**SUB-REGIONAL OFFICE FOR THE PACIFIC ISLANDS**

# REPORT
# KIRIBATI DOMESTIC MARKET STUDY
## IMPACT OF THE IMPORT LEVY FREIGHT SUBSIDY ON TRADE IN HORTICULTURAL PRODUCTS ON SOUTH TARAWA DOMESTIC MARKETS.

**AUGUST 2011**

| | |
|---|---|
| | **FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS** |

**Prepared by**

**FAO Consultant**

**Betarim Rimon**

## Acknowledgements

There are a lot of people and offices that need to be well acknowledged and thanked for their great contributions in allowing the completion of this Report.

First of all, my thanks go to all my informants in Kiribati for having surrendered their precious time when my team and I collected information from them. The food vendors have provided raw information which has enabled a better understanding of the food market structure in Tarawa. My special thanks go to Mrs Rereiti Ioakim for sharing all information and her plans on how to improve the food business in Kiribati.

My words of gratitude are also extended to the Accountant General of the Ministry of Finance and Economic Development (MFED), Mr. Tekiera Ruaia for sharing with me all information required in assessing the performance of the freight subsidy in Kiribati. I thank too his staff for providing me with all pertinent data on the subject of freight subsidy. I also thank the Secretary for MFED, Mr Atanteora Beiatau for sharing the status of the World Bank funded project which is geared towards improving the Freight Subsidy and food security in the country. All gathered information from this Ministry has a core part in completing this Report.

People in the National Statistics Office and the Budget Section also contributed with data relevant to budget, national trade and freight levy. Again information and data gathered from them has enabled the progress of work on the Report. Same level of thanks are extended to staff of the Agriculture and Livestock Division of the Ministry of Environment, Lands and Agricultural Development. The information on the data gaps is very useful as I am sure time has now come to think seriously of building their own Agricultural database to enable the Government of Kiribati as well as development partners, from time to time, to see clearly the status of food security in the country.

My special heartfelt gratitude goes to Dr Stephen Rogers, FAO's International Consultant in this Food Market Survey Assignment. It is his in-depth knowledge on the value and importance of evidence-based data in guiding policy formulation processes that has allowed me to stay on track in this Study.

Finally but not the least, I express my deep appreciation to the EU AAACP for financing the whole process of putting together the Report. Substantial amount of money has been spent on this whole exercise ranging from the convened workshops and seminars to the actual completion of this useful Report. I also thank Jamie Morrison from FAO Rome and the FAO Subregional Office in Apia Samoa for their prompt guidance and facilitation of assistance that have also allowed the completion of this useful Report.

To you all thank you very much!

# Contents

## List of Abbreviations

| | |
|---|---|
| ALD | Agriculture and Livestock Division |
| EU | European Union |
| HIES | Household Income and Expenditure Survey |
| KHLP | Kiribati Handicrafts and Local Produce Ltd |
| MELAD | Ministry of Environment, Lands and Agricultural Development |
| MFED | Ministry of Finance and Economic Development |
| NSO | National Statistics Office |
| PRAP | Pacific Regional Agricultural Programme |
| SPC | Secretariat of the Pacific Community |

## Executive Summary

Kiribati is one of the small island countries that rely heavily on imported foods. In 2004, for the first time, the country experienced real food shortage, in terms of imported starchy foods such as rice and flour when the Kiribati Chief container vessel missed her schedule to deliver the foods to Kiribati from Australia. The country went without rice and flour for more than a month and in Tarawa, people turned to all available forms of starchy products to eat their fish with. They consumed biscuits, wheat-bix, noodles, sweet biscuits and the likes. The period coincided with the off season of breadfruits and this worsened the situation.

People in the outer islands were lucky in that they had coconuts and other alternatives like the local fig and *babai* (giant swamp taro). Nonetheless the general population all over Kiribati suffered. Kiribati is a fishing nation and therefore it has never experienced a shortage of protein as fish is always there - the problem is what to eat with fish.

In 2008, the global crisis of a sudden jump in prices of rice and flour also hit hard the people of Kiribati. Although food shortages had been experienced in 2004 the people and Government were still unprepared.

One policy option for ensuring a more secure food supply on Tarawa is to promote the production of food on the outer Islands. One intervention supportive of this policy is the freight subsidy which is meant to increase the flow of local produce from the outer islands to Tarawa. The current study was carried out specifically to assess the effectiveness of the freight subsidy.

This is particularly pertinent given that the World Bank has generously donated US$2million towards improvement of the freight subsidy and this should have direct impacts on the higher flow of local commercial foods to urban Tarawa and in the improved economic returns to people in the outer islands, especially those who would find local food supply as their commercial business.

The study, in addition to providing a snapshot of domestic market activity in a country where such data has not previously been collected, provides interesting insights into the functionality and effectiveness of the freight subsidy and a basis for making a number of recommendations as to how it could be reformed in order to better contribute to a more secure food supply on South Tarawa.

## Introduction

The Food and Agriculture Organization of the United Nations (FAO), on the 20th to 22nd of October 2010 held an FAO Regional Expert Consultation Workshop in Nadi, Fiji. The objective of the workshop was twofold; to show the value and importance of evidence-based data in the area of food production to guide decision makers, and to initiate four in-country studies to assess the existing systems surrounding data collection and analysing the policy value of such data by using it to address a specific contemporary policy issue.

