4: Government Ministries/Departments By Locations as at 2005

<b>Betio</b>	<b>Bairiki</b>	<b>Bikenibeu</b>
<b><u>Government Ministries</u></b>		
Ministry of Commerce, Industry and Cooperatives	Office of te Beretitenti	Ministry of Environment, Lands and Agriculture Development
Ministry of Public Works and Utilities	Ministry of Foreign Affairs and Immigration	Ministry of Health and Medical Services
Ministry of Communication, Transport and Tourism Development	Ministry of Internal and Social Affairs	Ministry of Education, Youth and Sports
	Ministry of Finance and Economic Planning	
	Ministry of Labour and Human Resource Development	
	Ministry of Fisheries and Marine Resources Development	
<b>Government Department</b>		
Judiciary	Public Service Office	
Police and Prisons	Public Service Commission	
	Kiribati National Audit Office	
	Office of the Attorney General	
	Maneaba ni Maungatabu	

2.1: Interview Questions for Board of Directors

**Public Sector Reform and its Impact on Public Enterprises:  
A Case of the Public Utilities Board in Kiribati**

Information and data collected will be used for the purpose of academic research only and will be treated confidential.

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**Interviewee Personal Information**

Location:

Full Name:

Interview Start Time

Date:

Interview Time End

**Questions**

1. What is the term of reference for the board of directors?
  2. Has the CEO operating plan consistent with government National Development Strategies?
  3. Why is government interested to maintain the PUB?
  4. What do you think of the reform? What is the role of government in the reform?
  5. Why does ADB find interest to review the company? What are the main objectives of the recent reform of the PUB? Are the reform objectives clearly communicated to stakeholders and the PUB employees?
  6. Is there a plan to privatize the PUB? If not, what options do you think essential to achieve a meaning reform?
  7. Has the CEO able to meet target performance? What are the major problems of the company?
  8. What is the current position of the company in terms of financial performance?
  9. Does the CEO encourage open communicate about the company performance to?
  10. Has the CEO build strong relationship with the BOD?
  11. Does the CEO respect the BOD's independence?
  12. Does the CEO discuss the company major commitment and key issues with the BOD before decision-making?
  13. How does government monitor the company's performance?
  14. What are the major obstacles to improve the company's performance?
  15. Can you briefly explain government future plan for the PUB?
  16. Any other comment and recommendations.
-

## Appendix E

### 2.2: Interview Questions for a Chief Executive Officer

#### **Public Sector Reform and its Impact on Public Enterprises: A Case of the Public Utilities Board in Kiribati**

Information and data collected will be used for the purpose of academic research only and will be treated confidential.

#### **Interviewee Personal Information**

Full Name:	Date:
Interview Start Time	Interview Time End

#### **Questions**

1. In what year does the Public Utilities Board start its operation? What is the current position of the company?
2. What are the main activities or core business of the PUB? While the PUB is fully owned by government, what are its social and commercial objectives? Has the company achieved full commercial objectives? If not, what are the major obstacles?
3. What is the role of the board of directors in the PUB? Is there a time when management and the board of directors come to disagreement?
4. What is the level of employment in the company? What is the level of education?
5. What are the current development mechanisms for employees? Are there staff on training? How long? What programme? Does the company get assistance from government for staff training?
6. How do you motivate your staff?
7. What are the major challenges and problems facing the company
8. In what way does government intervene in the PUB's operation? How often does the company submit progress report to the ministry?
9. Is government continues to provide subsidies to PUB?
10. What are the main objectives of the recent reform of the PUB? Are the reform objectives clearly communicated to stakeholders and the PUB employees?
11. Does the reform outcome make good change to PUB employees by reflecting the commercial oriented culture after its reform?
12. PUB has three major services. What do you think of privatizing water services? If not, what options do you think essential for the reform process? What do you think of future reform?
13. Who are the key players in the reform process? Is it government's idea or ADB?
14. What changes have taken place in the PUB since its inception until today in terms of the following
  - employees performance (increase/decline)
  - customer complaint (increase/decline)
  - financial performance (increase/decline)
14. What are the major problems and challenges faced by the company?
15. Why is good governance important in the PUB operation?
16. Any other general comment and recommendation.

