Banking in Kiribati and Tuvalu

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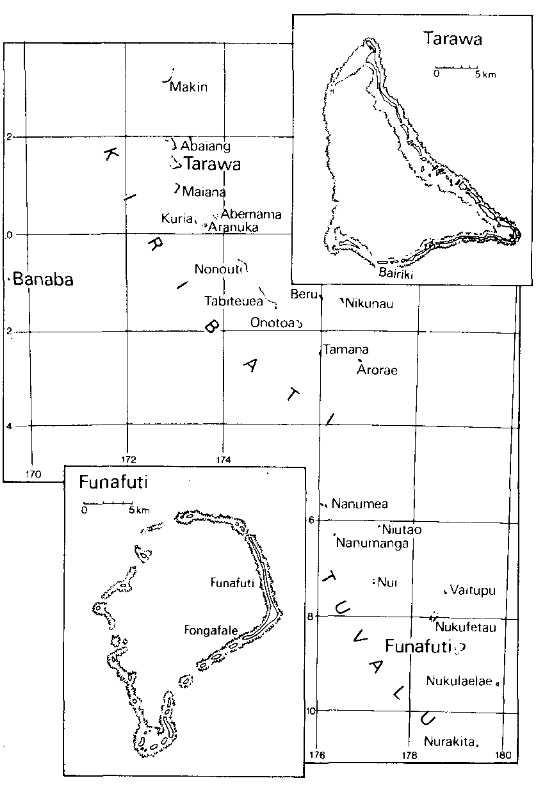
The banking structure in Kiribati and Tuvalu is based on the premise that an efficient financial system is essential for economic development. The functions of marshalling and allocation of financial resources are fundamental building blocks in a developing economy.

However, providing banking services in locations like Kiribati and Tuvalu is a challenge. There are a number of difficulties to contend with including isolation, small fragmented markets, narrow economic bases, and cultural considerations. Each of the two countries has only one bank: the Bank of Kiribati (BOK) and the National Bank of Tuvalu (NBT). Both of these banks are joint ventures between the government of each country and Westpac Banking Corporation. Each of them fulfils all the functions of a financial system: central banking, commercial banking, etc.

Kiribati and Tuvalu



Bank of Kiribati

The Bank of Kiribati is a joint venture between Westpac Banking Corporation with a 51 per cent shareholding and the government of the Republic of Kiribati, with a 49 per cent shareholding. It was established in 1984 to take over the banking business being conducted in Kiribati by Westpac Banking Corporation that had been providing banking services in Kiribati since 1970. It is a full service bank, providing a complete range of banking services: savings accounts, cheque accounts, personal and commercial advances, international services, etc.

The Republic of Kiribati consists of three main groups of islands spread over a vast area of ocean measuring approximately 4000 kilometres by 2000 kilometres. While one-third of the population of approximately 68,000 people live in the capital, Tarawa, each of the groups is inhabited and the bank is obliged to service the entire country. To achieve this, the bank operates a network of four branches and twenty private agencies. While this coverage is costly it is vital to the isolated communities. The BOK employs sixty personnel and is the largest private sector employer in Kiribati. Of this number, only five are expatriate personnel.

Its assets now exceed A$34 million and it achieved a net profit of A$808,402 in 1989 (Table 1).

Table 1 **Bank of Kiribati Ltd** (A$'000)

	Total assets	Deposits	Advances	Profit after tax
1985	29,677	27,747	1,065	663.1
1986	33,176	30,185	1,610	844.4
1987	34,575	31,248	2,334	790.8
1988	32,133	28,501	3,982	553.6
1989	34,383	28,542	4,403	808.5

Source: Bank of Kiribati Ltd.

National Bank of Tuvalu

The National Bank of Tuvalu was established by an Act of Parliament in 1980. Originally a joint venture between the government and Barclays International, Westpac purchased the Barclays shareholding in 1985 and assumed management responsibility. The government has a shareholding of 60 per cent and Westpac, 40 per cent. It is a full service bank operating a main branch (in Funafuti) and seven agencies. All except one island has an agency. This is fairly extensive representation given a population of only 9000. The NBT employs seventeen people of whom only one, the general manager, is an expatriate.

The NBT has also enjoyed a successful history. Its assets now exceed A$10 million and net profits in 1989 exceeded A$310,000 (Table 2).

Table 2 **National Bank of Tuvalu** (A$'000)

	Total assets	Deposits	Advances	Profit after tax
1985	8,095	6,941	616	243.0
1986	8,967	7,534	1,089	310.4
1987	8,821	7,116	1,641	300.7
1988	9,068	7,644	2,136	203.8
1989	10,312	8,613	2,889	310.6

Source: National Bank of Tuvalu

The commercial bank as a central banker

The situation of one bank performing the dual roles of central bank and commercial bank is becoming rare in modern times. There is a tendency for small countries to establish central banks, independent from the rest of the financial system, and nominally independent of the government. This is frequently done with little regard for the requirements of the country or prevailing economic circumstances. More attention should be paid to the real needs of these economies before an attempt is made to provide them with such institutions.

Kiribati and Tuvalu provide good examples of the problems. Both are small, narrowly based and unsophisticated economies. The GDP of Kiribati in 1987 was A$32 million, providing a per capita GDP of A$480. In Tuvalu, while recent data is not available, GDP is estimated to be approximately A$5–6 million, giving a GDP per capita of approximately A$600. Each has a largely subsistence economy, a very small commercial sector and, in each case, the public sector accounts for the largest proportion of GDP.