Currently a Kiribati Government strategy is to encourage an increase in local food production in the outer islands and to increase trade from the northern "Garden Islands" (e.g. Butaritari) to South Tarawa to feed the growing urban centre. The government has instituted a freight subsidy to traders to encourage marketing in Tarawa and anecdotal evidence is that there are now more established markets for some farm products. However prior to this study, there was no market survey or price and volume data to assess the situation and to evaluate the impact of the freight subsidy. Therefore Kiribati was selected to undertake a case study analysis of the freight subsidy policy, which through the collection of and use of key data, demonstrates the value of investing in systems of domestic market data and analysis.

Drawing on existing data and making use of key informants together with the collection of additional primary market data the study aims to:

i) Map the structure of market channels on South Tarawa for the main domestic staple crops produced in the country;

ii) Assemble and document existing information on costs of freight between the islands;

iii) Summarise information on the use of the freight subsidy system and calculate the reductions in unit transport cost that it results in;

iv) Evaluate the impact of the freight subsidy on trade in prescribed products;

v) Draw conclusions and make recommendations on the implementation of the freight subsidy policy.

## Objective

The principal objective of the study is to see how effective the freight subsidy is in encouraging internal trade of food items and in boosting food production from the outer islands, as farming in the capital island is limited owing to problems of space and population congestion. The key question that will be addressed by the study is:

"Is the freight subsidy effectively increasing the supply of agriculture food products on South Tarawa markets and does it reduce/stabilise prices for consumers?"

## Study Context

The nation of Kiribati consists of 33 atoll islands (with 21 inhabited) widely spread out across the vast ocean of 3.5 million square kilometres. The scattered islands have poor and unreliable air and sea connections between them and to Tarawa, the capital island. This poses a barrier in setting up a reliable internal trade link between the islands and urban Tarawa where almost 50% of the national population resides. Both the high costs of freight and unreliable transport are significant hurdles in the efforts to increase flows of food produced in the outer “garden islands” to Tarawa.

### Import Levy (Special Fund)

The Import Levy is a scheme established in 1977 for collecting levies or charges on all imports in order to subsidise the freight costs to the outer islands. This is to help ensure that imported goods sold in the outer islands have a similar price as the imported goods sold on South Tarawa markets. In the 1990s the items covered under this scheme were expanded to include a freight subsidy to prescribed local agriculture produce sent to South Tarawa from the outer islands. In recent years there have been problems with the administration of the fund as the claim for payments is more than the collected levy revenue.

### Availability of agriculture production and market data in Kiribati

There is no record of an agricultural census having been conducted in Kiribati and the main official source of agriculture data is that collected during the national Population Census conducted by the Kiribati Statistics Office (NSO). The latest Census was conducted in November 2010, but data will not be available until the end of 2011. In the past there have been some *ad hoc* surveys and also some questions on agriculture activities (food production and sales) were included in the 2006 HIES and should also be included in the next HIES which is planned for 2011. Currently there is no national statistics strategy, however, political interest in data and demand is increasing and there has been a slight increase in NSO funding.

The Department of Agriculture and Livestock is part of the Ministry of Environment, Lands and Agricultural Development (MELAD). Its key mandate is to provide agricultural, livestock and quarantine advice and services to government and the general public. With this mandate the department acts as a central hub in terms of technical information on farming and livestock to all farmers in Tarawa and in the outer islands.

However the Department of Agriculture has relatively limited capacity and resources to collect agriculture data, but shows great interest and enthusiasm for doing this. They clearly recognize the need for good data for planning and monitoring and they are in the process of establishing dedicated staff and computer resources to store and manage what data they have. Their most significant undertaking is a national outer island survey (the Agriculture Survey Baseline 2010). The survey has been underway over the last couple of years and is collecting information on crops grown and livestock kept with a total enumeration of all households. The surveys are implemented on island by the Agriculture Assistant, who returns completed forms to Tarawa headquarters for data entry into an Excel file. However, there is currently no market survey or price and volume data collected to assess trade on domestic markets.

## Methodology

The study was carried out in two phases during the period December 2010 to May 2011. The inception phase was used to scope existing data and carry out key informant interviews with a view to map the structure of the market channels on South Tarawa for the main domestic food crops and to gather background information on the Import Levy freight subsidy. Interviews were held with representative staff of the NSO, the Agriculture Department, shipping agents and the Ministry of Finance which manages the freight subsidy. Preliminary interviews were also carried out with traders on the domestic market outlets in South Tarawa.

Analysis of the provisional information collected led to the selection of five market outlets to be further sampled during the main data collection phase of the study. The outlets selected were the major food crop markets located in Bikenibeu, Bairiki and in Betio.

The approach taken to collect all pertinent information included direct visits to all food stalls and markets in South Tarawa and Betio to conduct interviews with vendors on the average quantities of food crops they sell daily, where they farm their crops, how they move their crops to urban Tarawa and what level of assistance they receive from government in terms of freight subsidy. In total five market outlets were sampled and 15 vendors were interviewed for the survey.

This survey could not access primary data from the Garden Islands due to the scope and resources available for the exercise. The only means to paint a picture of crop production in the outer islands is through the information available from traders in the market outlets in South Tarawa and Betio.

## Results and Discussion

### Interview with Food Market Operators

There are 3 major food crop markets in Tarawa located in Bikenibeu, Bairiki and in Betio. In between these villages there are also small but active food outlets.

In Bikenibeu, two key markets have been established. At one market, built with permanent materials with the financial assistance of the Canadian government, vendors sell produce such as breadfruits, pandanus, pawpaw, banana and coconuts and also fresh and dried marine products. The other market, owned by five vegetable farmers, is a simple infrastructure built out of local materials but with iron roofing donated by Taiwan. This outlet operates like a cooperative where the owners take turns to run it.