### 2.3: Interview Questions for Senior Management

#### **Public Sector Reform and its Impact on Public Enterprises: A Case of the Public Utilities Board in Kiribati**

Information and data collected will be used for the purpose of academic research only and will be treated confidential.

##### **A. Personal Information**

- Full Name
- Job title
- Job description
- Education.
- Experience
- Training

##### **B. Company Information**

- Corporate plan
- Organisational chart
- Staff list
- Financial report
- Condition of service
- Management strategic plan

##### **C: HRM Issues and problems**

1. Does PUB practice HRM functions? (Yes/No) Explain.
2. Comment on the following:
  - communication– (very satisfactory, satisfactory, not satisfactory)
  - information system – (very satisfactory, satisfactory, not satisfactory)
  - public relations– (very satisfactory, satisfactory, not satisfactory)
  - performance appraisal – (very satisfactory, satisfactory, not satisfactory)
  - reward system – (very satisfactory, satisfactory, not satisfactory)
3. What do you think of the following:
  - customer service – (very good, good, bad)
  - staff performance – (very good, good, bad)
4. What are the tools the company uses to develop staff?
5. What measure does the company has put in place to improve employees' performance?

#### **D: Management and Financial Problems**

6. What are the major problems facing the PUB? In what way do they affect the company performance?
  - (i) Has the CEO articulated a clear vision of the company?
  - (ii) Does the CEO leadership style fit to company and employees aspirations?
  - (iii) Does the CEO encourage open communication and individual initiative?
  - (iv) Does the CEO have the ability to meet corporate performance?
7. What do you consider external problems to PUB? In what way do they affect the company performance?
8. Does the company have problems in collecting revenue? What are the strengths of accounting management?
  - (i) To what extent is the CEO meeting financial and operating performance goals, both long and short-term?
  - (ii) Is the CEO able to meet the targets in the company's strategic plan?
  - (iii) What is the latest accounting report?
  - (iv) Does the company accounting system computerized or manual?

#### **D: General Comments on the Company Reform Process**

9. What are your general comments on the recent reform (very good, good, bad).
10. Comment on the following:
  - a) Development of reform program
  - b) Staff preparedness to the process
  - c) Reporting process
  - d) Communication of result
11. What strategies adopted in the reform process?
12. What changes have taken place after the reform? What happen to employees after the reform?

#### **E: Problems and Challenges facing PUB**

13. What are the major problems/challenges faced by the PUB?
  - (i) Lack of qualified personnel
  - (ii) Lack of the company resources
  - (iii) Economic and political problems

#### **F: Recommendations**

14. What are your general recommendations for future improvement of the PUB?  
HR training and development, privatization, joint venture, divest, fragmentation,  
performance contract(Yes/No).

## Appendix G

### 2.4: Interview Questions for Lower Staff

#### **Public Sector Reform and its Impact on Public Enterprises: A Case of the Public Utilities Board in Kiribati**

Information and data collected will be used for the purpose of academic research only and will be treated confidential.

#### **Personal Details**

Full Name:	Date:	Time Start:
Date of Birth:	Education:	Time End
Job Title:	Gender:	Work Experience:

#### **Questions**

1. What are the things you find interesting in your job?
2. What are the things you do not like most in your job?
3. General comment on management – (very good, good, bad)
4. How often do you meet with your supervisor?
5. Are you satisfy about the following?
  - salary - (very satisfactory, satisfactory, not satisfy)
  - boss - (very satisfactory, satisfactory, not satisfy)
  - work team - (very satisfactory, satisfactory, not satisfy)
  - work environment - (very satisfactory, satisfactory, not satisfy)
  - recreational facilities - (very satisfactory, satisfactory, not satisfy)
  - working equipment - (very satisfactory, satisfactory, not satisfy)
6. General comment on HRM functions in terms of the following:
  - staff training (Yes/No) - Explain
  - promotion (Yes/No) - Explain
  - reward system (Yes/No) - Explain
  - recruitment (Yes/No) - Explain
  - performance appraisal (Yes/No) - Explain
7. In what way the CEO communicates board decision to employees?
  - through your boss (Yes/No) – Explain
  - direct communication by phone (Yes/No) - Explain
  - memo (Yes/No) - Explain
  - staff meeting (Yes/No) – Explain
  - not communicated (Yes/No) - Explain
8. Are you clear with your job description? Does your boss encourage you to work independently or under close supervision?
9. What changes to the company have taken place since you start working?
10. Is there a change to your job after the recent reform? Any result that affecting employees?
11. Does your work require computer? Yes/No, if so, does the company provide one?
12. General comment on the company's recreational facilities.
13. Recommendations for future improvement of the PUB services?
14. What do you think of privatising PUB?