Each country has been willing to use the Australian dollar as its national currency and, therefore, their banks are relieved of the functions of currency issue and management of exchange rates. They recognize that operating a separate currency is expensive, and being small economies heavily dependent on international trade (they only produce a small part of their requirements, imports making up a large part of their consumption) they cannot hope to follow an independent exchange rate or other international policy. Both banks issue coinage but this is more a matter of national identity.

Insofar as they implement discretionary monetary policies, these may be effectively formulated by the respective finance or economic ministries and implemented through the banks. The governments have sufficient control over these banks (through shareholding and legislative power), to ensure that policy directives are followed. Incidentally, if the banks do not pursue government approved policies the management agreements may be terminated and Westpac's shareholding acquired with only twelve months notice.

The complexity of supervision of the financial sector is obviously minimal. The BOK and NBT are the primary players in their respective financial systems, the only other players of any importance are development financing authorities. This does not obviate the need for supervision or prudential regulation but it does indicate that the government and political processes are adequate to supervise the system and that a separate central banking institution would be superfluous.

Perhaps the only argument for the establishment of an independent central bank is that central banking may be a profitable operation and the bank can afford to gather data and engage in statistical analysis. Both the BOK and NBT are ideally placed to fulfil this function, all important financial transactions ultimately pass through these banks. Therefore, the data required by various government departments (e.g. balance of payments, government financing, trade, and most investment and financial savings statistics) may be compiled easily.

As the only external intermediaries, the BOK and NBT are also well positioned to enforce any exchange controls that their governments may impose.

The remaining central bank function and the one that most concerns the BOK and NBT is that of banker to the government. It is not inconsistent with a normal banker–customer relationship. With the government's influence over these banks, it is not a relationship that can be exploited.

This includes the management of international revenue and, by implication, the investment of it internationally to maximize returns. Where a government-owned central bank performs this function, the profits (or losses) from this activity accrue solely to the central bank and by extension to the government. In Kiribati and Tuvalu, the profits are shared between the government and Westpac. However, most of the profits ultimately accrue to the governments. The governments also earn interest on the counterpart deposits to the Banks' reserve assets. In effect, the BOK and NBT collect a management margin: a cost that is much less than the operating costs that would be incurred by an independent central bank.

In small economies, many much larger than Kiribati and Tuvalu, the volume of financial transactions is too small to make it possible for a separate central bank and a commercial bank to operate economically. By combining both functions in one institution, a small, but adequate, staff can provide the financial services to the economy that are essential for development, but otherwise would not be available or would entail excessive costs.

Expatriate personnel and training

Westpac is sensitive to the aspirations in all developing nations to localize as many jobs as possible. It is also sensitive to the fact that maintaining unnecessarily large numbers of expatriate personnel is costly. There is, therefore, a convergence of local and foreign interests. Hence, it is not surprising that the policies of BOK and NBT are designed to achieve localization. This principle is incorporated in the management agreements of each bank.

The commitment to this objective is evidenced by the relatively small number of expatriate personnel directly employed by each bank. However, the contractual obligation to ensure provision of suitably experienced and qualified management must be balanced against the objective of minimizing the number of expatriate personnel. To date, this has meant that some key positions have been retained by expatriates. It is only in this way that Westpac may contribute its experience and expertise to these banks, connect them to Westpac's international network and in doing so fulfil its obligations under the management agreements. It is not in anyone's interest to prematurely localize all positions.

With the localization objectives, training is obviously a high priority. This is provided both on the job and at Westpac's training college in Suva. On site training is supported by specifically tailored resource material and qualified instruction. Key people, including management trainees, are regularly sent to the Suva facility for specific training, often supplemented with work experience in Westpac's Fiji operations.

Benefits provided by the joint ventures

The motives behind Westpac's involvement are obvious. It hopes to make a profit. This is consistent with Westpac's regional strategy which places special emphasis on the South Pacific, demonstrated by the eleven-nation network of branches and affiliates that it has built up.[1]

Kiribati and Tuvalu also obtain benefits, including the following.

- The local workforce receives training and development.
- Westpac brings to the islands modern management practices and banking procedures which are based on those employed in its own Pacific organization.
- Westpac has been careful to deliver appropriate technology. Both banks operate with computer systems developed and designed in the Pacific islands (in conjunction with Westpac) to meet the needs of small stand-alone banking operations within the region.

1 Cook Islands, Fiji, French Polynesia, Kiribati, New Caledonia, Niue, Solomon Islands, Tonga, Tuvalu, Vanuatu, Western Samoa.

- Access is given to the international banking system through Westpac's network and correspondent banking arrangements.
- The banks gain full administrative support from Westpac's Pacific Islands Division and are able to draw on the resources of the entire Westpac organization. Support includes finance and accounting, legal, personnel and training, marketing, economic advice, systems and management.
- The BOK and NBT benefit from the scale economies achieved by the larger Westpac organization. Neither bank has the critical mass to achieve these benefits independently.

The benefits are not restricted to the banking ventures. Each country benefits from the infusion of modern management practices and technology. The benefits are transferred in many ways, for example by the banks' relationships with clients and by the movement of bank trained personnel into other organizations.

Westpac is not the only organization that could deliver these benefits. It indicates that selective joint venture arrangements with external corporations can be beneficial to developing nations and that the benefits may extend beyond the particular venture. It may be suggested that this type of joint venture could serve as a model for other industries in Kiribati, Tuvalu and other developing nations.

Conclusion

The Bank of Kiribati and The National Bank of Tuvalu are successful and could well serve as models for banking or other business ventures in small developing nations. Healthy joint venture arrangements are the key factor behind the success of the banks. This has enabled Kiribati and Tuvalu to benefit from the resources of a major international bank but at the same time, to develop individual banks sensitive to the needs of their own domestic environments.