**Figure 1: Main market in Bikenibeu village, Tarawa**

In Bairiki there are also two main markets which t people rely on for their vegetable needs and also fish products.  The principal one is in the Bairiki Business Square located at the ocean side close to the Office of the President.  The other one, which sells mainly banana, is located alongside the main road close to the Telecommunication Centre.  In Betio, even though it is the most congested urban islet in all of Kiribati, there is only one market outlet that actively sells vegetables.  Most of the stalls dotting the roadside of Betio are fish sellers, not vegetable vendors.

Interviews conducted with 15 individual market outlet operators revealed that the produce sold at the markets includes coconuts, banana, pumpkin, cabbage and pandanus.  Major produce items such as coconuts, banana and pumpkin are brought in from the islands of Abaiang, Marakei and Butaritari whereas cabbages, cucumbers, and melons are produced mainly by small household gardens in South Tarawa and Betio.  Breadfruit, an important food crop which is perishable and would not ship well is collected on Tarawa. Boiled coconut toddy and vinegar are also produced in households in Tarawa.

The giant root taro *(babai)* and the local fig products are not available in the Tarawa markets even though these are the starchy crops that can effectively compliment rice and flour consumptions in Tarawa.  From this survey and former researches, it became clear that handling the two produce is cumbersome, taking long hours to cook.  The small bean-sized fruits of the local fig take many hours and stages to cook.  As they are boiled, they still cannot be eaten straight as they need to be blended and sweetened.  The giant swamp taro and Colocasia taro, also takes time to prepare and cook.  Because of the time taken to prepare these food crops they are not very popular in the busy urban Tarawa area.  This probably accounts for their general absence from the Tarawa food outlets. Rice, because of its convenience to transport, store and prepare, has successfully replaced these local starchy foods as the main staple in the diet.

Toddy products like syrup are produced mainly in the outer islands, but are very rarely seen in the Tarawa markets.

Table 1 records locally grown foods sold in Tarawa on a daily basis during January 2011. The data was collected over a period of six days in one week and averaged to calculate daily means. The data has been used to assess the effectiveness of the Import Levy freight subsidy and to show the variety and quantity of food items that are available in the Tarawa market in daily basis.  The one-week period of collection may be seen as very short but nevertheless, the data provides, in a snapshot, the kind of scale the Tarawa Food Markets operate on.

Data records on the freight subsidy indicate that in 2010, 3090 bunches of banana (estimated to be equivalent to 33,990kg[1], about 34 tonnes) received freight subsidy for transport from the outer islands to Tarawa.  However data presented in Table 1 indicates that on average 678 kg of banana are sold daily in Tarawa markets being equivalent to an estimated annual total (based on 6 days trading) of around 195 tonnes.

The difference between the quantity sold on the market and that mobilised with the subsidy is 161 tons.  This is a huge difference.  The subsidy helped mobilised only 34 tons of bananas from the outer islands to Tarawa while 161 tons were transported by private operators without financial assistance.

[1]Taking the average weight of a banana bunch as 11kg.

**Table 1: Tarawa Daily Produce Record (Average produce sold out every day)**

| | Village/town | | | | | |
|---|---|---|---|---|---|---|
| Produce | Bikenbeu | Eita | Ambo | Bairiki | Betio | **Totals** |
| **Breadfruit (pieces)** | 40 | | 20 | 14 | | **74** |
| **Pawpaw (pieces)** | 6 | 5 | 8 | | | **19** |
| **Y Coconuts (pieces)** | 30 | | 18 | | | **48** |
| **Coconut (pieces)** | 180 | 55 | 45 | | 900 | **1180** |
| **Banana (kg)** | | 12 | 6 | 60 | 600 | **678** |
| **Cabbage (pieces)** | | 30 | 6 | 45 | 20 | **101** |
| **Cucumber (pieces)** | | 15 | 10 | 5 | 10 | **40** |
| **Tomato (pieces)** | | | 5 | 5 | 4 | **14** |
| **Melon (kg)** | | 23 | 15 | 14 | | **52** |
| **Green Pepper (kg)** | | | | | 5 | **5** |
| **Eggplant (kg)** | | | 7 | | 5 | **12** |
| **Pumpkin (kg)** | 25 | | 20 | | 100 | **145** |
| **Pandanus (pieces)** | 1 | | | 4 | 4 | **9** |
| **Lemon (kg)** | | | | | 2 | **2** |

The same picture is apparent when one looks at the quantity of the pumpkin, another prescribed produce listed in the freight subsidy. The subsidy data indicates that there were 1070 pumpkins with average weight of 4kg per piece mobilised in 2010. This is estimated to be equivalent to around 4 tonnes of pumpkin transported to Tarawa market from the outer islands in 2010 which received subsidy. But market data in Table 1 indicates that there is on average 145kg of pumpkin sold out daily in Tarawa, equivalent to around 42 tonnes per year. The difference of 38 tonnes is also very substantial and represents the pumpkin quantity that operators handled by themselves without the help of the freight subsidy.

The largest product volume sold on the Tarawa market is for coconut, but this is not a prescribed product to receive the freight subsidy. Currently only two products, banana and pumpkin, are eligible under the freight levy scheme and only 19% of the banana transported and 9% of pumpkin received subsidy support in 2010. Clearly the cost in setting up and running the food market in urban Tarawa is still borne largely by the farmers and traders.

### Capacity for food crop production on the outer islands

**Figure 2: Inside main market in Bikenibeu village, Tarawa**

As mentioned earlier, there are no production statistics for agriculture crops throughout the whole of Kiribati. The only data available is gleaned from the 2005 Population Census and provides a 'snapshot' of the percentage of households in the survey that is growing particular crops (Table 2). This data can be used as a weak proxy for the capacity of household food production in the outer islands.