2.5 Questionnaire for Government Officials

Information and data collected will be used for the purpose of academic research only and will be treated confidential.

---

**A: PERSONAL INFORMATION**

Full name..... Job Title.....  
Gender.....Qualification.....  
Age.....Ministry/Department.....  
Marital Status.....Public/Private Enterprise.....  
Work Experience... ..

**B: CONCEPTS OF PUBLIC SECTOR REFORM**

(Brief definitions of public sector reform – a process to reassess the role of the public sector or government in the economy. Public sector includes government ministries and departments and all those organizations owned by government e.g. Public Utilities Board. Reform is defined as restructure, modernization, or to change the organization’s culture etc)

1. What is the difference between public sector reform and public enterprise reform?  
\_\_\_\_\_
2. What are the main objectives of public enterprise reform? Give three reasons.  
\_\_\_\_\_
3. Is public enterprise a problem to the development of Kiribati? Yes/No, if so, what are the main problems associated with public enterprises?  
\_\_\_\_\_
4. Give three reasons why government owns public enterprises.  
\_\_\_\_\_
5. Define the following and identify their major roles in development:
  - public sector  
\_\_\_\_\_
  - private sector  
\_\_\_\_\_
  - government  
\_\_\_\_\_
  - external aid donors  
\_\_\_\_\_
  - good governance  
\_\_\_\_\_

6. What types of reform have been undertaken in Kiribati? When was it? What were the strategies adopted in this reform? What significant changes have taken place after the reform?  
\_\_\_\_\_
7. Does the reform outcome make good change to PEs commercial oriented culture after the reform? Yes/No, if not, what are the major problems and impediments?  
\_\_\_\_\_
8. Who are the key players in the reform and why in the Kiribati reform?? Who did the design and develop the reform program, government or external donors? Was this reform widely known by Kiribati citizens?  
\_\_\_\_\_
9. What is the current position of public enterprises in Kiribati? Are they effective and efficient in the provision of goods/services? Yes/No. Explain.  
\_\_\_\_\_
10. What do you think about the future reform of public enterprises in Kiribati?  
\_\_\_\_\_
11. Many countries, e.g. Australia and New Zealand have adopted privatization successfully as their reform strategy? Is privatization a good option for Kiribati? If not, what are other options to be adopted?  
\_\_\_\_\_
12. What are the current mechanisms government put in place to maximize public enterprises investment? Are they new mechanisms or similar to previous strategies?  
\_\_\_\_\_

### **C: General Problems with Government Services**

#### **13. Quality of housing:**

- Number of rooms? Bedrooms \_\_\_\_\_  
Kitchen \_\_\_\_\_  
Bathroom \_\_\_\_\_  
Others \_\_\_\_\_
- Condition of house \_\_\_\_\_
- Construction material \_\_\_\_\_

#### **14. Water**

- Where did you get your drinking water? \_\_\_\_\_

- Do you have dug well beside your house? Why? \_\_\_\_\_
- Is the well water safe to drink? \_\_\_\_\_
- Other source of supply of water \_\_\_\_\_
- How often do you receive water supply from the Public Utilities Board? \_\_\_\_\_
- Do you pay for the water? \_\_\_\_\_
- Do you have other problems with water supply? Yes/No. Explain \_\_\_\_\_
- Has the amount/quality improved? Yes/No. Explain \_\_\_\_\_

**15. Energy and Fuel**

- Is your home connected to electricity? Yes/No \_\_\_\_\_
- Do you have time when you suffer electricity blackout? Yes/No \_\_\_\_\_
- How bad is it? List at least 5 problems caused? \_\_\_\_\_
- Has the problem been improved? Yes/No. Explain \_\_\_\_\_
- Do you pay for electricity (Yes/No) \_\_\_\_\_

**16. Sewerage**

- What type of toilet do you use?
  - Septic
  - Sewerage System
  - Bush/beach
  - Others (specify) \_\_\_\_\_
- Explains problems associated with each type \_\_\_\_\_
- Do you pay for the sewerage services? Yes/No. Explain \_\_\_\_\_

**17. Disposal of Rubbish**

- What are the main types of waste/rubbish and how are they disposed?

Type	Method of Disposal
i. _____	_____
ii. _____	_____
iii. _____	_____

- How did you dispose your rubbish from your food?
  - Feed pigs
  - Bury
  - Throw it in the sea
  - Backyard

- Burn them
  - Collected by council
  - Others (specify)
- How did you dispose other rubbish like empty tins/plastic or bottles etc?  
\_\_\_\_\_
  - Do you pay for rubbish collection? Yes/No. Explain\_\_\_\_\_
  - Is there a time when the rubbish is not collected? Yes/No. Explain.  
\_\_\_\_\_

**18. Cargo/Stock**

- Is there a time when you suffer cargo/stock shortages? Yes/No\_\_\_\_\_
- How bad does this problem affects you? Explain\_\_\_\_\_
- Has this problem been improved? Yes/No\_\_\_\_\_

**19. What are the major factors affecting PEs performance?**

**D: General Problems with Public Enterprises**

Circle one answer only from the list provided at the end of each question.

**20. How do you rate PEs performance in terms of service delivery using the following:**

- Efficiency – (very satisfactory, satisfactory and dissatisfactory).
- Effectiveness - (very satisfactory, satisfactory and dissatisfactory).
- Productivity - (very satisfactory, satisfactory and dissatisfactory).

**21. What are the current positions of PEs in Kiribati?**

- Fully owned by government – Yes/No
- Partly owned by government – Yes/no

**22. What are the immediate impacts of government involvement in PEs?**

- Budget constraint – (strongly agree, agree, disagree).
- Increased in fiscal deficit – (strongly agree, agree, and disagree).
- Slow growth of the private sector – (strongly agree, agree, disagree).
- Poor competition – (strongly agree, agree, disagree).

**23. What are the main causes of PEs problems?**

- Public monopoly – (strongly agree, agree, disagree).
- Subsidies – (strongly agree, agree, disagree).
- Government interference – (strongly agree, agree, disagree).
- Lack of management accountability – (strongly agree, agree, disagree).

- ❑ Wrong policy of development – (strongly agree, agree, disagree).

**E: RECOMMENDATIONS**

**Please circle only answer (e.g strongly disagree), which you think most appropriate to each statement using the following:**

*strongly agree    agree    disagree*

24. What do you think of future reform of public enterprises?

*strongly agree - agree - disagree*

25. Do you agree that privatization is the best option to improve government efficiency?

*strongly agree - agree - disagree*

26. Other reform options more appropriate to Kiribati

- Commercialisation – (strongly agree, agree, disagree)
- Corporatisation - (strongly agree, agree, disagree)
- Joint venture – (strongly agree, agree, disagree)
- Contracting out. – (strongly agree, agree, disagree)

27. What are key elements of public enterprise reform?

*General comment:*

.....  
.....  
.....  
.....

Name.....Signature.....Date.....

....

---

**THANK YOU FOR YOUR COOPERATION**

2.6: Questionnaire for Private Business

**Public Sector Reform and its Impact on Public Enterprises:  
A Case of the Public Utilities Board in Kiribati**

Information and data collected will be used for the purpose of academic research only and will be treated confidentially.

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**HOW TO FILL IN THIS FORM**

This questionnaire comprises two types of questions: there are open and closed questions, so please answer them according to the question requirement as explicitly explained at the beginning of each section.

**A: Personal Information**

Full name..... Job Title.....  
Gender..... Type of Company.....  
Age..... Age of Company.....  
Marital Status..... Total Number of Employees.....  
Number of Years ..... Type of Product/Service.....

**B: Business Information**

Number of employees employed..... Highest education .....  
Manager's education..... Business experience.....  
Initial Capital.....\$..... Current change (increase/decrease by %).....  
Loan (Yes/No)..... Own savings (Yes/No).....  
Any additional (Yes/No)..... Date of Inception.....  
Past performance of the company.....  
Management entrepreneurial skills (Yes/No).....  
Current position ..... Business Plan (Yes/No).....