The main reason for presenting the data is to help construct the picture of the food production base and capacities of each of the islands so as to see the potential for internal trade and/or trade to the capital, Tarawa. Though this table shows most of local produce available in Kiribati, it lacks data on the pumpkin, a key commodity alongside the banana that is currently supported under the freight subsidy scheme.

The data in the table could be interpreted to give some indication of the potential of the different islands to produce certain farm products to help build local supply systems to ensure food security and to market surplus to supply urban markets in Tarawa.

However, if the freight subsidy is going to play a significant role it will need to be expanded to cover additional food products.

**Table 2: Percentage of households cultivating crops on each island in Kiribati**

| Island | Total house holds | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Banaba** | 61 | 67% | 15% | 28% | 25% | 90% | 87% | 0% | 10% | 5% | 8% |
| **Makin** | 328 | 93% | 92% | 78% | 73% | 55% | 61% | 29% | 16% | 11% | 5% |
| **Butaritari** | 561 | 92% | 87% | 67% | 74% | 62% | 84% | 38% | 16% | 4% | 7% |
| **Marakei** | 473 | 79% | 79% | 63% | 60% | 44% | 54% | 37% | 14% | 9% | 9% |
| **Abaiang** | 853 | 95% | 77% | 77% | 81% | 69% | 43% | 41% | 27% | 3% | 9% |
| **NTarawa** | 867 | 96% | 80% | 82% | 58% | 61% | 30% | 19% | 18% | 4% | 14% |
| **STarawa** | 5,245 | 80% | 55% | 51% | 39% | 65% | 39% | 5% | 11% | 6% | 12% |
| **Maiana** | 354 | 97% | 77% | 81% | 74% | 63% | 39% | 28% | 15% | 2% | 3% |
| **Abemama** | 592 | 95% | 70% | 74% | 74% | 74% | 42% | 55% | 24% | 15% | 9% |
| **Kuria** | 202 | 98% | 80% | 67% | 69% | 74% | 28% | 18% | 21% | 2% | 18% |
| **Aranuka** | 211 | 98% | 80% | 63% | 78% | 80% | 30% | 5% | 15% | 1% | 6% |
| **Nonouti** | 540 | 91% | 67% | 65% | 79% | 65% | 23% | 21% | 25% | 3% | 3% |
| **NTabiteuea** | 573 | 96% | 68% | 73% | 63% | 66% | 16% | 21% | 13% | 1% | 3% |
| **STabiteuea** | 262 | 92% | 59% | 71% | 68% | 59% | 24% | 12% | 14% | 6% | 5% |
| **Beru** | 464 | 92% | 72% | 85% | 68% | 55% | 26% | 11% | 9% | 1% | 6% |
| **Nikunau** | 335 | 91% | 80% | 87% | 50% | 63% | 27% | 6% | 10% | 23% | 20% |
| **Onotoa** | 332 | 95% | 67% | 88% | 81% | 41% | 11% | 29% | 25% | 1% | 3% |
| **Tamana** | 196 | 64% | 76% | 45% | 52% | 44% | 20% | 1% | 6% | 0% | 3% |
| **Arorae** | 241 | 97% | 83% | 79% | 90% | 80% | 31% | 64% | 54% | 5% | 4% |
| **Teeraina** | 198 | 95% | 86% | 89% | 79% | 49% | 38% | 20% | 26% | 0% | 3% |
| **Tabuaeran** | 438 | 93% | 79% | 83% | 75% | 68% | 62% | 48% | 37% | 1% | 4% |
| **Kiritimati** | 702 | 84% | 50% | 51% | 74% | 72% | 22% | 2% | 12% | 4% | 6% |
| **Kanton** | 9 | 89% | 78% | 67% | 0% | 78% | 67% | 0% | 11% | 0% | 0% |

***Source: 2005 National Census***

## Implementation of the Freight Subsidy

The freight subsidy is established from the Import Levy (Special Fund) under the Laws of the Gilbert Islands (1977). The arrangement in collecting this fund is through the imposition of the Import Levy upon all goods imported into the country by ship at a rate of AU$12 per cubic metre or per 875 kg of imported goods. In 1990, this Act was amended and the rate was increased to AU$25 per cubic metre or per 875 kg of imported items.

The purpose of the Special Fund is twofold; (1) to meet sea freight costs of imported goods when transported and distributed to the outer islands and (2) to meet sea and air freight costs of commercial foodstuffs and handicrafts from outer islands to Tarawa and freight costs of the same items when transported between the islands or to Tarawa. The reasons for financing these two areas are: (a) to stabilize the price of imported goods when sold in the remote islands of Kiribati and (b) to encourage people in the outer islands to engage in commercial activities such as selling of foodstuffs (food crops) and handicrafts to the markets in Tarawa.

In the interview with the representatives from the Revenue Section and the National Statistics Office of the Ministry of Finance and Economic Development, it was pointed out that on an annual basis the Government, from the collection of the Import Levy (refer to Annex 3), allocates AU$150,000 to subsidize sea and air freight of commercial local produce transported to South Tarawa from the outer islands. It was also indicated in the interview that government policy on this subsidy is not well promulgated to the rest of the islands in Kiribati. In 2010, it was recorded that government only managed to disburse AU$13,226.42 amongst a few active traders (refer to Annex 4 for details). The rest of the allocation, AU$136,773.58, was used to finance the transport of commercial imported goods from Tarawa to the outer islands thus supplementing the separate allocation for this line of trade.[2]

The freight subsidy policy though meant to boost economic activities in the outer islands and food production to supply the needs of the urban centre, currently appears substantially ineffective. At present the subsidy only covers limited produce items including banana, pumpkin and exotic vegetables, but does not include other commercial food crops like the giant swamp taro *(babai),* the local figs, breadfruits, coconuts and a wide variety of fresh and dried marine products. Furthermore, the subsidy is currently benefiting only a very few traders, mainly Rereiti and Etau Trading of Butaritari Island. Imart, which at the earlier stage of this survey seemed active, is now focusing only on vegetables grown in Tarawa and those imported from overseas and have no more interest in getting the produce from the outer islands. The owner of Imart reported that importing the crops from the outer islands is a very costly business especially with the unpredictable changes in ships' schedules; the ever changing freight rate offered by shippers and in the freight cost itself of the items. The freight subsidy in its current form is not sufficient to motivate the Imart to continue purchasing produce from the outer islands.

Whilst the freight subsidy fund is well administered with adequate preventative measures to avoid malpractice and wrong payments, it appears not to be effectively targeting freight supplies from the outer islands to Tarawa. Table 3 (for full data details refer to Annex 4) indicates the level of subsidy payments. In 2010 only 5 traders made use of this subsidy, and only $13,266 was dispersed out of a total allocation of $150,000:

[2] Government has a separate Allocation under Freight Levy Fund to finance the transport of commercial imported goods from Tarawa to the outer islands. The allocation seems to be insufficient to finance this line of trade as Government also relies on this Special Fund to fund other shortfalls every year.

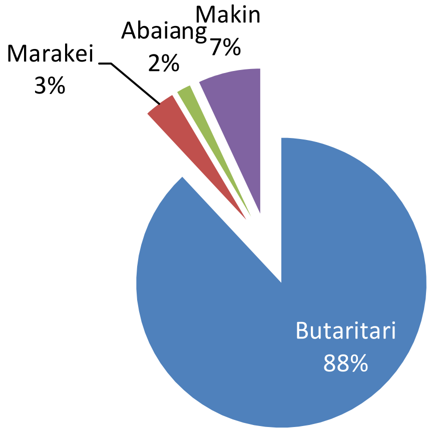
**Table 3: Freight Subsidy Refunds in 2010**

| Name of Trader | Amount Refunded (AUD$) in 2010 |
|---|---|
| Etau Kitina | 4,769.50 |
| Makin Is. Council | 873.60 |
| Katokauea Rerentaake | 258.42 |
| Ioakim/Rereiti | 7,299.90 |
| Aana Eritaia | 25.00 |
| **TOTAL** | **$13,226.42** |

Rereiti (also known as Ioakim) is a very active operator and  has plans to expand its food crops business and to increase the volume of produce from the islands of Butaritari and Abaiang.  Though the subsidy provides some contribution, it was mainly the increasing volume demanded and and the level of markup that Rereiti employs that allows them to succeed without much dependence on the subsidy.  However the increase in retail price of these produce to recover freight costs translates into high prices affectng the consumer.

The distrbution of the islands benefitting from this subsidy is as shown in Chart 1 below.

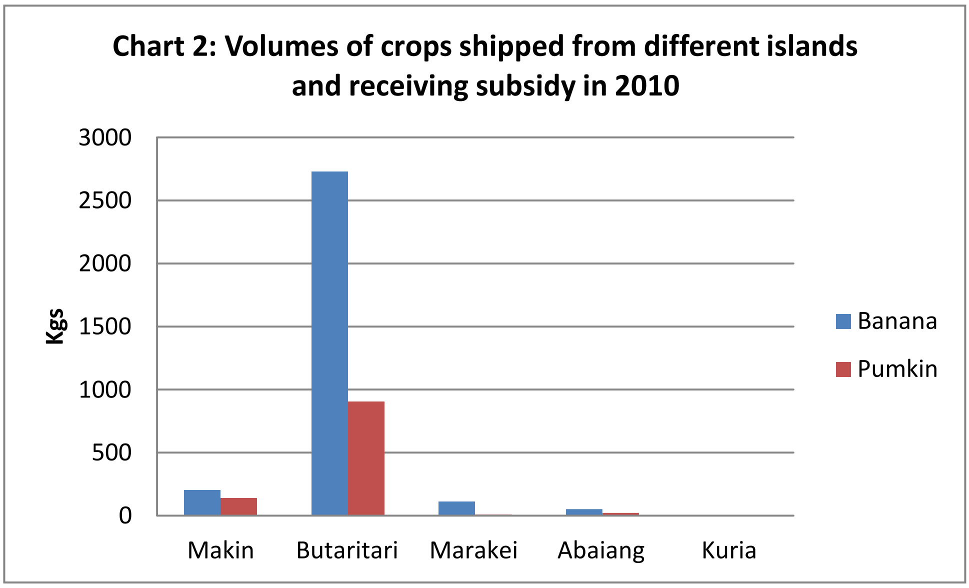
**Chart 1: Proportion of subsidy paid to crops from different islands in 2010**



The capacity of the islands in terms of banana and pumpkin trading also varied and Butaritari is leading all islands in its production and trading capacity of these two food crops, as shown in the Table 4 and Chart 2 below:

**Table 4: Quantities of Banana and Pumpkin shipped and that received subsidy in 2010.**

| | Makin | Butaritari | Marakei | Abaiang | Kuria |
|---|---|---|---|---|---|
| **Banana (bunches)** | 202 | 2726 | 111 | 51 | Unclear |
| **Pumpkin (pieces)** | 138 | 903 | 8 | 20.5 | Unclear |




Conversion unit used: Banana Bunch = average weight of 11kg per bunch.
Pumpkin Piece = average weight of 4kg a piece.