**C: General Problems Facing the Private Business in Kiribati**

Choose **only** one: very good, good, bad to answer the following.

1=very good            2=good            3=bad

1. What do you think of the following?

- Price Control.....
  - Consumer Protection Act.....
  - Freight, Port & Delivery Charges.....
  - Custom Duty.....
  - Tax.....
  - Bank Interest.....
  - Loan from Bank of Kiribati and Development Bank.....
  - Land Tenure System.....
- 

2. Please comment on the PUB services, by circling one answer from the bracket beside each statement?

- Electricity — (very satisfactory, satisfactory, not satisfactory), explain

\_\_\_\_\_

- Water supply — (very satisfactory, satisfactory, not satisfactory), explain

\_\_\_\_\_

- Sewerage — (very satisfactory, satisfactory, not satisfactory), explain

\_\_\_\_\_

3. Do you have problems with government-owned enterprises? Yes/No, if so, how bad is it? (very bad, bad, good)

Explain \_\_\_\_\_

**D: Recommendations**

4. What do you think government should do to improve private business?
- Privatisation of government owned enterprises (strongly agree, agree, disagree)
  - Remove price control (strongly agree, agree, disagree)
  - Reduce custom duty (strongly agree, agree, disagree)
  - Reduce tax (strongly agree, agree, disagree)

5. Please list other options government should do in order to improve private business?

General comments:

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Name.....Signature.....Date.....

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**THANK YOU FOR YOUR COOPERATION**

2.5: Questionnaire for Non-government Organisations

Full Name: \_\_\_\_\_ Organisation \_\_\_\_\_

Age \_\_\_\_\_ Date Organisation Start \_\_\_\_\_

Job Title \_\_\_\_\_ Size of Organisation \_\_\_\_\_

Main objectives of an organization \_\_\_\_\_

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**A: General Information**

1. What are the major problems facing your organisation in achieving its goals?
2. What particular assistance do you require from government to strengthen the capacity of your organisation?
3. What do you think of government-owned enterprises? What are associated problems with public enterprises?
4. What do you think government should do to improve urbanisation on South Tarawa?

**B: General Comments on PUB services**

5. **Quality of housing:**

- Number of rooms? Bedrooms \_\_\_\_\_  
Kitchen \_\_\_\_\_  
Bathroom \_\_\_\_\_  
Others \_\_\_\_\_
- Condition of house \_\_\_\_\_
- Construction material \_\_\_\_\_

6. **Water**

- Where did you get your drinking water? \_\_\_\_\_
- Do you have a dug well beside your house? Why? \_\_\_\_\_
- Is the well water safe to drink? \_\_\_\_\_
- Other source of supply of water \_\_\_\_\_
- How often do you receive water supply from the Public Utilities Board? \_\_\_\_\_
- Do you pay for the water? \_\_\_\_\_

- Do you have other problems with water supply? Yes/No. Explain \_\_\_\_\_
- Has the amount/quality improved? Yes/No. Explain \_\_\_\_\_

**7. Energy and Fuel**

- Is your home connected to electricity? Yes/No \_\_\_\_\_
- Do you have time when you suffer electricity blackout? Yes/No \_\_\_\_\_
- How bad is it? List at least 5 problems caused? \_\_\_\_\_
- Has the problem been improved? Yes/No. Explain \_\_\_\_\_
- Do you pay for electricity (Yes/No) \_\_\_\_\_

**8. Sewerage**

- What type of toilet do you use?
  - Septic
  - Sewerage System
  - Bush/beach
  - Others (specify) \_\_\_\_\_
- Explains problems associated with each type \_\_\_\_\_
- Do you pay for the sewerage services? Yes/No. Explain \_\_\_\_\_
- Is there a time when the rubbish did not collected? Yes/No. Explain.