In 2011, the Finance Department introduced a form which the traders are required to complete in order to get their subsidy refunds (a sample form is shown in Annex 5). Along with the duly filled form, the claimants have also to attach all shipping documents including the 'bill of lading' and the receipts for cargo charges. Without these documents the refunds will not be paid out.

The Accountant General in the Finance Department indicated that there is an urgent need to increase the freight levy so that both subsidy areas (imported freight goods shipped to the outer islands and local produce shipped back to Tarawa) are adequately serviced and promptly paid from the Levy Fund. Currently the Levy Fund is quick to run out resulting in claims waiting for long periods before the refunds are made available. There are times the import levy (collected by Customs) flows in too slowly to replenish the subsidy fund, resulting in traders having to collect their refunds after 3 to 4 months of waiting. Authorities consider that payments could be made quicker if the levy is increased or else the

Levy Fund is supplemented from other sources. The latter is more favoured as the former would mean an increase in import duties and a general increase in prices of imported foods across the country.

### Traders experiences with the freight subsidy

The data from the Ministry of Finance indicates that trade from Butaritari is the main area currently benefiting from the subsidy. However, information gathered from the traders also showed other island trade is important, but it is currently not benefiting from the subsidy. Rereiti , the main supplier of banana and pumpkin on the Tarawa markets is also buying from Abaiang which is just 38 kilometres away from Tarawa. She indicated that she buys coconut at the rate of 120kg a fortnight and also buys salted fish, and considers the island as an additional source to Butaritari for supplies. In terms of banana and pumpkin, Rereiti reported that on a monthly basis they received 200 bunches of Banana and 100 pieces of pumpkin from Abaiang and Marakei. However these trade goods are not benefiting from subsidy payments from the Ministry of Finance because of two main reasons:

(1) Most vessels travelling between Tarawa and Abaiang are small and some of them do not provide receipts for passengers and cargo. Shippers just directly collect the fares for each item, whereas the ships serving the longer routes (e.g. to Butaritari) have proper documentation. The lack of appropriate documentation means that Rereiti and other traders using the small boats plying the Abaiang routes are not able to collect the Freight Subsidy;

(2) Coconut and salted fish, the other important goods being traded, are not eligible items under the freight Subsidy scheme.

Rereiti stressed the point that local foods have great potential on the local markets in Tarawa and most of the time they engage in the business without reliance on the subsidy. The payment system is disappointingly slow, the claims they have lodged could take six months or even a year before the refunds are paid out. Furthermore, the new form claimants are required to fill implies additional work to do and the form is in English making it difficult for her workers to fill it in on time. Because of these administrative difficulties Rereiti manages to operate with or without the freight subsidy, but this ultimately means that freight costs are recovered through the selling price that the consumers pay.

A further difficulty for traders is that some private shipping companies charge more than the freight rate set by government. The Ministry of Finance, however, cannot pay refunds beyond the set rates for banana and pumpkin. Because of this traders tend to recover their costs through higher prices for the consumers

The system in place to pay out the freight subsidy is considered so cumbersome and unfriendly to operators that KHLP does not try to collect the subsidy. All other operators are also expressing the similar frustrations.

All of these operators use ships to transport their produce, but Rereiti at times has used the plane to bring in her bananas. The subsidy however is only providing 50% of total airfreight cost, and is more expensive than rates for sea freight.

### The price structure of the main items involved in trade

Table 5 provides information on prices of goods in the outer islands and on the Tarawa markets and indicates the level of the mark-up imposed on goods when sold in Tarawa. It is apparent that there is a healthy margin gained by the traders even when they meet their own freight costs.

**Table 5: Price of Produce in the Outer Islands and in Tarawa**

| Prices of Local Foods | | | | | |
|---|---|---|---|---|---|
| Banana | | Pumpkin | | Coconut | |
| In Outer Islands | Selling Price in Tarawa | In Outer Islands | Selling Price in Tarawa | In Outer Islands | Selling Price in Tarawa |
| $1/kg | $3/kg | 0.80/kg | $2.50/kg | 10c a piece<br>$2/rice bag[1] | 50c a piece<br>$10/rice bag |

[1] 20 pieces in a rice bag *Sources: Rereiti Ioakim and Etau Kitina June 2011.*

**Table 6: Freight Rate of Local Produce from Outer Islands**

| Ship Freight Rate of Local Produce | | |
|---|---|---|
| Banana | Pumpkin | Coconut |
| From Butaritari to Tarawa = $3.90 a bunch | From Butaritari to Tarawa = $1.00 a piece | From Butaritari to Tarawa = $3.00 a bag |
| From Makin to Tarawa = $3.90 a bunch | From Makin to Tarawa = $1.00 a piece | From Makin to Tarawa = $3.00 a bag |
| From Marakei to Tarawa = $3.90 a bunch | From Marakei to Tarawa = $1.00 a piece | From Marakei to Tarawa = $3.00 a bag |
| From Abaiang to Tarawa = $3.00 per bunch | From Abaiang to Tarawa = $1.00 a piece | From Abaiang to Tarawa = $2.00 a bag |

***Sources: Rereiti Ioakim and Etau Kitina June 2011 and confirmed by Teriantebunginako Shipping Company. July 2011.***

**Example 1**

1) Average weight of Banana bunch = 11kg;
2) Freight rate for this bunch between Butaritari and Tarawa = $3.90 a bunch;
3) Purchase price of 1 bunch of Banana to farmer in Butaritari = $1/kg = $11/bunch;
4) Selling price of banana in Tarawa market = $3/kg or $33/bunch;
5) **Without the subsidy**, the margin of profit is **$22/bunch** ($33-$11) **or around $2/kg** ($22/11kg);

6) **With the subsidy**, the margin of profit is **$25.90** ($22+$3.90) **or around $2.35/kg** ($25.90/11kg)

**Example 2**

1) Average weight of pumpkin per piece = 4kg/piece;
2) Freight rate per piece is $1.00 which is around 0.25c/kg (4kg/$1.00);
3) Purchasing price of pumpkin in Butaritari = $0.80/kg or around $3.20/piece;
4) Selling in price in Tarawa is $2.50/kg or around $10 a piece;
5) **Without the subsidy**, the margin is **$5.80 per piece** ($3.20 [.80 x 4kg] + $1.00/piece freight = $4.20: $10 [$2.50 x 4kg] - $4.40) or around **$1.40 a kg** ($5.80/4kg);
6) **With the subsidy**, the margin is **$6.80** a piece almost similar to **$1.70 a kg** ($6.80/4kg).

Currently trader's margins appear quite high even if the freight subsidy is used. This implies the subsidy is currently not effectively transferred to lower prices of local foods in the Tarawa market. It is clear that the traders benefit more from the freight subsidy scheme.

The price ranges used in these calculations collected from Rereiti are similar to those at the Etau's outlet and for products sold out at the Kiribati Handicrafts and Local Produce Ltd (KHLP).

**Figure 3: The Butaritari banana is filling up the Tarawa Markets.**

### Freight refund claims

The subsidy can only be paid out after the operators have duly filled the form, attached all official receipts, airline or ship bill of lading and documents, as stated in the Act. The two active operators; Rereiti and Etau Kitina are well established by local standard and due to their familiarity with the freight subsidy requirements, they find it quite manageable to get their refunds though many of their payments from last year are still pending as the Fund is yet to be replenished for the year 2011. Other smaller operators find the system very unfriendly and cumbersome. Their registration number is needed, their licence number is also required and of course the Refund Form and all shipping documents and receipts. Also most shipping services do not provide manifests, especially in services between Tarawa and Abaiang. The delay and difficulty in getting the refunds eventually leads small-scale operators to either move ahead without accessing the subsidy or to discourage them from the trading in commodities from the outer islands.

Another major problem is the early depletion of the allocation under the Freight Subsidy for local produce. Furthermore, the usual practice has been that government quickly resorts to use this allocation to replenish the allocation meant for transporting commercial imported goods from Tarawa to the outer islands. Additionally, owing to the cumbersome claim arrangement, many claims are piled up and withheld by the Ministry of Finance.

Data from the attached records (Annex 4) indicate that the local produce traders only managed to access AU$13,226.42 out of the $150,000 (turn to %) allocation while the rest was expended on imported commercial goods transported to the outer islands. This may be construed to mean that government is more import oriented in the freight subsidy policy implementation.[3] Indeed, the Accountant General confirmed that the priority is imported foods because import levies are the main source of funds for the Subsidy Fund. Local produce do not contribute to the Subsidy Fund under the Freight Levy Act.

### The future of the Freight Subsidy

The Government of Kiribati is very mindful of the 2004 food outcry saga when the rice and flour suddenly ran out of stock in the country due to miss-scheduled cargo ships from abroad. Also the soaring prices of fuel and foods that followed in 2008 shook the nation hard as the people were not ready for it, especially in populous Tarawa. These shocks served to alert the government and the people of Kiribati and instilled in them the reality that they are at the disposal of ups and downs of the global economy. Government continues to consider ways of revitalizing the production and popularity of local foods as a key way to counter this food security problem. Agricultural programmes have been stepped up with assistance from development partners such as the Food and Agriculture Organization of the United Nations, SPC and the Government of Taiwan.

[3] The picture here also shows Government's discomfort in relying heavily on the capacity of outer islands in food production to feed the populous South Tarawa and hence its swift decision to support the transportation of imported commercial goods to the outer islands with this $150,000 allocation.

The traders and market vendors in the food sector are also mindful of their important role in ensuring food security in the country. The Rereiti is one leading business which has gained confidence in this food business and while they will try to move forward they request for government's real commitment to assist them. While the subsidy is there, a key issue is to improve its management and administration so that the funds are available and easy to pay out at all times.

**Figure 4: In the Tarawa Food Markets most breadfruits are sold out cooked. This is part of efforts to improve the convenience of local foods so busy people in Tarawa can buy them.**

The Accountant General advised that a new Task Force is to be formed by end of July 2011 with the main aim to review the current Freight Subsidy to see areas of weaknesses and to effectively find solutions to them. The Task Force will also consider additional ways of replenishing the Subsidy Fund to an adequate level, but without increasing the price of local foods in the Tarawa market. The Task Force will also review the Freight Levy Act, as basis of the Subsidy, to find ways to include other commercial food items including marine dried products.

The Secretary for Finance informed that the World Bank has provided AU$2million as assistance towards the Freight Subsidy. The $2million allocated for the project will be used to meet two main components; Technical Assistance to review the Freight Subsidy and the Freight Levy Act; and a contribution $800,000 to the Subsidy Fund.