\_\_\_\_\_

9. What are the negative impacts of the above problems on your organization and the community at large?

**C: Recommendations**

10. If you have problems with electricity, water supply and sewerage, what are your suggestions to improve them?

11. Privatisation is another option to improve PUB services, what do you think?

(strongly agree, agree, disagree). Explain \_\_\_\_\_

12. Can you provide other suggestions to improve the provision of utilities in Kiribati?

**3.1: Public Enterprises in Kiribati as of June 2005**

Enterprises	Government Share (%)
1. Air Kiribati Ltd	100
2. Atoll Seaweed Co. Ltd	100
3. Bank of Kiribati Ltd	25
4. Betio Shipyard	100
5. Bobotin Kiribati Ltd	100
6. Broadcasting and Publication Authority	100
7. Captain Cook Hotel	100
8. Central Pacific Producer	100
9. Development Bank of Kiribati	100
10. Kiribati Copra Cooperatives	100
11. Kiribati Copra Mill Company Ltd	100
12. Kiribati Handicraft and Local Produce Ltd	100
13. Kiribati Housing Corporation	100
14. Kiribati Insurance Corporation	100
15. Kiritimati Maintenance Company Ltd	100
16. Kiribati Oil Company Ltd	100
17. Kiribati Otoshiro Fishing Company	49
18. Kiribati Ports Authority	100
19. Kiribati Provident Fund	100
20. Kiribati Shipping Services Ltd (main operation)	100
21. Kiribati Shipping Services Ltd (Te Tau Bunkering Services)	100
22. Kiribati Supplies Limited	100
23. Kiritimati Marine Export Limited	100
24. Otintaai Hotel Ltd	100
25. Plant and Vehicle Unit	100
26. Public Utilities Board	100
27. Solar Energy Company Limited	100
28. Tarawa Biscuits Company Limited	100
29. Telecom Kiribati Limited	100
30. Telecom Services Kiribati Limited	100

## 3.2: Operating Profits of the Public Enterprises (as of 2002)

		Operating Profit by Financial Year ('000)										
		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1	Air Kiribati					29	-106	17	-85	-210		
2	Atoll Seaweed Co Ltd	-15	2	-55	-295	-179		-344	-90	271	176	
3	Bank of Kiribati Ltd				1547	1571	1693	2373	2490	2773		
4	Betio Shipyard Ltd			-57	118							
5	Bobotin Kiribati Ltd					143	107		95	235	267	
6	Broadcasting and Publications Authority				39	125	72	29	-28			
7	Captain Cook Hotel Ltd	34	184	144	77	98	-232	68	455	747		
8	Central Pacific Producers Ltd			-954	-840							
9	Development Bank of Kiribati				-112	-212	-37	-412	-31	74		
10	Kiribati Copra Cooperative Society Ltd				-1972	-908		-1585	-933			
11	Kiribati Copra Mill Ltd											
12	Kiribati Handicraft and Local Produce Ltd											
13	Kiribati Housing Corporation	-415	-537	-75	-214	-203	-86	-221	-302	-914		
14	Kiribati Insurance Corporation	-95			106	159			6	-30		
15	Kiritimati Maintenance Company Ltd											12
16	Kiribati Oil Ltd					-373	279	2208				
17	Kiribati Otoshiro Fishing Company				581	0			1754			
18	Kiribati Ports Authority									277		
19	Kiribati Provident Fund				4270	4030	4965	6228	5458	5233		
20	Kiribati Shipping Services Ltd (Main Operation)	-6	-337	-1684	-1024	-1526	-432	325	-129	-626	-1244	
21	Kiribati Shipping Services Ltd (Te Tauu Bunkering Services)					-4736	33	-56				
22	Kiribati Supplies Ltd			-308	-105	22	55	47				
23	Kiritimati Marine Export Ltd	-39	-108	-85	-184	-98	-133					
24	Otintaai Hotel Ltd	-52	-6	75	78	41	118	62	16			
25	Plant and Vehicle Unit		-286	-385	-238							
26	<b>Public Utilities Board</b>			<b>-329</b>	<b>-829</b>	<b>-312</b>	<b>-628</b>	<b>-514</b>	<b>-350</b>	<b>-1456</b>		<b>969</b>
27	Solar Energy Ltd				-42	41	-34	-73	-114	-48		
28	Tarawa Biscuit Co. Ltd	-8	-15	9	21	10	66		70	36	35	
29	Telecom Kiribati Ltd					171	75	-228	-192			
30	Telecom Services Kiribati Ltd				1196	1120				1695	1883	

Source: ADB (2002).