**Summary of Findings**

The flow of foods from the outer islands to urban Tarawa is slowly picking up despite the policy on freight subsidy to increase and food production and food flow from the outer islands to urban Tarawa. The data sets that have been discussed in this Report have shown the large volume of produce flowing into Tarawa without the assistance of the subsidy. The recent food crisis that hit Kiribati plus negative effects of the mis-scheduled shipment of imported foods to Kiribati that have badly struck the country resulting in prolonged periods of food shortage mainly in South Tarawa and Betio, are clear evidence of the policy's shortfall. Clearly the capacity for local food production and marketing is not yet ready to feed the nation!

Whilst there are a handful of traders benefiting from the subsidy, the overall impact of the policy is minimal as the majority of the local produce operators and consumers in South Tarawa, Betio and in the outer islands are not helped. Also the Act, through the selection of certain food items, dictates the direction to which operators have to focus their business. The demand in Tarawa is more towards starchy food crops and food items to compliment rice and flour but the Freight Subsidy policy does not facilitate trade of key commodities like *babai,* breadfruits and coconuts, as they are not covered in the Act.

## Conclusions and Recommendations on Ways Forward for the Policy

Food security is the major issue in South Tarawa especially with the frequent shortages and high prices of rice and flour. The policy therefore needs to embrace all factors that will foster both food production and the commercial returns of operators in the supply chain. The freight subsidy is intended to increase flows of foods produced on the garden islands into the urban markets in South Tarawa, thereby increasing food availability and access to urban consumers and the improved returns to producers in the outer islands.

There are three areas identified in this survey as ways forward to boost food access and availability in urban Tarawa and returns to farmers in the outer islands. Firstly, Government needs to increase awareness of the Freight Subsidy mainly to people in the outer islands and to produce traders in South Tarawa, who act as middlemen. The lack of awareness and understanding of this subsidy leads to the under-utilization of the Fund by all operators. This is substantiated by the subsidy data which records only five claimants in a year. Secondly, the system surrounding the collection of freight claims needs to be made simpler and more user-friendly to operators. With relatively few operators it should not be difficult to improve the fund procedures to better serve them. Thirdly, to avoid shortfalls in the fund, the annual freight subsidy allocation needs to be substantially increased and restricted to subsidising freight of local produce from the outer islands and should not be used to supplement the allocation for freight of imported commercial foods to the outer islands.

Finally, there is an urgent need to review the current Freight Levy Act and the range of crops eligible for the subsidy. The food items currently prescribed for in the Act are just banana and pumpkins and this is not enough to satisfy food security problems in Tarawa. In order to strengthen food security and encourage creation of extra cash earning amongst the people of Kiribati, it is recommended that the subsidy policy is broadened so it can also cater for more commercial food items. A plan to set up the Task Force is a positive development and should start as early as possible.

The freight subsidy could play a part in laying the foundation of the internal trade systems in Kiribati but this would be more effective and efficient if the government facilitates the setup of one central wholesale market to receive all produce from the outer islands. With this envisaged picture, the central market could easily handle all the refund tasks with the managers of the Freight Subsidy[4].

If government considers the views of traders expressed during this survey regarding the pain they are experiencing in getting their claims and their suggestions on how to improve and foster the access to the freight subsidy, the impact could be could be a more workable system. However it should also be essential to facilitate access to the fund by a wider number of traders to ensure good market competition leading to more affordable local foods being available on the Tarawa markets.

[4] The idea of establishing a central market is already accepted by the Ministry of Finance and Economic Planning according to the information gathered from the Accountant General. The funding of the World Bank towards the freight subsidy, would also involve costs of a special Task Force to be setup that will work towards turning the Kiribati Handicraft and Local Produce Company Ltd into this envisaged central market.

## References

**FAO (2010)** Enhancing evidence –based decision making for sustainable agriculture sector development in Pacific Island Countries, Report of an FAO Expert Consultation Meeting held in Nadi, Fiji 20-22 October, 2010, FAO Sub-regional Office for the Pacific Islands

**Rogers, S.T. (2010)** Agriculture Data: Report on a scoping study in six Pacific Island Countries, FAO Sub-regional Office for the Pacific Islands.

## Other Sources of Information

**Emergent Economics (2010)**, Republic of Kiribati Diagnostic Trade Integration Study Draft Report November 2010

**Kiribati Government (2010)** Budget, National Planning Office Bairiki, 2010

**Kiribati Government (2005)** Finance Statistics, National Statistics Office, 2005

**Kiribati Government (2010)** Freight Refund Record, Ministry of Finance,. 2010

### Market Informants

| | | | |
|---|---|---|---|
| *1* | *Rereiti Ioakim* | *9* | *Mauria Viane* |
| *2* | *Tabia Kabwaua* | *10* | *Teaonno Reebaoi* |
| *3* | *Roote* | *11* | *Ieremia Taun* |
| *4* | *Ueenikai* | *12* | *Marenuea Mangouea* |
| *5* | *Teue* | *13* | *Toorenga* |
| *6* | *Aonibaa Ierimoa* | *14* | *Etau Kitina Trading Rep* |
| *7* | *Rotiina Reiti* | *15* | *I-Mart Rep* |
| *8.* | *Katuri* | | |

### Official Informants

#### Ministry of Finance and Economic Development

1. Secretary of Finance: Atanteora Beiatau
2. Accountant General: Tekiera Ruaia
3. Senior Accountant Revenue Section: Teiraoi Nabetari:
4. Economist, Budget Section: Kaanong Tatoi

5. Deputy Director, National Statistics Office: Jenny Rimon:
6. Accountant, Accounting Unit: Titau Ekebati:

**Ministry of Environment, Lands and Agricultural Development**

7. Principal Agricultural Officer: Tokintekai Bakineti: