



REPUBLIC OF NAURU

2020-21 BUDGET

BUDGET PAPER NO 2

CIRCULATED BY

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MINISTER FOR FINANCE OF THE REPUBLIC OF NAURU

ON THE OCCASION OF THE BUDGET 2020-21

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Conventions used in this document:

- All amounts are expressed in Australian dollars, unless otherwise stated
- Due to rounding, there may be minor discrepancies in the totals shown in tables
- Exchange rate conversions assume USD1=AUD1.6 unless otherwise stated.

2020-21 BUDGET

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OVERVIEW

This budget paper provides more detail on the economic outlook, economic statistics, State Owned Enterprises (SOEs) and the National Sustainable Development Strategy (NSDS).

ECONOMIC OUTLOOK

The short and medium term economic outlook for Nauru is highly uncertain. Arrangements for the continuation of the Regional Processing Centre (RPC) are only confirmed until December 2020, and the impact of the Covid-19 pandemic on Nauru and world economic conditions remains unclear.

According to the April 2020 IMF World Economic Outlook, growth in Nauru slowed in 2019 and will contract by 1.7 percent in 2020, before recovering in 2021 in line with expectations for global economic conditions.

KEY ECONOMIC STATISTICS

This part provides more detail on the national accounts, consumer prices, trade and labour force statistics. The services sector has now replaced phosphate exports as the main source of economic growth. Consumer price rises are around 1.2 percent year on year (December 2019), and Nauru continues to run a balance of trade deficit, reflecting the decline in phosphate exports. Australia, Fiji and New Zealand are the major sources of imports.

A mini-census was conducted in 2019. In summary, of those aged between 15-59 years, 62 percent were employed, and 38 percent not specified, and considered unemployed. Of the employed, public sector entities (RON Government and SOEs) accounted for 63 percent, with the Private Sector, 31 percent, and Other 1 percent.

RON Government and Other have a higher proportion of females employed than SOEs and the Private Sector. Of the Not Specified group, there were more females than males. In the dependency groups, there were more males aged between 0-14 years than females, but this switches around for high school and the over 60's groups, where there are more females than males.

STATE OWNED ENTERPRISES

The performance of the State owned enterprise (SOE) sector is expected to improve over 2020-21, with the implementation of the new *Public Enterprise Act 2019*, and Community Service Obligation (CSO) regime. Management changes at the SOEs following the 2019 election are mostly complete, and the new management teams are focussed on improving corporate planning and performance. The future of the RPC remains a key risk for all these businesses.

Consistent with the global aviation industry world-wide, travel restrictions related to Covid-19 are expected to have a significant impact on Nauru Airlines' performance. Government cash flow support through the new CSO to cover revenue foregone to keep air-freight services available and affordable,

and to invest in the aircraft freighter conversion should support income earned from freight services. Further investments in replacement aircraft for the ageing fleet are also being considered.

The performance of those SOEs not exposed to the travel industry is expected to continue to improve, as they build and grow their businesses with new investment and improved governance.

NATIONAL SUSTAINABLE DEVELOPMENT STRATEGY

Progress continues to be made against key development priorities across all sectors. Overall, development funds have reduced as key donors change delivery modalities, notably in the health sector.

Key challenges remain around expenditure prioritisation and implementation capacity.

PART 1: ECONOMIC OUTLOOK

Nauru's short and medium term economic outlook is highly uncertain, given Nauru's dependency on the future of the RPC and the unknown impact of Covid-19 on Nauru.

Arrangements with Australia related to the RPC are not settled beyond December 2020. It is expected that the number of refugees who reside in Nauru will continue to decline, and the Australian Government will support Nauru to maintain an 'enduring capability' to process and manage asylum seekers and refugees into the future.

There continues to be high uncertainty on the actual level of support that will be provided associated with an enduring capability, and bi-lateral negotiations are continuing between the Australian Government and Nauru.

The RPC is a key driver of economic activity on Nauru. The 2019-20 Budget was framed in a similar uncertain environment. Prior to the election in August 2019, agreement was reached with the Australian Government to extend RPC arrangements to 30 June 2020. This agreement underpinned higher than originally expected economic activity through the rest of the year until the Covid-19 outbreak affected international travel in March 2020.

The economic impact of the Covid-19 outbreak has not been as strong as first expected. Nauru has not yet had an active case. Travel restrictions and strict quarantine arrangements have contributed to keeping Nauru Covid-19 free, since they were introduced with the declaration of a National Emergency on 16 March 2020.

Government is the main source of employment and aggregate demand in Nauru. The Government's economic response to Covid-19 has been to support economic activity through maintaining business as usual government operations and facilitating affordable air freight services to mitigate food and supply risks. It also scaled up health preparedness activity with the purchase of medical and testing equipment and supplies, as well as progressed building works at the hospital and the upgrade of quarantine facilities.

The Government also met quarantine related costs for the compulsory two week residential quarantine including, accommodation, food and security costs. As of end of May 2020, testing facilities are now available to reduce the quarantine period to less than a week. This will significantly reduce the cost of doing business in Nauru, as the quarantine and travel restrictions have impacted on contractor and consultant costs and availability, as well as delaying sea cargo and fuel supplies.

Food and supply risks have been accentuated with Covid-19. These have emerged due to the delay in Nauru's usual cargo ship visit from the scheduled visit in March until end May, as well as increased sea freight costs. Travel restrictions have cut flights to Fiji, and reduced the Brisbane service to fortnightly passenger flights and once weekly cargo flights. Some retail stores and businesses have been impacted by the reduction in stock available to sell, and trading hours have been reduced. These should recover once supplies are again available.

Travel restrictions and availability of materials have also impacted on the construction industry and the ability to move ahead with key projects, especially with the loss of expatriate workers. The main

one being the Port Project. The Port Project is expected to be suspended for up to six months until travel and supply conditions normalise. The project is now expected to be completed by the end of 2021, one year later than originally scheduled.

The Government has provided cash flow support to Nauru Airlines to ensure continued passenger and freight services, as well as subsidised some air freight capacity to ensure a regular supply of essential medical, food and other items. It also sponsored a freight barge from Brisbane with key equipment to support the Port Project as well as food and other supplies. This support has been enabled by re-prioritising expenditure.

Government revenues have not been significantly impacted by Covid-19. Whilst revenue from travel related charges is down, this has been more than offset by other revenue streams, especially fisheries and taxation revenue. The impact of the loss of expatriate workers on taxation receipts has been minimal.

Government expenditure has remained at business as usual levels, with re-prioritisation to cover Covid-19 related expenditure increases. Businesses and households have been impacted by food and supply shortages, but this is expected to be short term, and should be alleviated once sea freight services resume a more normal pattern – expected now that Covid-19 quarantine restrictions are starting to ease on the back of reliable testing regimes.

As of May 2020, Nauru had not had a case of Covid-19. If there is an outbreak, the impact on the local population is expected to be catastrophic, given the underlying health issues with the majority of the population, house overcrowding and limited health resources. Accordingly, Nauru is expected to continue to be risk averse in its approach to managing its border for the foreseeable future.

The Treasury uses the IMF World Economic Outlook to inform its forecasts of economic activity. Economic activity in Nauru is expected to moderate over the rest of 2020 due to Covid-19 and recover in 2021 as global economic activity increases.

Table 1.1: Key Economic Indicators

Item	2018-19	2019-20	2020-21
Real GDP Growth (per cent change)	1	-1.7	1.3
Nominal GDP (\$A million)	167.4	164.6	169.1
Consumer prices (period average, per cent change)	3.9	1.5	1.7

Source: IMF World Economic Outlook April 2020

The April 2020 World Economic Outlook assumes a baseline of no local outbreak of Covid-19 and projects growth at -1.7 percent in 2020. The projection reflects a decline in port construction activity from supply chain disruptions, a contraction in services from the departure of expatriate workers and the negative impact of domestic containment measures that include a near-total ban on international flights and strict quarantining of all entering passengers.

Factors mitigating the growth impact of the pandemic include the softening of commodity prices, particularly fuel, and the significant size of the public sector as a source of aggregate demand and employment. This includes the impact of the Government's fiscal response to the pandemic.

Growth is expected to recover in 2021 as local and global containment measures ease, and construction and fishing activities resume. The decline in fuel and other commodity prices will alleviate pressure on the external accounts in 2020. Price rises are expected to stay under 2 per cent.

Risks to the outlook are skewed to the downside, given the implications of a Covid-19 outbreak in Nauru, and the capacity of the health sector to manage it.

External downside risks include a more protracted global slowdown from the pandemic that would further hamper demand for fishing licenses and negatively impact fiscal revenues. Volatility in global commodity prices could raise additional downside risks for fishing activity.

Nauru has been investing significantly in infrastructure and port development projects. Extended containment efforts and supply chain disruptions could delay these projects further with a stronger-than-expected impact on domestic activity.

The medium-term outlook depends on the level of RPC activity in the future, fishing revenues, and completion of infrastructure projects. A scaling down of activities associated with the RPC will reduce budget revenues. With limited access to borrowing, fiscal spending may have to adjust accordingly, and inflation is projected to remain low, in line with the slowdown in the economy, inflation in Australia, and low commodity prices.

PART 2: ECONOMIC STATISTICS

This part provides more detail on economic statistics. It covers:

- National accounts
- Consumer prices
- Trade statistics
- Labour force statistics.

Nauru became a full member of the International Monetary Fund (IMF) in April 2016, and became the 189th country member to join. Membership of the IMF supports Nauru's economic management through improved data collection. Statistical data requirements are primarily related to economic statistics comprising System of National Accounts (SNA) for deriving the Gross Domestic Product (GDP), Balance of Payments (BOP), Government Financial Statistics (GFS), Consumer Price Index (CPI) International Merchandise Trade Statistics (IMTS) and Labour Force Statistics.

NATIONAL ACCOUNTS

The last SNA update was undertaken during an IMF Pacific Technical Assistance Centre (PFTAC) mission in May 2019 to assist the Nauru Bureau of Statistics (NBS) improve the quality of national accounts and price statistics, and culminated in finalised of the National Account report in January 2020. The SNA estimate was made in line with the standards and recommendations in the UN's System of National Accounts, and thus comparable with estimates made elsewhere using the same system.

As described in the National Accounts Report, Nauru is at a point of transition with a decline in phosphate mining and the activity associated with the Regional Processing Centre (RPC) for asylum seekers. New sources of economic growth and income are needed to support Nauru's development agenda.

In FY2018, growth picked up to 5.7 percent boosted by RPC related activity, fisheries, and preparations for the Pacific Island Forum, but then slowed in FY2019.

Despite improved economic performance in recent years, Nauru continues to face challenges in sustaining growth and ensuring fiscal sustainability due to its limited sources of growth and income. The country is also vulnerable to climate change, its ageing infrastructure hampers trade and growth, and its health indicators are below those of peers due to high incidence of non-communicable diseases.

Table 2.1. shows historic GDP performance and compares the IMF projections from the January Article IV report to the April 2020 World Economic Outlook.

Table 2.1: Gross Domestic Product at constant prices (percent change) 2010-2021

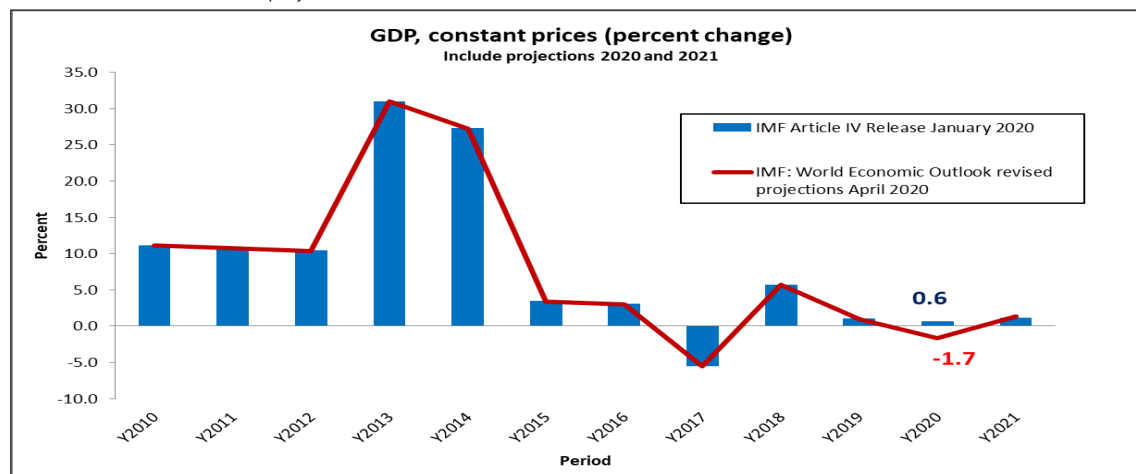
Note: Year 2020 and 2021 are projections

GDP at constant prices (percent change)	Y2010	Y2011	Y2012	Y2013	Y2014	Y2015	Y2016	Y2017	Y2018	Y2019	Y2020	Y2021
IMF Article IV Release January 2020	11.1	10.8	10.4	31.0	27.2	3.4	3.0	-5.5	5.7	1.0	0.6	1.1
IMF: World Economic Outlook revised projections April 2020	11.1	10.8	10.4	31.0	27.2	3.4	3.0	-5.5	5.7	1.0	-1.7	1.3

Source: IMF/PFTAC 2019 Article IV – Press Release, and April 2020 IMF World Economic Outlook (WEO)

Chart 2.1: Gross Domestic Product at constant prices (percent change) 2010-2021

Note: Year 2020 and 2021 are projections



Source: IMF/PFTAC 2019 Article IV – Press Release, and April 2020 IMF World Economic Outlook (WEO)

Chart 2.1 above includes the latest revised projection from the IMF World Economic Outlook published in April 2020, and reflects the impact of the Coronavirus pandemic on world economic growth. Economic activity in Nauru is expected to moderate in 2020 and recover in 2021 as global economic activity increases.

The slow-down in 2020 reflects:

- decline in port construction activity from supply chain disruptions
- contraction in services from the departure of expatriate workers
- negative impact of domestic containment measures that include a limited travel ban on international flights and strict quarantine measures of all entering passengers.

There are also factors mitigating the growth impact of the pandemic effect in Nauru. These include the softening of commodity prices, particularly fuel, and the significant size of the public sector as a source of aggregate demand and employment.

Figure 2.1: Social and Economic Indicators (include revised projections 2020-2021)

GDP (FY2018 est.) (in millions of Australian dollars)		160		Poverty		24 percent (2013)	
Per capita GDP (FY2018 est.) (in Australian dollars)		12,120		Life Expectancy at Birth		60.4 years (2011)	
Population (FY2018 est.)		13,201		Total fertility rate		4.3 births per woman (2011)	
				Infant mortality rate		29.9 per 1,000 live births (2013)	
				Adult literacy rate		96.5 2011	

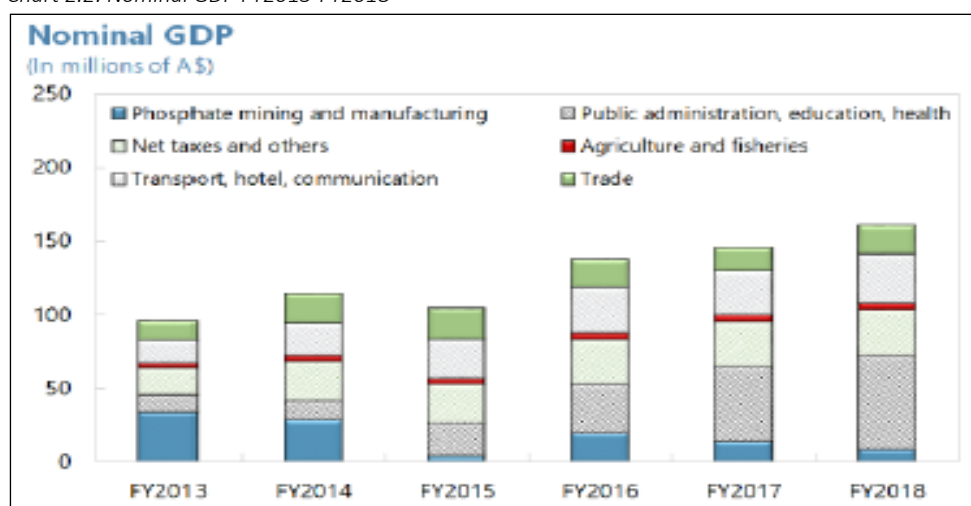
Sources: Data provided by Government of Nauru; and IMF staff estimates and projections. IMF World Economic Outlook (WEO) revised April 2020

GROSS DOMESTIC PRODUCT (GDP) FY2013-FY2018

The following charts are sourced from the IMF Article IV Report in January 2020.

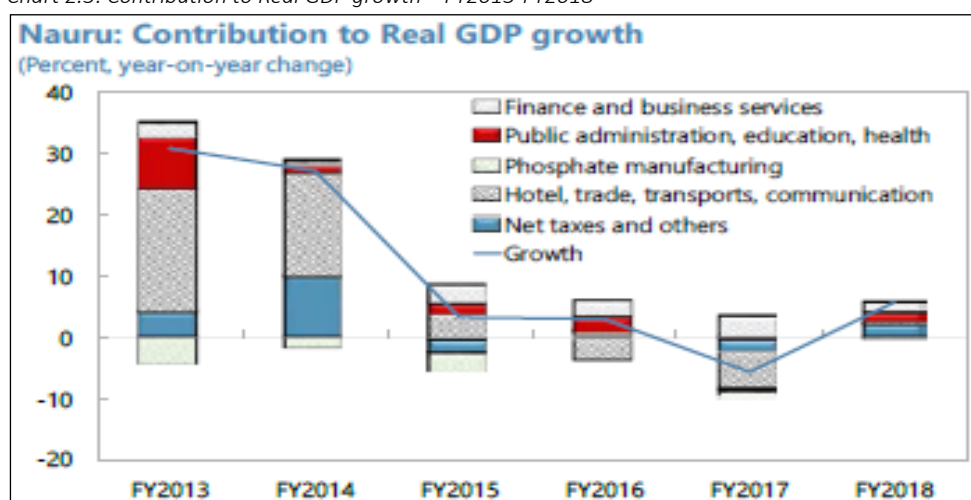
The charts illustrate that recent economic activity has been driven by the trade and service sectors, related to the operation of the Regional Processing Centre (RPC). The services sector has now replaced phosphate mining and manufacturing as the main source of growth.

Chart 2.2: Nominal GDP FY2013-FY2018



Sources: Nauru Authorities, and IMF staff estimates and projections, IMF Article IV Report January 2020

Chart 2.3: Contribution to Real GDP growth – FY2013-FY2018



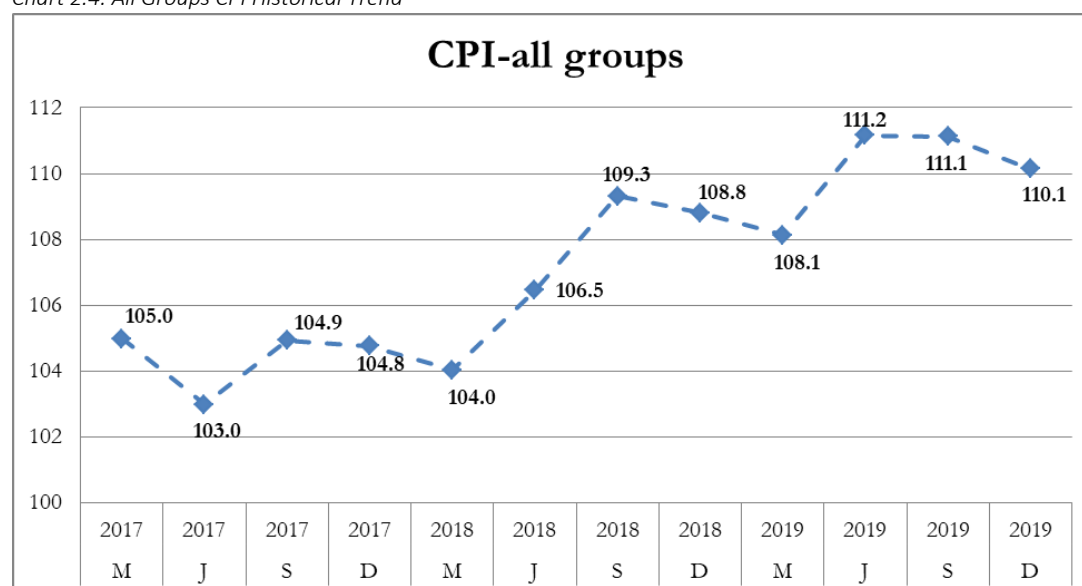
Sources: Nauru Authorities, and IMF staff estimates and projections, IMF Article IV Report January 2020

Economic activity in FY2018 reflected a higher than expected refugee presence, alongside strong fishing activity and preparations for hosting of the Pacific Island Forum. In FY2019 these factors have moderated, with RPC operations winding down, and no major events occurring.

CONSUMER PRICE INDEX

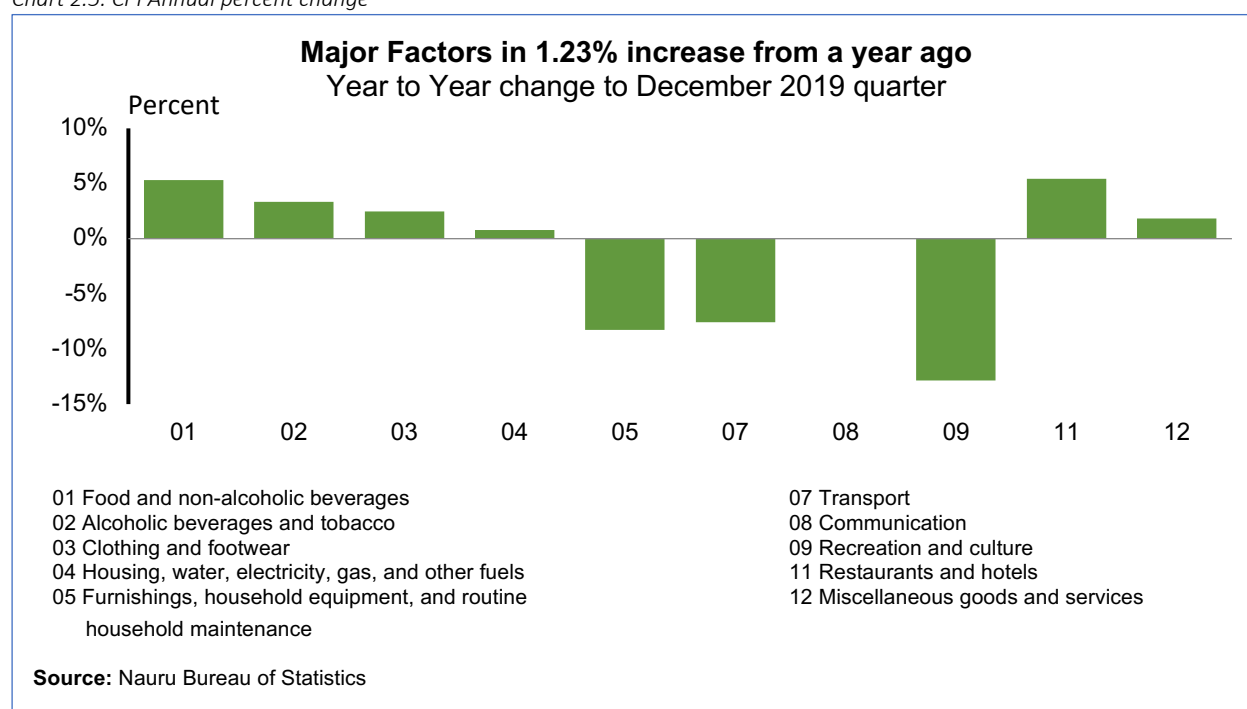
The most recent Consumer Price Index (CPI) data is for the December quarter 2019. With reference to Chart 2.4, consumer prices peaked in January 2019 and began to decline through the year, in line with reduced economic activity. However, year on year, prices were higher in December 2019 than December 2018 (Chart 2.5).

Chart 2.4. All Groups CPI Historical Trend



Source: Nauru Bureau of Statistics

Chart 2.5. CPI Annual percent change



Six of the ten divisions in the CPI contributed the year on year increase in prices, with Restaurants and Hotels registering the largest increase (up 5.41 percent):

- Food and non - alcoholic beverage (up 5.31 percent)
- Alcohol beverages and tobacco (up 3.35 percent)
- Clothing and footwear (up 2.49 percent)
- Miscellaneous goods and services (up 1.84 percent)
- Housing, water, electricity, gas and other fuels (up 0.78 percent).

Downward pressure on CPI came from the divisions:

- Recreation and culture (down 12.88 percent)
- Furnishings, household equipment and routine household maintenance (down 8.30 percent)
- Transport (down 7.56 percent).

A breakdown of individual upward contributions during the year came from:

- Reef fish (up 100 percent)
- General Saltwater Fish (up 66.7 percent)
- Drink mix (refresh, vita fresh, cool-c, Kool-Aid, tang) (up 26 percent)
- Women - shoes. (up 21.32 percent)
- Frozen Lamb products (up 20.7 percent).

Individually, the main downward contribution came from lower prices for mens trousers (down 32.90 percent). Lower prices were also recorded for:

- Laundry soap (down 28.18 percent)
- Potatoes (down 22.60 percent)
- Petrol (down 21.09 percent)
- Diesel (down 20.15 percent).

Annual price change for Alcohol beverages and tobacco group

For the year to the December 2019 quarter, Alcohol beverages and tobacco prices rose 3.35 percent. An increase in the price of cigarettes (up 4.89 percent) while spirits and beer remained unchanged.

Summary of other group movements in the quarterly CPI

In the December 2019 quarter, prices in the Transport group decreased 7.56 percent, attributed to the slight decline of tyre prices (21.09 percent) and petrol (20.15 percent). Food and non-alcohol beverages increased 3.35 percent and is mainly attributed to growth from Reef fish (up 100 percent) and General Saltwater Fish (up 66.7 percent). The Recreation and Culture group decreased 12.88 percent as a result of drop in prices for televisions (down 11.69 percent), whereas Clothing and Footwear increased 2.49 percent influenced by women's shoes (up 21.32 percent) and boys trousers (up 13.62 percent).

The Miscellaneous goods and services group also increased 1.84 percent, influenced by bathing soap (up 16.67 percent) and deodorant (up 10.97 percent). Furnishings, household equipment, and routine household maintenance group decreased 8.30 percent, driven by laundry soap (down 28.18 percent). Communications group remained stagnant for this quarter.

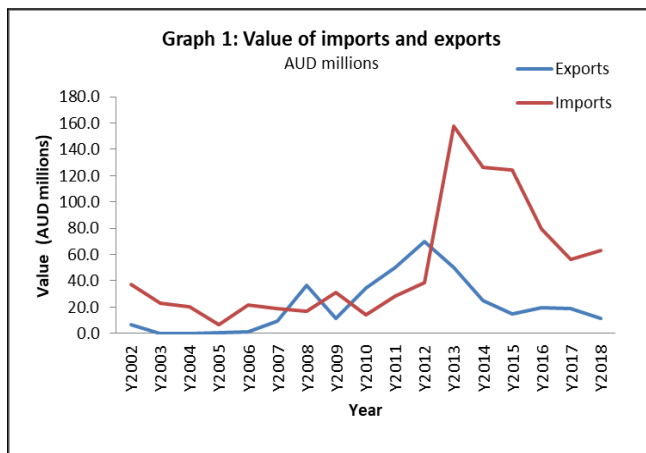
TRADE STATISTICS

The Nauru Bureau of Statistics uses data sources from partner country and mirror data to compile Nauru's International Merchandise Trade Statistics (IMTS) on an annual basis, and will continue doing so until such time it is able to source data from Nauru Customs.

Nauru's major trading partner countries of consignment are Australia, Fiji and New Zealand. The following analysis were sourced from the IMTS latest release prepared by the Nauru Bureau of Statistics and technical assistance from the Secretariat of Pacific Community (SPC) Statistics Division.

Provisional International Merchandise Trade Statistics (IMTS) 2002-2018

Value of exports and imports

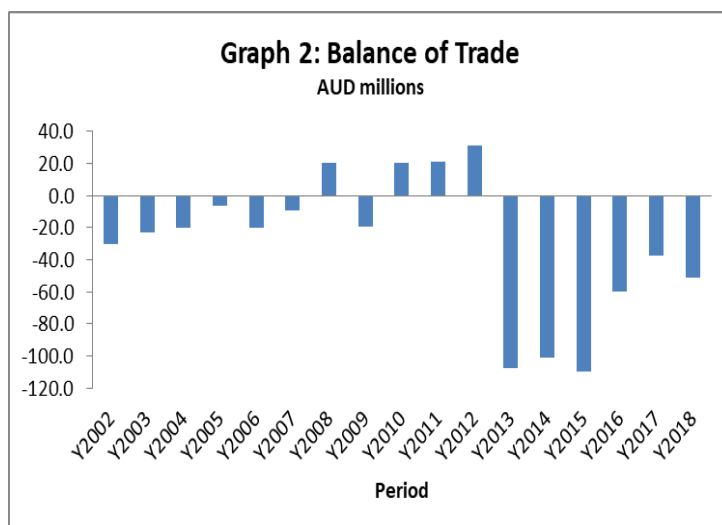


Annual IMTS from 2016 to 2018 compared to earlier years shows a general slowdown.

Exports: Considerable decline in the exports of phosphate by 2018 is responsible for the declining trend in exports. When compared to 2015, exports in 2016 grew by 33.2 percent and stood at \$19,537. Exports in 2017 compared to 2016 declined by 3.1 percent and stood at \$18,925 in 2018 compared to 2017 declined by 37.8 percent and stood at \$11,772.

Imports: Completion of major construction projects saw imports decline in 2016 and 2017. In 2016, it declined by 35.9 percent compared to 2015 and stood at \$79,608. It took a further dip of 29.0 percent in 2017 compared to 2016 and stood at \$56,499. However, in 2018 imports increased by 11.7 percent over 2017 and stood at \$63,116; this increase was driven by the imports of mineral fuel.

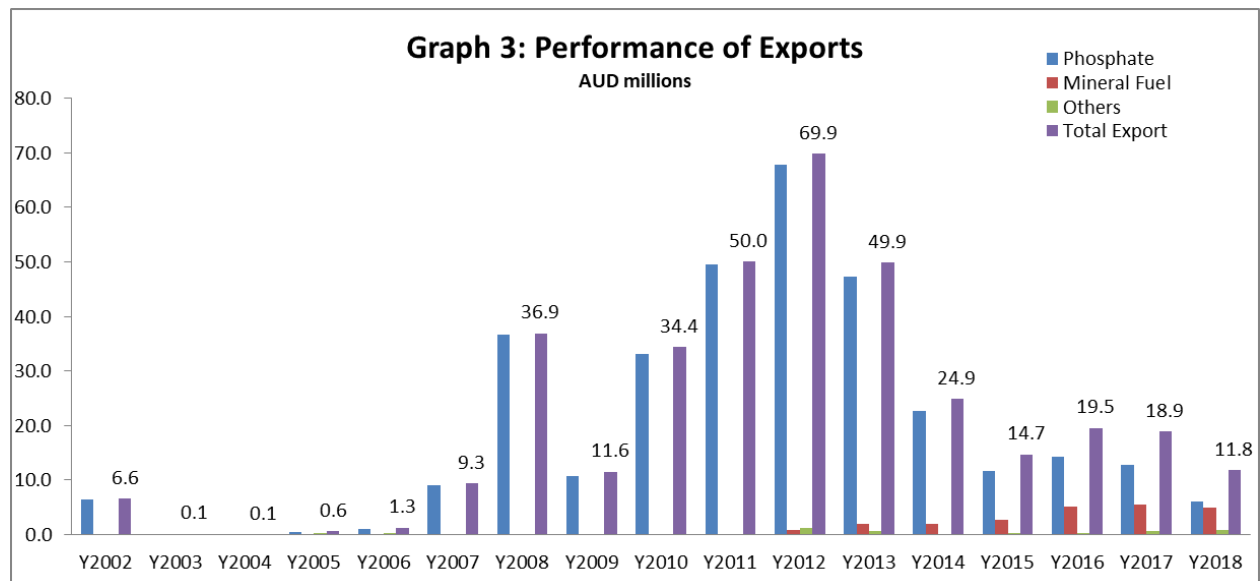
Balance of trade



From a trade deficit of \$109.5m in 2015, the deficit improved to \$60m in 2016 and \$37.5m in 2017 but worsened in 2018 to stand at \$51.3m.

The reasons in the movement of imports and exports will become clearer from the analysis below on principal exports, re-exports and imports.

Performance of exports and re-exports



Exports: Phosphate is the most important export of Nauru, but earnings have declined significantly since peaking in 2012, as shown in Graph 3. In 2016 it stood at \$14.2m; an increase of 22.4 percent over 2015. It stood at \$12.8m in 2017; a decline of 10.0 percent over 2016. It further declined by a significant 53.3 percent in 2018 to stand at \$5.9m. Exports of phosphate is on the decline because of a slowdown in its production and exhaustion of primary reserves.

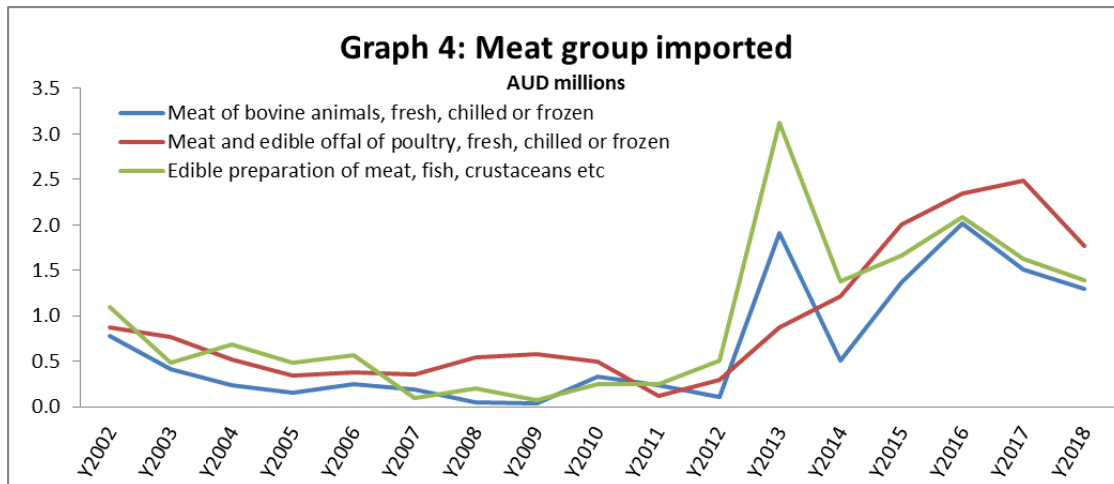
Re-export: Fuel is the single most important commodity re-exported. In 2016, it stood at \$5m which was an 83.2 percent increase over 2015. It stood at \$5.4m dollars in 2017 before declining in 2018 to stand at \$4.9m. An important component of it is the Jet A1 fuel sold to visiting aircraft. As can be seen from Graph 3 data on fuel is only available from 2012.

Performance of imports

Imports have declined considerably since 2015 when it stood at \$124.1m to \$63.1m in 2018. The higher imports prior to 2016 were mainly due to the:

- re-construction of the Regional Processing Centre (RPC) which had burnt down,
- construction of accommodation for the RPC security officers from Australia,
- construction settlements, other construction and repair, maintenance work, and
- the presence of more people on the island e.g. RPC residents being integrated into society, Australian security guards, non-resident construction workers, refugees and asylum seekers.

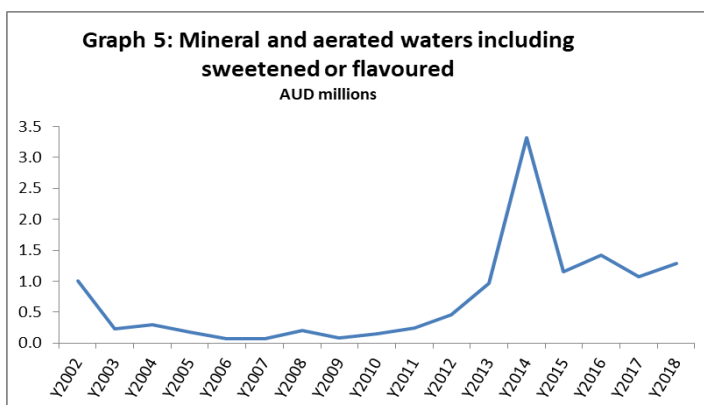
With the RPC moving out of its construction phase, imports have declined. A reason for fluctuations in imports reflects the stock build-up of commodities e.g. in the case of imports of mineral and aerated waters including sweetened or flavoured - refer to Graph 5.



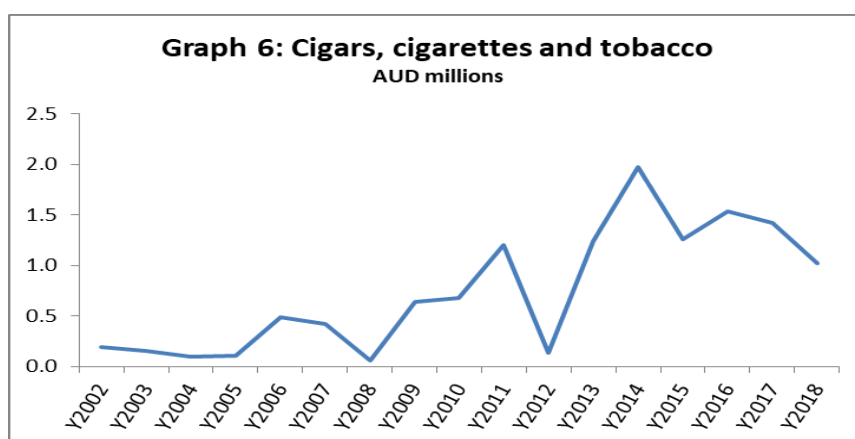
Meat of bovine animals, fresh, chilled or frozen Imports of meat of bovine animals, fresh, chilled or frozen stood at \$2m in 2016; an increase of 47.4 percent over 2015. 2017 registered a decline of 25.2 percent over 2016 and 2018 registered a further decline to just \$1.3m.

Meat and edible offal of poultry, fresh, chilled or frozen Imports of meat and edible offal of poultry, fresh, chilled or frozen rose steadily from 2011 to a peak of \$2.5m in 2017 before declining in 2018.

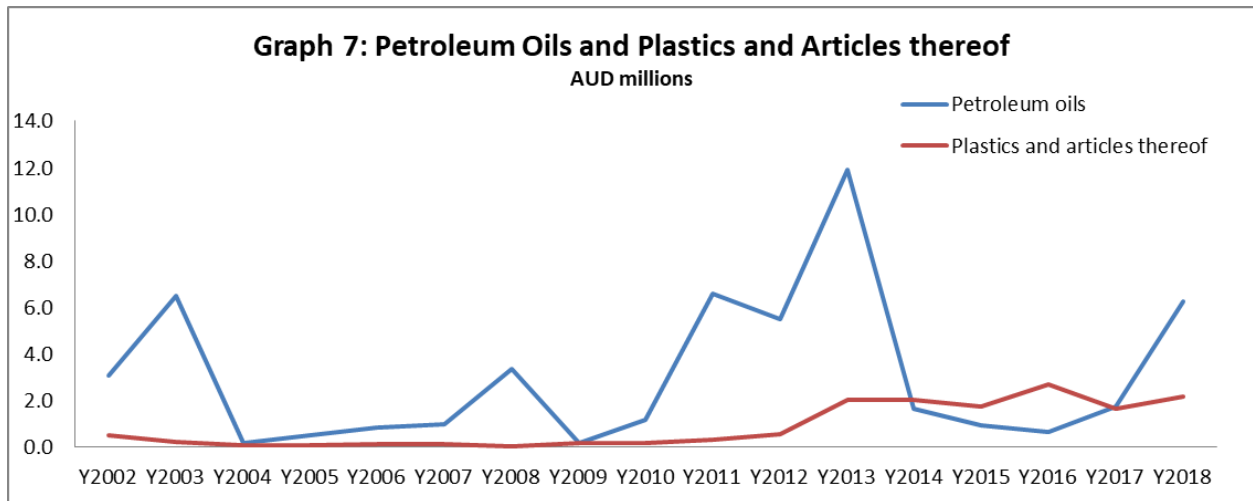
Edible preparation of meat, fish, crustaceans Imports of edible preparation of meat, fish and crustaceans spiked in 2013 before moderating to \$1.4m 2018.



Mineral and aerated waters including sweetened or flavoured. After imports of mineral and aerated waters including sweetened or flavoured peaked in 2014, value of total imports moderated to \$1.3m in 2018.

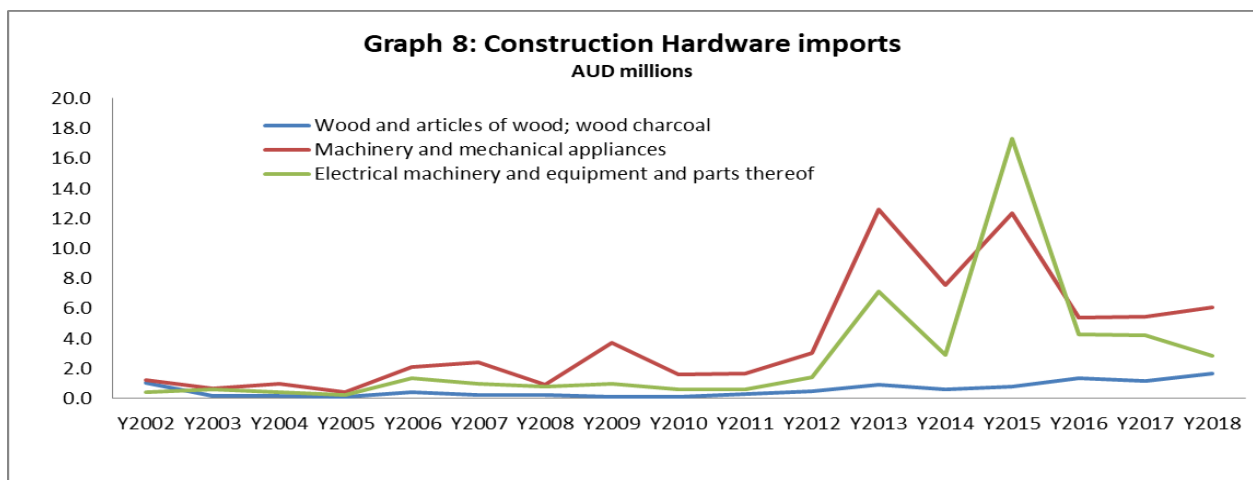


Cigars, cigarettes and tobacco Imports of cigars, cigarettes and tobacco peaked in 2014 and declined to \$1.0m dollars. 2018.



Petroleum oils Imports of petroleum oils stood at \$0.6m dollars in 2016; a decline of 30.1 percent over 2015. Thereon it registered significant increases: 2017 registered an increase of 168.0 percent over 2016 and stood at \$1.7m dollars and 2018 registered an increase of 262.1 percent and stood at \$6.3m dollars. Petroleum oil is an important commodity needed to generate electricity and provide clean water to the people of Nauru.

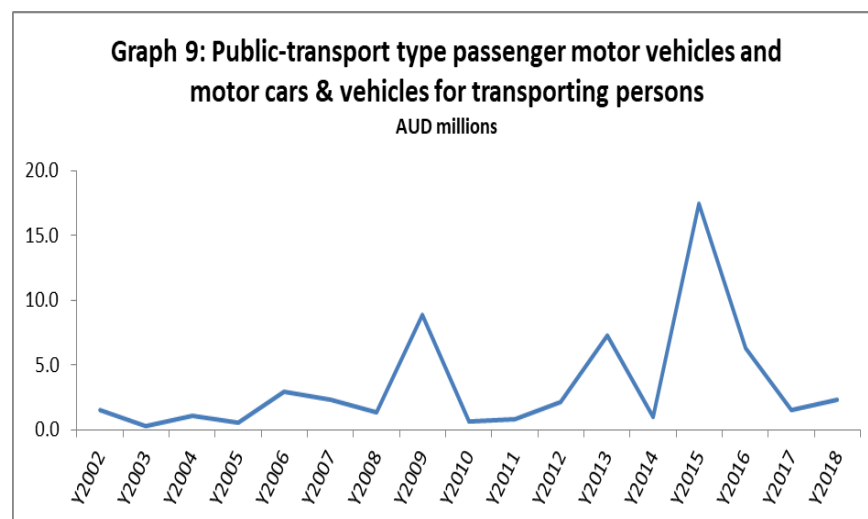
Plastics and articles thereof stood at \$2.7m dollars in 2016; an increase of 52.4 percent over 2015. 2017 registered a decline of 38.5 percent over 2016 and stood at \$1.7m dollars. 2018 registered an increase of 31.2 percent and stood at \$2.2m dollars.



Wood and articles of wood; wood charcoal Imports of wood and articles of wood; wood charcoal stood at \$1.4m dollars in 2016; an increase of 72.2 percent over 2015. 2017 registered a decline of 17.7 percent over 2016 and stood at \$1.1m dollars. 2018 registered an increase of 46.6 percent and stood at \$1.6m dollars.

Machinery and mechanical appliances Imports of machinery and mechanical appliances stood at \$5.3m dollars in 2016; a decline of 56.7 percent over 2015. Thereon it registered increases: 2017 registered an increase of 2.1 percent over 2016 and stood at \$5.5m dollars and 2018 registered an increase of 10.4 percent and stood at \$6.0m dollars.

Electrical machinery and equipment and parts thereof Imports of electrical machinery and equipment and parts thereof stood at \$4.3m dollars in 2016; a decline of 75.4 percent over 2015. 2017 and 2018 registered further declines: 2017 registered a decline of 1.9 percent over 2016 and stood at \$4.2m dollars and 2018 registered a decline of 33.0 percent and stood at \$2.8m dollars.



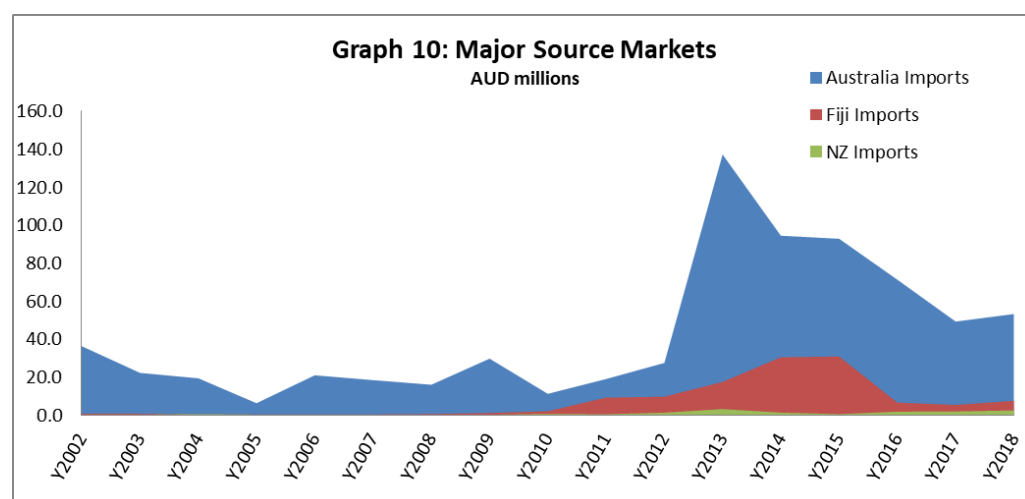
Public-transport type passenger motor vehicles and motor cars & vehicles for transporting persons

Imports of public-transport type passenger motor vehicles and motor cars & vehicles for transporting persons stood at \$6.3m dollars in 2016; a decline of 63.8 percent over 2015. 2017 further declined by 75.5

percent over 2016 and stood at \$1.6m dollars. 2018 registered an increase of 50.7 percent over 2017 and stood at \$2.3m dollars.

Direction of Trade

Traditionally for the direction of trade, exports are reported by the country of destination and imports by the country of origin. For Nauru, because of the source of data used for the compilation of IMTS, country of consignment is also used for reporting direction of trade. For more information on source markets and destinations, refer to Table 8 on Balance of trade by major partner countries.

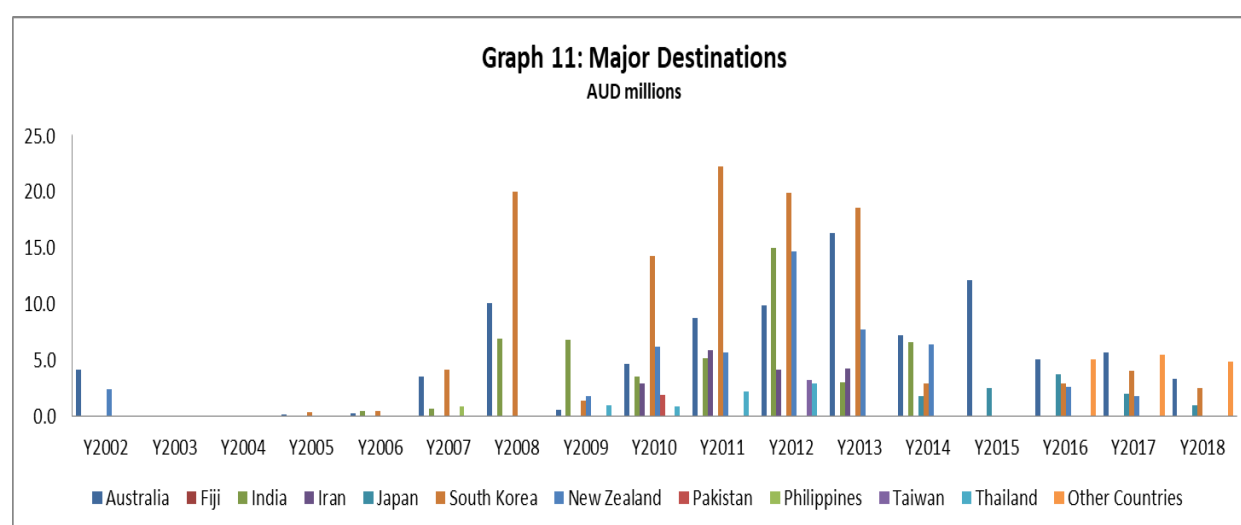


Nauru's major source markets from 2016 to 2018 continued to be Australia, Fiji and New Zealand. All imports, be it vehicles from Japan or garments from China, came through one of these three countries. Graph 10 shows that most of the imports either originated from or were consigned from Australia.

Imports from Australia stood at \$71.3m dollars in 2016; a decline of 23.2 percent over 2015. 2017 further declined by 30.9 percent over 2016 and stood at \$49.2m dollars. 2018 registered an increase of 8.0 percent over 2017 and stood at \$53.2m dollars.

Imports from Fiji stood at \$6.6m dollars in 2016; a decline of 78.7 percent over 2015. 2017 further declined by 18.5 percent over 2016 and stood at \$5.4m dollars. 2018 registered an increase of 39.3 percent over 2017 and stood at \$7.5m dollars.

Imports from New Zealand grew from 2016 to 2018. It stood at \$1.8m dollars in 2016; an increase of 252.6 percent over 2015. 2017 increased by 7.7 percent over 2016 and stood at \$1.9m dollars. 2018 increased by 28.9 percent over 2017 and stood at \$2.5m dollars.



Nauru's major export destinations from 2016 to 2018 were Australia, Fiji, New Zealand Japan and South Korea.

Exports to Australia stood at \$5.1m dollars in 2016; a decline of 58.1 percent over 2015. 2017 increased by 10.9 percent over 2016 and stood at \$5.7m dollars. 2018 increased by 41.3 percent over 2017 and stood at \$3.3m dollars.

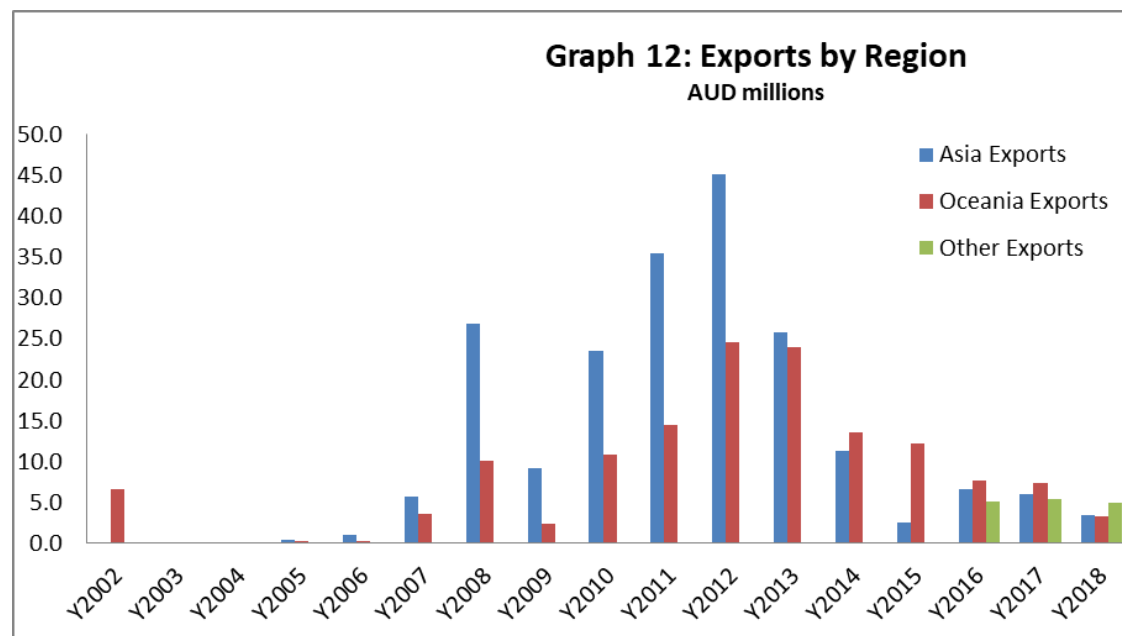
Exports to Fiji stood at \$10 thousand dollars in 2016; a decline of 9.1 percent over 2015. 2017 further declined by 90.0 percent over 2016 and stood at \$1 thousand dollars. 2018 registered an increase of 600.0 percent over 2017 and stood at \$7 thousand dollars.

Exports to New Zealand stood at \$2.6m dollars in 2016; an increase of 87,833.3 percent over 2015 due to exports of phosphate. Thereon it showed declines: 2017 declined by 33.3 percent over 2016 and stood at \$1.8m dollars and 2018 declined by 98.9 percent over 2017 and stood at \$20 thousand dollars

Exports to Japan stood at \$3.8m dollars in 2016; an increase of 51.7 percent over 2015. Thereon it showed declines: 2017 declined by 47.1 percent over 2016 and stood at \$2.0m dollars and 2018 declined by 48.6 percent over 2017 and stood at \$1.0m dollars.

Exports to Korea stood at \$2.9m dollars in 2016 – in 2015 there were no exports. 2017 increased by 38.6 percent over 2016 and stood at \$4.0m dollars. 2018 declined by 38.1 percent over 2017 and stood at \$2.5m dollars.

Fuel is a major commodity re-exported. Unfortunately, the data are not available by country.



Nauru's exports analysed by Geographical Regions show Nauru exports going to Asia and Oceania. For years, 2016 and 2017 Oceania seems to have had a slight edge over Asia. The graph also shows a residual category Others, which is higher than Asia and Oceania in 2018. This Others comprise fuel sold to visiting vessels and aircraft for which data are not available by country. However, there is a good chance that these vessels and aircraft are all owned by countries in Oceania.

LABOUR FORCE STATISTICS

In 2019, Nauru undertook a mini-census. This has informed the following labour force analysis.

In summary, of those aged between 15-59 years, 62 percent are employed, and 38 percent not specified, and considered unemployed. Of the employed, public sector entities (RON Government and SOEs) account for 63 percent, with the Private Sector 31 percent, and Other 1 percent.

RON Government and Other have a higher proportion of females employed than SOEs and the Private Sector. Of the Not Specified group, there are more females than males. In the dependency groups, there are more males aged between 0-14 years than females, but this switches around for high school and aged groups, where there are more females than males.

Table 2.2: Population census 2019 – by nationality, gender and employer

EMPLOYER (15-59 YRS)	Nauruan			Non-Nauruans			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
RON Government	601	725	1,326	28	37	65	629	762	1,391
Nauru Regional Processing Centre	100	64	164	5	2	7	105	66	171
Eigigu Corporation Group	141	118	259	10	6	16	151	124	275
RONPHOS	160	32	192	15	2	17	175	34	209
Nauru Rehabilitation Corporation	73	30	103	0	1	1	73	31	104
Nauru Utilities Corporation	95	25	120	12	2	14	107	27	134
Nauru Airlines	49	37	86	0	0	0	49	37	86
Private Sector	799	404	1,203	94	32	126	893	436	1,329
Not Specified	820	1,317	2,137	58	109	167	878	1,426	2,304
Other Group	23	27	50	4	1	5	27	28	55
Child Dependency (0-14yrs)	2,218	2,004	4,222	46	38	84	2,264	2,042	4,306
High School Dependency (15-18yrs)	391	425	816	9	5	14	400	430	830
Elderly Dependency (60+ yrs)	115	224	339	5	12	17	120	236	356
Grand Total	5,585	5,432	11,017	286	247	533	5,871	5,679	11,550

Sources: 2019 Nauru Mini Census Listing

Note: Not specified cases may include unemployed, and other agencies that are under count.

Table 2.3. Population census 2019 – by nationality, gender and employer (%)

PROPORTION EMPLOYER (15-59 YRS)	Nauruan (%)			Non-Nauruans (%)			Total (%)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
RON Government	43.2	52.1	95.3	2.0	2.7	4.7	45.2	54.8	100
State Owned Entity (SOEs)	63.1	31.3	94.4	4.3	1.3	5.6	67.4	32.6	100
- Nauru Regional Processing Centre	58.5	37.4	95.9	2.9	1.2	4.1	61.4	38.6	100
- Eigigu Corporation Group	51.3	42.9	94.2	3.6	2.2	5.8	54.9	45.1	100
- RONPHOS	76.6	15.3	91.9	7.2	1.0	8.1	83.7	16.3	100
- Nauru Rehabilitation Corporation	70.2	28.8	99.0	0.0	1.0	1.0	70.2	29.8	100
- Nauru Utilities Corporation	70.9	18.7	89.6	9.0	1.5	10.4	79.9	20.1	100
- Nauru Airlines	57.0	43.0	100.0	0.0	0.0	0.0	57.0	43.0	100
Private Sector	60.1	30.4	90.5	7.1	2.4	9.5	67.2	32.8	100
Not Specified	35.6	57.2	92.8	2.5	4.7	7.2	38.1	61.9	100
Other Group	41.8	49.1	90.9	7.3	1.8	9.1	49.1	50.9	100.0
Child Dependency (0-14yrs)	51.5	46.5	98.0	1.1	0.9	2.0	52.6	47.4	100
High School Dependency (15-18yrs)	47.1	51.2	98.3	1.1	0.6	1.7	48.2	51.8	100
Elderly Dependency (60+ yrs)	32.3	62.9	95.2	1.4	3.4	4.8	33.7	66.3	100

Sources: 2019 Nauru Mini Census Listing

Note: Not specified cases may include unemployed, and other agencies that are under count.

The tables above show the actual totals and proportionate breakdown for the Nauruan population. The group aged 15-59 are considered to be in the Labour Workforce.

- **RON Government** represents all Government Departments in the public service which includes Finance Department, Education Department, Health Department, Justice

Department, Home Affairs, Commerce Industry and Environment (CIE), Information and Communication Technology (ICT) and any other departments.

- The total number of people working for RON Government is 1,391 and majority are Nauruans with a total of 1,326 compared to Non-Nauruans with a total of 65.
- The proportion of Nauruans at RON Government is 95.3 percent whereas non-Nauruans is only 5.7 percent.
- There are more females working for the RON Government in the public service than males for both Nauruans and non-Nauruans.
- The proportion of females at RON Government is 54.8 percent whereas males are 45.2 percent for both Nauruans and non-Nauruans.
- **State Owned Entity (SOEs)** represents the Nauru Regional Processing Centre, Eigigu Holdings Corporation Group, RONPHOS, Nauru Rehabilitation Corporation, Nauru Utilities Corporation and Nauru Airlines.
 - The total number of people working for SOEs is 979 and majority are Nauruans with a total of 924 compared to Non-Nauruans with a total of 55.
 - The proportion of Nauruans working for the SOEs is 94.4 percent whereas non-Nauruans is only 5.6 percent.
 - There are more males working for the SOEs than the female population for both Nauruans and non-Nauruans.
 - The proportion of males working for the SOEs is 67.4 percent whereas females are 32.8 percent for both Nauruans and non-Nauruans.
- **Private Sector** represents Security Companies, Chinese Businesses, Local owned businesses, Clean and Green, Construction, Catering and any micro businesses.
 - The total number of people working for the Private Sector is 1,329 and majority are Nauruans with a total of 1,203 compared to Non-Nauruans with a total of 126.
 - The proportion of Nauruans working for the Private Sector is 90.5 percent whereas non-Nauruans is only 9.5 percent.
 - There are more males working for the SOE's than the female population for both Nauruans and non-Nauruans.
 - The proportion of males working for the Private Sector is 67.2 percent whereas females are 38.1 percent for both Nauruans and non-Nauruans.
- **Other group** - represents the variation of small scale of office and organization.
 - The total number of people working for Other Group is 55 and majority are Nauruans with a total of 50 compared to Non-Nauruans with a total of 5.
 - The proportion of Nauruans working for Other Group is 90.9 percent whereas non-Nauruans is only 9.1 percent.
 - There are more females working for Other Group than the male population for both Nauruans and non-Nauruans.
 - The proportion of males working for Other Group is 49.1percent whereas females are 50.9 percent for both Nauruans and non-Nauruans.
- **Not specified** represents is a combination for not stated cases and the assumption includes unemployment.
 - The total number of people under Not Specified response is 2,304 and majority are Nauruans with a total of 2,137 compared to Non-Nauruans with a total of 167.

- The proportion of Nauruans under Not Specified response is 92.8 percent whereas non-Nauruans is only 7.2 percent.
- There are more females under Not Specified response than the male population for both Nauruans and non-Nauruans.
- The proportion of female population under Not Specified response is 61.9 percent whereas males are 32.6 percent for both Nauruans and non-Nauruans.

The tables also indicate the actual totals and proportion breakdown for Child Dependency, High School Dependency and Elderly Dependency which are age group classified as not in the Labour Workforce and includes infants, students and retiree population.

Child Dependency, High School Dependency and Elderly Dependency are all considered as the AGE DEPENDENCY. This population age group is entirely dependent on financial and economic plans from the working age economy as they are classified not engaged to paid employment and not earning money.

- ***Child Dependency*** represents the population age group between 0-14 years which includes infants under maternal health care and children attending school which is part of the educational compulsory school age.
 - The total number of people for Child Dependency is 4,306 and majority are Nauruans with a total of 4,222 compared to Non-Nauruans with a total of 84.
 - The proportion of Nauruans for Child Dependency is 98 percent whereas non-Nauruans is only 2 percent.
 - There are more males for Child Dependency than the female population for both Nauruans and non-Nauruans.
 - The proportion of male population for Child Dependency 52.6 percent whereas females are 47.4 percent for both Nauruans and non-Nauruans.
- ***High School Dependency*** represents the population age group between 15-18 years which is also part of the educational compulsory school age. This age group includes students attending high school and exposed to further educational training which leads to preparation whether for tertiary education or engage to paid employment once completed year 12 education after 18 years of age.
 - The total number for High School Dependency Population is 830 and majority are Nauruans with a total of 816 compared to Non-Nauruans with a total of 14.
 - The proportion of Nauruans for High School Dependency is 98.3 percent whereas non-Nauruans is only 1.7 percent.
 - There are more females for High School Dependency than the male population for both Nauruans and non-Nauruans.
 - The proportion of female population for High School Dependency 51.8 percent whereas males are 48.2 percent for both Nauruans and non-Nauruans.
- ***Elderly or Ageing Dependency*** represents the population age group 60 years and over. This population age group in Nauru is considered a retired population and otherwise voluntary cases is currently open for population who wishes to retain their job until reaching the age of 65 years or over.
 - The total number for Elderly Dependency Population is 356 and majority are Nauruans with a total of 339 compared to Non-Nauruans with a total of 17.

- The proportion of Nauruans for Elderly Dependency is 95.2 percent whereas non-Nauruans is only 4.8 percent.
- There are more female population for Elderly Dependency than the male population for both Nauruans and non-Nauruans.
- The proportion of female population for Elderly Dependency 66.3 percent whereas males are 33.7 percent for both Nauruans and non-Nauruans.

PART 3: STATE OWNED ENTERPRISES

The performance of the State owned enterprise (SOE) sector is expected to improve over 2020-21. Management changes at the SOEs following the 2019 election are mainly complete, and the new management teams are focussed on improving corporate planning and performance.

Given the uncertain economic outlook, the need to improve the resilience of Nauru's economy, and the significant Government investment in SOEs, it is important that SOEs are as efficient and effective as possible in providing goods and services to the community. Inefficient SOEs act as a drag on economic growth, reducing resources that might be put to better use in other activities that increase the overall productive capacity of the economy, and increase national wealth. The opportunity cost of investment in SOEs is very high.

Accordingly, the 2020-21 Budget includes measures to improve the efficiency of SOEs. They include the implementation of the *Public Enterprise Act 2019* (PEA) and the introduction of a new Community Service Obligation (CSO) framework, to improve the competitive neutrality of government owned businesses.

It is also expected that the process of resolving outstanding arrears between SOEs will continue. For all SOEs the Government is recommending a pre-pay arrangement of provision of all services to ensure that they are able to generate sufficient cash flow and meet financial performance objectives.

PUBLIC ENTERPRISE ACT 2019

The *Public Enterprise Act 2019* (PEA) came into effect in June 2019. It provides a modern framework for governing SOEs consistent with international better practice.

The Act includes five principles for the governance of a public enterprise, as follows:

1. Prudent and efficient management according to which an SOE must operate on a commercial basis that is efficient and profitable
2. Measurable performance according to which a public enterprise must identify its business goals
3. Responsible management according to which the management of a public enterprise must be competent, honest and accountable
4. Transparent performance according to which a public enterprise must report its performance fully, publicly and timeously
5. Monitored performance, according to which a public enterprise must be subject to rigorous monitoring, approval and review.

Importantly, the PEA makes clear that the primary objective of a SOE is to be a successful business (section 22(1)), and it must conduct its business and operations with a view to being a successful business (section 22(3)). A SOE is considered a successful business if:

- a) It is at least as profitable and efficient as comparable businesses in the private sector; and
- b) Generates each financial year, a net operating profit after tax that is not less than its weighted average cost of capital prescribed as a percentage.

The PEA provides for the circumstance where the achievement of social objectives might undermine the ability of a SOE to achieve the primary objective. The requirements for a Community Service Obligation (CSO) are covered in sections 25 and 26 of the PEA.

COMMUNITY SERVICE OBLIGATIONS

Consistent with international better practice, the Government has established a CSO framework that acknowledges Government sometimes asks some SOEs to pursue social objectives that undermines the SOE's ability to be fully commercial, and to generate sufficient revenue to comply with the primary objective to be a successful business.

CSO's are a mechanism used by other jurisdictions to be transparent about government's directives to SOEs to pursue the delivery of social obligations that undermine the ability of SOEs to operate commercially. The pursuit of social objectives often results in inefficient cross-subsidies and compromises the financial performance of the business, leading to ad hoc requests for Government support.

The SOEs receive the CSO in acknowledgement of the cost of the non-commercial activity, so that overall the SOE's are able to earn sufficient revenue to be commercial. It also has the benefit of enabling the SOE to compete with private businesses on a more level playing field.

Governments generally accept the principle that the costs of CSOs need to be made transparent for reasons of public accountability and scrutiny, and in order to better assess the financial performance of SOEs. The payment of the CSO enables the SOE to reduce cross-subsidies and improves overall allocative efficiency and national wealth.

To be considered a CSO, the following conditions must be in place:

- There must be a specific request from Government to the SOE to pursue the activity – the CSO must be negotiated between Government and the SOE
- The outcome would not be pursued if the SOE were operating on a purely commercial basis
- There is a specified social objective
- The CSO is costed at 'avoidable cost' (that is, marginal cost of service)
- Funding is from the budget.

The Government of Nauru's CSO Policy Framework 2020 provides for the Government to negotiate a CSO in the following areas:

- provision of essential services at affordable cost
- mitigation of risks to food and supply security
- alleviating cost of living pressures or price rises for all residents.

The policy framework provides that to be considered a CSO, the following principles must be met:

- i. Only the Government can request that an SOE pursue a social objective funded through a CSO – the request must come from Government
- ii. The CSO agreement would be negotiated with the SOE at the Government's request with details agreed between the SOE and Minister for Finance and approved by Cabinet

- iii. The CSO objective is to be clearly specified, and conditions for the CSO, including key performance indicators are to be documented
- iv. The objective would not be pursued if the SOE was operating on a purely commercial basis
- v. The CSO is costed at 'avoidable cost' (that is, marginal cost of service), and this costing is based in evidence
- vi. Agreements are to be annual, and funded in the budget
- vii. Agreements are to be periodically reviewed to ensure that the social objective remains relevant, and that the CSO remains appropriate, efficient and effective in achieving the objective.

In the 2020-21 Budget, three CSOs are proposed to be negotiated as follows:

- Nauru Utilities Corporation (NUC) to provide affordable electricity through a pre-pay lifeline tariff for up to 200kw/hr of power. The lifeline tariff covers the minimum monthly electricity requirement for a household. The revenue from the CSO will underpin reductions in residential tariff rates. NUC will also develop options for household energy efficiency measures.
- Nauru Airlines Corporation (NAC) to provide regular and affordable air freight services with a once weekly freighter service from Brisbane or Fiji at pre-Covid-19 rates. This CSO will cover the empty return journey for freight services, to ensure the service continues to be provided for the rest of the year.
- Nauru Port and Maritime Authority (NMPA) to ensure affordable Port charges, by holding Stevedoring and Wharf charges at current rates. The CSO will cover the difference between the current rate and the '2019 gazetted rate' that has been set to ensure that NMPA can generate sufficient revenue to cover its costs and operate commercially. The revenue from the CSO will ensure that NMPA does not need to increase its charges beyond the current pre-Covid-19 rates, and still cover all its costs.
 - This additional revenue for NMPA is expected to meet the Government obligation under the Port Project Agreement with the ADB to ensure that the Port is able to generate sufficient revenue to be fully commercial.

The following sections cover in more detail the performance of the most significant SOEs.

NAURU AIRLINES CORPORATION

Nauru Airlines (NAC) is the National Carrier of Nauru. It has the regulatory and route right allocations on the bi-lateral agreements between Australia and Fiji to Nauru. It provides passenger and air freight services.

NAC's objective is to connect Nauru to Australia and neighbouring Pacific Island nations and provide safe and sustainable passenger and air freight services to facilitate trade, tourism and functioning of Government.

Operating an airline is capital intensive, requires a very high level of specialised skill and the industry is highly regulated.

NAC's performance in 2019-20 was mixed. Improvements in cost control and operational performance were severely impacted by the coronavirus pandemic. In April 2020, IATA data indicated

that year on year, the number of world-wide flights was down by 80 percent¹. For NAC, the Government's travel restrictions reduced passenger services between Nauru and Brisbane to once a fortnight and freight to once a week. Charter services continued to operate.

The Government provided support to NAC in 2019-20 to undertake C-checks on some of its engines, and cash flow support in light of the Covid-19 outbreak. In 2020-21 Government will provide cash flow support through the CSO to ensure weekly air freight services and fund the freighter conversion.

In 2020-21 NAC expects that its income will reduce by at least a third. RPC related activity is expected to contribute around 42 per cent of revenues.

Table 3.1: NAC revenue and expenses

NAC	2018-19 Actual	2019-20 Forecast	2020-21 Budget
	\$	\$	\$
Revenue	62,763	62,478	42,102
Expense	64,861	64,041	41,050
Operating profit before tax	(2,098)	(1,563)	1,052

In 2020-21, NAC's business plan includes the following elements:

- Maintain core services, with a focus on cost reduction and overheads, workforce right-sizing and reducing operations in light of Covid-19 restrictions. A new solution to replace the Zapways system will also be progressed.
- Freight expansion, continuing existing services with support of additional revenue from the CSO, as well as expanding freight charter work. An existing aircraft will be converted to a freighter and the door of the existing freighter will be modified to meet safety requirements.
- Aircraft replacement program, NAC is considering replacing aging aircraft with support from Taiwan. This will support the airline to be more competitive with reduce maintenance and fuel costs, and potentially open up more route and service opportunities.
- Australian Border Force and RPC dependency, early planning for any change in business continuity.

NAURU UTILITIES CORPORATION

NUC provides electricity and water services to Nauru. Its energy supply comprises a mix of diesel and solar powered generation, and water is sourced from a desalination plant and trucked to the end user.

2019-20 has been a challenging year for NUC, due to continued high diesel fuel prices (until new fuel arrived in May 2020) and freight charges. With electricity tariffs being held constant, NUC has been financially stressed. Government support to resolve outstanding accounts receivable arrears boosted cash flow through the year. Progress was made on improving the quality and reliability of services, by replacing poles and wires. The EU solar farm was completed and land clearing commenced for the ADB solar project.

¹ IATA Covid-19 Updated Impact Assessment 14 April 2020

The outlook for 2020-21 is mixed, with lower refugee numbers and wind down of the RPC expected to impact both water and electricity demand. The new CSO for the pre-pay lifeline residential tariff will increase revenue certainty, and enable NUC to reduce its residential tariff lines as follows:

- residential lifeline pre-pay rate of the tariff will be reduced from 25c to 22c
- residential pre-pay tariff will be reduced from 50c per kw/hr to 47c
- residential post-pay tariff will be reduced from 50c to 48c.

All other tariffs will remain the same. NUC will also explore opportunities to support households improve energy efficiency.

Overall, NUC is expecting to at least break even in 2020-21. It will continue to progress the ADB Solar Farm Project and continue to improve energy reliability.

Total revenue from the provision of electricity and water is expected to be \$18.9 million, with total expenses (excluding depreciation and tax) of \$18.8 million.

Table 3.2: NUC revenue and expenses

NUC	2018-19 Actual	2019-20 Forecast	2020-21 Budget
	\$	\$	\$
Total Income	19,293,616	18,048,608	18,866,276
Total Expense	22,278,198	16,685,194	18,808,902
EBITDA	(2,984,582)	1,363,414	57,374

EIGIGU HOLDINGS CORPORATION

Eigigu Holdings Corporation (EHC) is the main commercial arm of Government and has the following subsidiaries: Eigigu Supermarket, Menen Hotel, Enigin, Eigigu Transport, Eigigu Enterprise, Eigigu Civic Centre and Eigigu Solutions Corporation (ESC). EHC also has the Eastern Gateway hotel in Majuro, Marshal Island which remains subject to disputation.

The 2019-20 consolidated budget expected the group to earn \$26.4 million in revenue and \$24.6 million in expenses resulting in an operating profit before income tax of \$1.9 million. Actual performance to March 2020 showed operating revenue of \$17.4 million and expenses of \$14.5 million and an operating profit before income tax of \$2.9 million. The key expenditure items were personnel costs and cost of sales. ECH expects to earn a full year profit in 2019-20 and contribute a \$250,000 dividend to the Government.

During 2019-20, EHC commenced a project to reconstruct historic financial statements, and address accounts receivable. Government provided support through the year to settle outstanding arrears with NUC and other suppliers.

EHC expects to achieve a more modest financial performance in 2020-21. Total revenue is expected to be \$23.0 million, and total expenses of \$18.7 million, with an operating profit before income tax of \$3.6 million. It expects to provide a \$250,000 dividend to Government.

The Menen Hotel and Eigigu Transport are the best performers in the group, and are highly dependent on patronage from ongoing RPC operations.

A summary of the operating profit before tax for the key subsidiaries is in the table below.

Table 3.3: EHC consolidated operating profit before tax to March 2020

Operating profit before tax	2018-19 Actual	2019-20 Budget	2019-20 Actual	2019-20 Forecast	2020-21 Budget
	\$	\$	\$	\$	\$
Menen Hotel	2,051,016	1,291,712	2,217,921	2,957,228	2,116,086
Eigigu Supermarket	(54,718)	487,246	216,089	288,119	465,785
Eigigu Civic Centre	(8,484)	100,184	165,014	111,604	21,145
Enigin	111,987	171,647	100,097	133,462	128,934
Eigigu Enterprise	(146,662)	87,677	(22,867)	(30,490)	91,414
Eigigu Transport	523,562	530,737	257,196	342,928	681,839
Eastern Gateway Hotel	(39,562)	3,522	(2,076)	(2,768)	6,232
Other	276,594	(787,071)	(53,429)	(137,215)	47,225
Consolidated	2,713,733	1,885,654	2,877,945	3,662,868	3,558,660

NAURU POST OFFICE

The Nauru Post Office has been revitalised over 2019-20, with actual year to date performance exceeding expectations. It paid a \$100,000 dividend in 2019-20. Budgeted and actual performance is in the table below.

The Post Office expects to continue to expand its business over 2020-21.

Table 3.4: Post Office revenue and expenses

Post Office	2019-20 Budget	2019-20 Actual Feb 20	2020-21 Budget
	\$	\$	\$
Revenue	908,800	2,129,137	4,322,000
Expense	880,592	2,229,772	4,062,911
Operating profit before tax	28,208	(100,635)	259,089

NAURU PORT AND MARITIME AUTHORITY

The Port Authority of Nauru became an SOE in 2019-20, consistent with the arrangements for Port reform in the Port Project. It established its own bank account, and the government appropriation and revenue streams were transferred to it.

The key activities for NPMA in 2020-21 include the business as usual running of the Port, completion of the Port Project and a new project to arrange a wet lease of a ship for a cargo freight service to Nauru to mitigate sea-freight supply risks.

The new CSO payment will support NPMA to earn sufficient revenue to fully cover its costs.

Table 3.5: NMPA revenue and expenses

NMPA	2019-20 Budget	2019-20 Actual May 20	2020-21 Budget
	\$	\$	\$
Revenue from operations	2,150,527	2,040,091	2,259,162
CSO revenue	-	-	1,183,500
Expense	4,296,053	2,164,056	3,277,777
Operating profit before tax	(2,145,526)	(123,966)	164,885

NAURU REHABILITATION CORPORATION

Nauru Rehabilitation Corporation (NRC) produces armour rock and aggregate supplies used in construction and provides waste collection, plant hire, land clearing and rehabilitation services. It has a mandate to rehabilitate land for use as residential, renewable energy, agriculture, aquaculture, sports, parks and natural reserves.

The key projects for NRC in 2019-20 included the supply of armour rock and aggregate to the Port Project, export of armour rock, as well as land clearing for the ADB sponsored Solar Farm Project and rehabilitation projects. NRC also undertook road maintenance for the RPC.

There were issues with machinery during the year that impacted on land clearing, rock and aggregate production. These are expected to be resolved in 2020-21 with the arrival of new rock crushing and other equipment purchased for NRC by the Government and through the Port Project. The Government has also supported technical assistance to ensure that machines continue to operate at the required capacity to meet the Government-in-kind rock and aggregate supply commitments to the Port Project.

Table 3.6: NRC revenue and expenses

NRC	2019-20 Budget	2019-20 Actual Apr 20	2020-21 Budget
	\$	\$	\$
Revenue	15,513,497	6,562,414	16,125,899
Expense	7,156,729	4,838,704	8,820,724
Operating profit before tax	8,356,768	1,723,710	7,305,175

In 2019-20, NRC expected to receive \$15.5 million in income, but actual performance was significantly less. This reflected that the planned export of armour rock did not occur, and land clearing revenue was only a third of what had been expected. NRC has also accumulated significant accounts receivable arrears, which has also undermined revenue performance.

Operational expenditure in 2019-20 was budgeted at \$7.2 million, and actual performance to April 2020 was \$4.8 million. Capital expenditure was estimated at \$3.7 million and actual performance to April 2020 was \$3.6 million. A net operating profit of \$8.4 million was budgeted, and actual performance to April 2020 was \$1.7 million.

For 2020-21, NRC is budgeting for similar revenues and expenditure as 2019-20, with \$16.1 million revenue, operational expenditure of \$8.8 million and capital expenditure of \$1.1 million. A net operating profit to \$7.3 million is predicted. NRC indicates that \$4.6 million of this will be transferred to an asset replacement fund.

Key activity for 2020-21 is expected to be production of armour rock and aggregate for the Port Project, continuation of land clearing for the Solar Farm Project and other rehabilitation projects, including the pilot residential land clearing project sponsored by the Government. NRC also expect to export armour rock during the year.

In 2020-21 NRC will take a three-pronged business approach:

- BAUi (business as usual) - rock and aggregate production, engineering projects (solar farm and pilot residential land project), and plant hire services, accounting for 90 per cent of business
- ReDI (research and development and investment) – dolomite, armour rock and aggregate exports, public private partnerships to explore export opportunities
- HiGI (higher ground initiative) – working with development partners to address climate change/sea level rise, and develop a land use plan to underpin future land clearing and development opportunities.

PART 4: NATIONAL SUSTAINABLE DEVELOPMENT STRATEGY

This section provides an overview of progress against the NSDS.

The first NSDS originated during a time of crisis, as both a reminder of past errors but also as a guide toward a more sustainable future. The central message was, and still remains, “Partnerships for Quality of Life”. At its launch in 2005, His Excellency President Ludwig Scotty noted that “we need to build the economic base to provide economic opportunities for everyone” and that “the implementation process will be the true test”.

In 2009 the Strategy was revised amidst a tentatively positive economic outlook, and after the reopening of the Regional Processing Centre in late 2012, Nauru enjoyed several years of relative prosperity, until the more recent downturn.

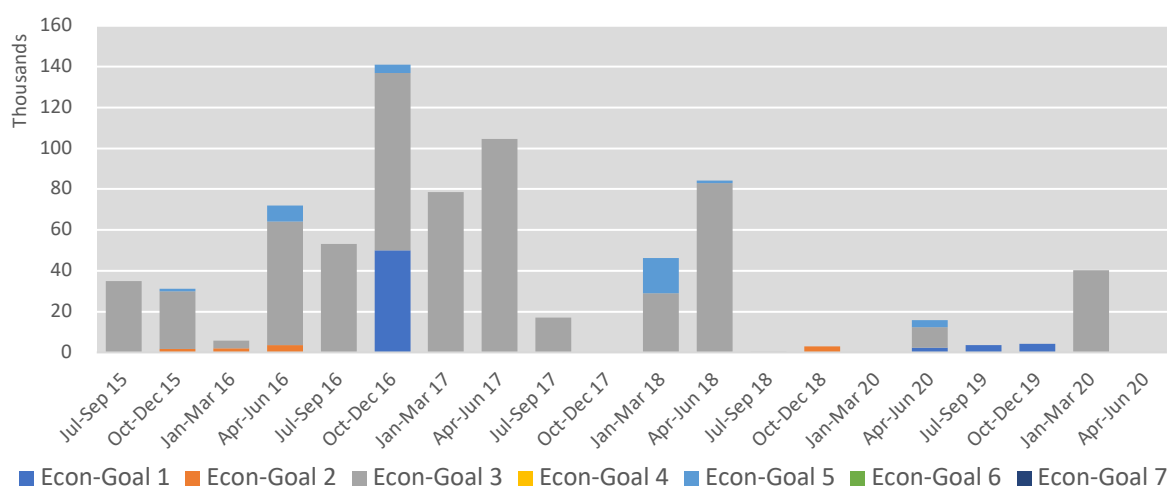
The latest revision of the NSDS began in 2016 with a stocktake of progress that showed only a quarter of all milestone activities had been implemented. In 2017, a public consultation process sought feedback on ideas, concerns and priorities. Key messages from communities included the explicit need for action covering health and education and the urgent need to combat the impacts of climate change.

The NSDS is a starting point - a shared framework for action that needs to be operationalised through sector strategies and Annual Operational Plans which articulate specific tasks, timelines and targets.

ECONOMIC SECTOR

Within the economic sector, fisheries projects (economic goal 3) disburse the bulk of development partner grant funds, although it is noted that total expenditure in the sector remains small compared to other NSDS sectors. This emphasis on fisheries is not surprising given that it remains one of Nauru’s most productive sectors and a reliable source of foreign income.

Graph 1 : Economic sector breakdown by goal



Econ-Goal 1: A stable macroeconomic environment conducive to private investment established

In September 2019, the IMF undertook its periodic Article IV mission, which assesses a country's fiscal position, economic outlook and offers broad recommendations going forward. Consultations highlighted the need for Nauru to identify new sources of economic growth and income in the face of declining phosphate revenues and RPC activity. Recommended reforms to enhance fiscal sustainability include tighter debt management, strengthened governance such as establishment of an SOE monitoring unit and enhanced transparency as well as improved effectiveness of spending in the key areas of health and education.

In January 2020, DFAT called together all of its heads of missions for a two-day assembly with Ministers and heads of departments to discuss ideas relating to economic and trade opportunities. The Guiding Vision 2020 outcomes document identified a range of potential activities that fall under the mantra 'enabled in Nauru, trained in Nauru, and made in Nauru'.

Through 2019-20, reforms to Nauru's public financial management systems continued to be rolled out (refer to PFM section) with emphasis on responsible economic management through medium term fiscal strategy, that includes maintaining the fiscal buffer, reviewing and prioritising expenditure in accordance with strategic planning and government policy (especially social welfare programs, which account for approximately 10% of expenditure) and strengthening oversight of SOEs.

Econ-Goal 2: Increased level of domestic agricultural production aimed at addressing food security and healthy livelihoods

Progress continues on small-scale household agriculture, with support from Taiwan and SPC, including more than 50 pigs grown since introduction of the livestock programme with ten new farmers, and over 100 new kitchen gardens established with more on the way.

The National Beach/Coastal Erosion Protection project has seen the planting of local species along the beachline to minimise beach erosion with two districts completed to-date.

Econ-Goal 3: Enhance development and sustainable management of marine and fisheries resources to provide sustainable economic returns

The Nauru Fisheries and Marine Resource Authority (NFMRA) continues provide a major revenue source for Nauru. Over the years the revenue from fisheries has been steadily increasing, however the NFMRA is an advocate and enforcement for fish stock management. To date the NFMRA has 40 registered Fisheries observers to facilitate the security and fish management in Nauru's oceanic zone. For the Coastal management programs, NFMRA has been seeking to finalise an important legislative policy that is key enabler to its activities that entails the enforcement to sustain the coastal marine environment, as well as land management for food security and protect biodiversity.

The management of ocean seabed resources is one of Nauru's continuing developments aiming to expand the existing economic returns for the island. Nauru recently established an ambassador role to the International Seabed Authority (ISA) to actively lead Nauru's development in this oceanic resource sector.

Econ-Goal 4: Efficient and effective use of mining and quarrying resources for economic and rehabilitation purposes

The Nauru Rehabilitation Corporation continues to process armour rock and aggregate, with the main focus on supplying rock aggregate for the port redevelopment and land clearance for the ADB solar farm project, as well as to meet domestic construction demand.

Phosphate production continues to decline, with the exhaustion of primary reserves.

Econ-Goal 5: Promote development of small and micro-enterprises, foreign investment and economic integration into the global economy

A Foreign Investment and Trade Taskforce (FITT) was established in early 2020 with a view to developing and facilitating trade opportunities and securing foreign direct investment on-island. Initial tasks are focusing on a review of the 2011 Trade Policy for Nauru.

Preparations for the ratification of the PACER Plus trade agreement continue, along with the examination of options to offset the expected loss of customs duties. A tax policy review in 2020 will underpin further reforms to the taxation system, with new goods and excise taxes expected to be introduced. Key principles for the reform include that any change must be revenue neutral, simple, efficient and effective.

Econ-Goal 6: Promote development of small-scale sustainable tourism

The Nauru Tourism Corporation was established in 2019 to review the priority developments for Nauru Tourism. An action plan is being developed to guide initial steps, with an information hub as one of the key activities.

Econ-Goal 7: An effective, competitive and stable financial system that will enhance economic growth and development

Financial inclusiveness has significantly improved since the return of banking services for Nauru with the establishment of the Bendigo and Adelaide Bank Agency in 2015. Bank account holders continue to increase. Online banking transaction services are now available expanding purchasing opportunities, evident in the high frequencies of imported goods through Nauru Post Frigate services facilitated by Nauruan people being able to order and pay items online. The Frigate sea freight service has increased from two shipping containers to more than 15 shipping containers per sea shipment to Nauru.

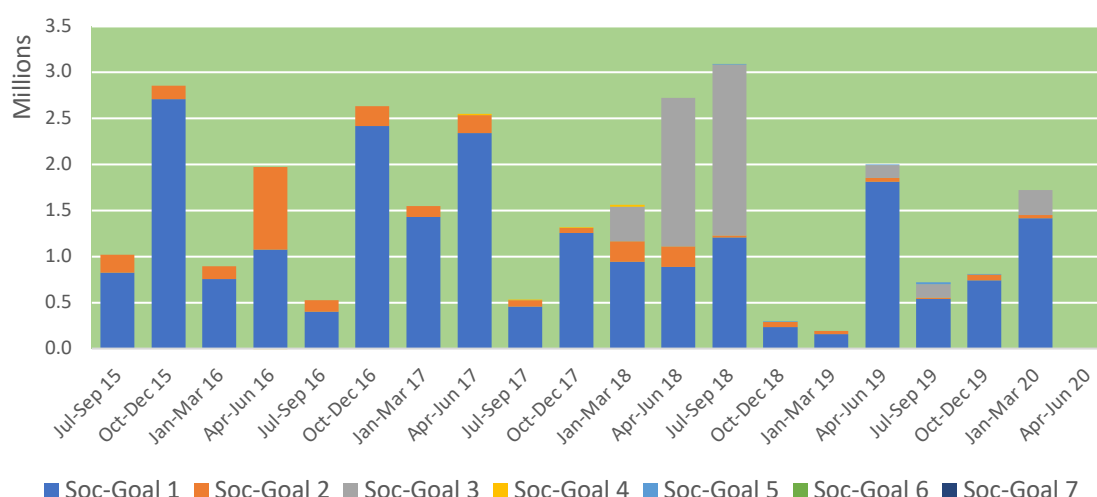
The ADB continues to support a program to improve financial literacy. The need for the ability of the local community to manage their finances to save and invest for the future is at an important stage, particularly given the uncertainty around the medium term economic outlook.

International confidence in the financial systems of Nauru continues to grow, as evidence by the 'largely compliant' finding in 2019 by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.

SOCIAL AND COMMUNITY SECTORS

Development partner grant support in the social and community sector is primarily directed toward education and health, with some sports-related infrastructure projects.

Graph 2 : Social sector breakdown by goal



Soc-Goal 1: Improve the quality and broaden the scope and reach of education

A mixture of short and long-term strategies continued to be implemented across the education sector, with significant support from Australia and New Zealand.

Access to quality education across all grades is being enhanced through accreditation of technical and vocational education instructors to TAFE QLD standards. \$200k per year is allocated for secondary scholarship studies in Brisbane plus agreement to supply a wheelchair accessible school bus by Japan.

The QCE curriculum continues to be offered to secondary school students, whilst annual literacy and numeracy benchmarking were conducted and a community survey undertaken. An inclusive education policy has been implemented and training rolled out to all schools.

To-date, 40 Nauruan teachers have now graduated through the University of New England teacher training program. In 2016 only 15 Year-12 graduated with 40 students successfully completing year 12 studies in 2019. By 2021, 85 Year 12 students are expected to exit with a qualification, including a Year 12 retention rate to 80 percent in 2021.

Some of the key challenges include the ongoing reliance on expatriate teachers at a cost of almost \$400k per year, improved analysis of data, quality and consistency of internet connectivity and low capacity of teachers to undertake continuing professional development activities. Importantly, the capacity of education administrators to implement projects has been stretched over the past year, illustrated by the considerable underspend of NZAID funding.

Soc-Goal 2: A healthy and productive population

Health is a vital sector which must be strengthened if the vision of the NSDS is to be achieved. The current indicators show that the state of health on Nauru is well below regional standards. However, notable progress has been made in the improvement of infant and maternal mortality rates.

The rising incidence of non-communicable diseases (NCDs) continues to increase the cost and burden on government for health service provision (including prescriptions and overseas referrals). Unfortunately, lifestyle habits which guarantee NCDs show no indication of diminishing. These include lifestyle habits such as excessive alcohol and or kava consumption, smoking, poor diet and lack of physical activity. The high incidence of NCDs not only adds to the ever-increasing cost of the Healthcare sector but it also decreases the size, quality and potential of the labour force. Between 2013 to 2016, 78 per cent of deaths on Nauru were related to some type of NCD.

To reduce the burden of NCDs and achieve our most urgent Health targets, the Ministry of Health initiated the “Every Life Matters” campaign. The three-year campaign is currently on stage one, Tobacco Awareness, which is a leading cause of NCDs. National statistics suggests that 46 per cent of the population are smokers, 54.7 per cent exposed to second-hand smoke at home, and 27.4 per cent in the workplace. Given these statistics, the stage one campaign was designed to focus on school-aged children 10 to 15 years old to either quit or do not start, and on smoking parents and the impact of their second-hand smoke on their families and others.

The facilities expansion and renovations in paediatrics will boost our progress towards achieving child health and mortality targets. The paediatrics unit now includes three consultation rooms, a special-case room for victims of abuse and two private entrances for sensitive cases. These improvements mean more capacity for children to be kept in isolation, should their illness require it. Furthermore, a new ward will relieve the pressure on bed requirements and reduce pressure to discharge patients early.

The completion of the new indoor sports facility by the Sports Department is hoped to encourage the uptake of physical activity by the general population. In addition, the Community Wellness Centres continue to improve access to health promotion advice and primary medical services.

Last year’s World Food Day was focussed on healthy eating. The various stall holders from the community, Taiwan Technical Mission, Nauru Farmers and Growers Association, public health and NCD sub-committee put on demonstrations and explanations of healthy eating and cooking. Healthy eating and nutrition are important elements in the combat against NCDs and integral to the whole Every Life Matters campaign.

NCD booklets were introduced to assist in the battle against NCDs. The primary purpose of the booklets is to give patients the means to self-monitor and manage their own conditions- a critical step required to better manage their conditions. The NCD booklets were launched and distributed last year.

The Nauru Health Professional Training Institute (NHPTI) has commenced its accreditation process with open dialogue with the University of New England and the University of Fiji. Additionally, the institute is working closely with IHMS to develop a training plan of continuing education. Courses offered under the NHPTI.

The Covid-19 pandemic has drawn attention to the need to enhance the technical capacity of the Health Department to mitigate and manage pandemics in general. Recent initiatives have seen the establishment of an isolation ward, and the introduction of mandatory annual courses targeting management pandemics and outbreaks. Diploma of Nursing on-island is almost ready to launch.

Mass Drug Administration (MDA) for Trachoma is ongoing progressing without issues.

Other noteworthy achievements to date under this sector goal are; the acquisition of highly qualified medical specialists on long term contracts and general medical officers; the success of ongoing visiting medical teams from Taiwan and Cuba; mobile clinics in Yaren and Anibare; roll-out of the health information system; and work commenced in engaging telemedicine consultations with international consulting specialist clinic

Another two wellness community clinics are being planned as well as to renovate the old operating theatre, procurement warehouse and an office for the deputy minister at the hospital.

Soc-Goal 3: Enhanced quality of life through sports for all

FY19/20 marked a busy year for sport in Nauru. The inaugural Women's AFL competition was launched to great success from both a participation and spectating perspective. Development of sports administration and sports officiating or coaching are ongoing.

Four existing facilities are being renovated in partnership with local communities, including 3 basketball/volleyball courts in Uaboe, Denig and Yaren and a tennis court in Denig. Slow progress is attributed to a combination of irregular shipping for overseas-sourced supplies and insufficient oversight capacity within the Sports Department.

Despite several technical challenges, the new multi-purpose sports complex was opened for community use. The re-installed stage floor is now suitable to host weightlifting and powerlifting events, but further work is required to ensure a smooth and sustainable administration of the facility.

Priorities for FY20-21 include the development of a Sports Strategy that will include a review of the Epon Keramen Community program; engagement with local sports federations, community sporting groups and elite sports programs; and preparation of the departmental vision, strategy and operations and maintenance plan for the next 5-10 years with key performance indicators.

Soc-Goal 4: A cultural, socio-inclusive, cohesive and self-reliant community with sustainable livelihoods

One of the targets under this sector goal is to promote and increase the number of Nauruans that can read Nauruan language fluently and have basic knowledge about Nauru culture. For this purpose, the Nauru Language and Culture Programs were recently reintroduced in schools. The programs include 1 weekly class each for language and culture studies. Activities include handicraft training in basic weaving and teaching of Nauru language through legends and learning the vernacular for basic things as colours and numbers.

Socio-inclusiveness is an important element in policymaking under this Government, as well as past administrations. Three divisions were added to the Department of Home Affairs in the past years: The Gender Mainstreaming Office, UNESCO office, and the Convention on the Rights of Persons with Disability office. The Rights of Persons with Disability office will play an important role for the NSDS goal of ensuring people with disabilities have access to jobs. Efforts have also been maintained to renovate homes of persons with physical disabilities so that the houses are disabled friendly. Most living with disabilities have had their disabilities brought on by an NCD, most usually diabetes.

There is positive progress towards ensuring sustainable livelihoods for the people. The Taiwan supported piggery and horticulture programmes continue to provide support to households. Since the introduction of the programmes, there have been 50 new piggery farmers and over 100 new household kitchen gardens established. Another Taiwan supported program, the Microfinance Loan Scheme, has approved over 20 applications for a range of small businesses including bakery, egg farming and catering.

A locally owned fashion and design company, Amatalines Nauru, promotes and sells local fashion and designs for clothing, accessories, and artwork. The company was established in 2017 and shares talents from local youths for their designs. The brand has participated in three international fashion events since its inception.

The Labour Mobility Scheme is also progressing well giving over 50 Nauruans to date, access to overseas job opportunities.

Soc-Goal 5: A just society that recognises and respects the rights of women and children, that promotes equal opportunities

A Women's Policy was developed in 2015 and two years later the Domestic Violence and Family Protection Act was put into effect. Efforts continue to implement the legislation, including regular meetings of the DVFP Committee, gazetting and upskilling of counsellors, strengthening reporting and compilation of statistics and establishing MOUs with specific stakeholders. Implementation of the CEDAW recommendations is progressing with support from UNWOMEN, UNDP and SPC.

Building on the first ever Nauru National Women's Summit in May 2019 and outcomes document late in 2019, work will continue with the examination of the viability and impact of establishing child day care centres within different government agencies, beginning with a survey of women in the workplace.

In pursuit of equal opportunities for all, the Women's Affairs Division also seeks to launch a pilot program to introduce educational options (such as vocational skills) for prisoners to enable them to contribute meaningfully to their communities upon release.

The Government of the Republic of Nauru increased its capacity to generate sex-disaggregated data and to use gender statistics to guide national policy and decision-making, evaluation and learning and human rights reporting. This resulted from support to SPC's Progressing Gender Equality in the Pacific (PGEP) project.

Soc-Goal 6: Investing in Youth – a sustainable future for Nauru

The activities and participation of the Youth in Nauru has been sporadic over the years. There had been years where the Youth Council had been actively engaging the different development sectors in Nauru. In general, the youth council-bearers have a high turnover rate due to new work commitments, home duties and scholarship opportunities abroad.

The space for the Youth in development is important for designing and shaping the future Nauru, it is the faith-based organisation's youth group that has been sustainable and should be the source of generating the voice of the youth of Nauru's inclusive development process. Together with other development stakeholders, the strengthening for genuine engagement of Nauru's youth follows the national sustainable development strategy – Investing in Youth, a sustained future for Nauru.

The Life Skills program targets youth who either drop out of school or are unemployed, creating an opportunity to learn basic English, maths, office and vocational skills.

Soc-Goal 7: A robust, vibrant and effective civil society for a just and peaceful Nauru

While some NGO groups have become defunct, several new bodies have been established. One of the newer NGOs, ECO-Nauru, was granted the Small Grants Programme (SGP). Several grant applications from the community have been approved.

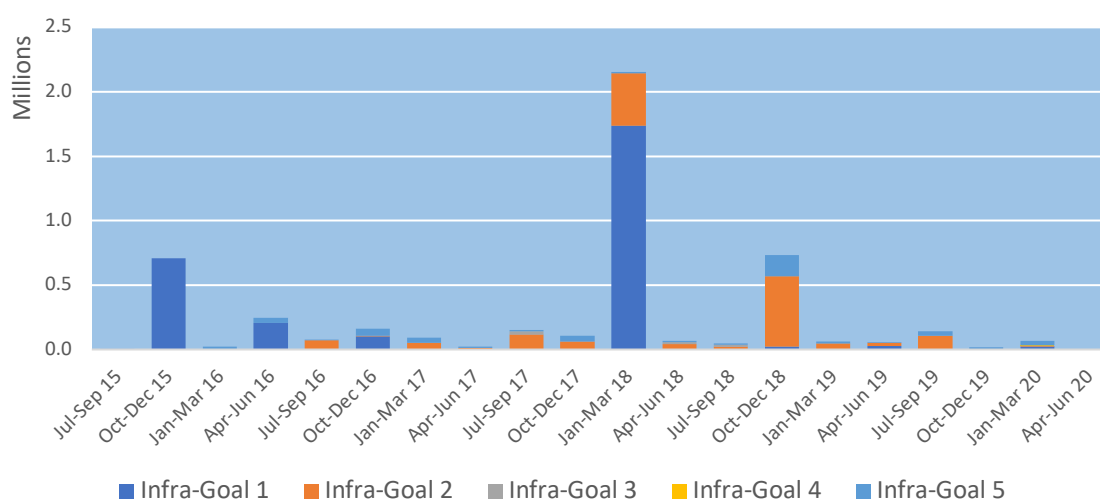
All major steering committees now include at least one representative from the community and/or NGO.

Several NGO members graduated the Pleders Course programme and are now fully qualified pleaders.

INFRASTRUCTURE SECTOR

Grant expenditure in the infrastructure sector includes reliable and safe energy and water supply, as well as the modernisation of the Nauru Port.

Graph 3: Infrastructure sector breakdown by goal



Infra-Goal 1: Provide a reliable, affordable, secure and sustainable energy supply to meet socio-economic development needs

Significant progress has been made toward delivering affordable, reliable and clean energy to all Nauruans. The Supporting Mainstreamed Achievement of Roadmap Targets on Energy in Nauru Project (SMARTEN) Project has progressed to detailed design stage, and aims to increase the application of feasible renewable energy and energy efficiency technology for supporting socio-economic development in Nauru in accord with the country's energy roadmap targets.

Approximately 2MW of power generation in total is now supplied by solar panels, comprising the Nauru Solar Farm project 1MW (NZ), 0.5MW (UAE), 0.5MW rooftops from the college and government buildings.

Preparatory ground work for the \$20m ADB-financed 6MW solar farm was completed during the year, with installation of the PV panels and battery storage to be undertaken in FY20-21. Evaluations

of bids are currently in progress and the tender is expected to be awarded before the commencement of the financial year. Once complete, this project is anticipated to lift clean power supply to nearly 50 percent of the electricity needs for Nauru.

All major parts for the refurbishment of the Ruston Generator have been purchased and the \$50k project is expected to be completed by October 2020.

Around 40 percent of the low voltage network has been refurbished. The remaining line sections that require refurbishment are included in this project - estimated budget is \$1.4m (funding yet to be secured from a donor).

Infra-Goal 2: Provide a reliable, safe, affordable, secure and sustainable water supply to meet socio-economic development needs

The focus is on maintenance of the water supply, including an estimated \$2.4m to connect the pipeline from the C tank building to RON hospital via Location (yet to secure funding).

Complications arose during the port redevelopment project involving the need to decommission and relocate the reverse osmosis inlet pipeline. As a temporary measure to allow dredging to begin, deep wells have been drilled and successfully tested.

A project to reline the C4 tanks will be commenced in 2020-21 with GON funding.

Infra-Goal 3: Effective management of waste and pollution that minimises negative impacts on public health and environment

A whole-island assessment of waste management systems and operations has been completed and at the recovery site, recycling processing is already in place. Further assistance is sought to include a green waste management space, bulky waste space and reusable waste space.

Recycling systems have been implemented in one school and one community site to-date with more to follow in FY20-21, along with a plan to install 50 community rubbish stands in targeted locations for better waste management.

Infra-Goal 4: Improve transport infrastructure and provide reliable sustainable transport services

With significant financial support from the ADB, Global Climate Fund and Australia, work commenced on the \$100m Port Redevelopment project, but encountered a number of operational and technical issues which slowed progress. Due to Covid-19 travel restrictions, it is expected that that project will be temporarily suspended, with the completion date now expected in late 2022. Once operational, the new facilities offer a strong incentive to regional shipping services, including the potential for container loading of fish and other ancillary services.

The airport runway surface has now exceeded its maximum expected lifetime and is deteriorating, posing an unacceptable safety and economic risk to Nauru. Options are being explored to resurface the runway, with tentative support from Australia.

Infra-Goal 5: Provide universal and reliable access to internationally competitive services and an independent and commercially viable media

The new state of the art Media building was due to be commissioned in 2020 but the pandemic crisis disrupted this accomplishment, as the construction expatriates were unable to complete the works

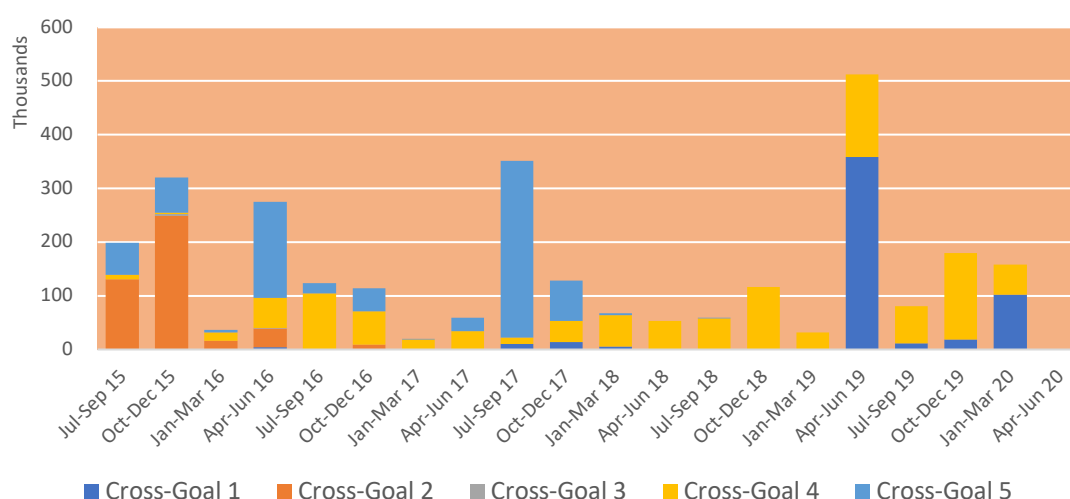
and installation of furnishings and technical equipment due to the Covid-19 travel restrictions. This purpose built building is planned to enhance media as an essential source of information and services.

As the sole provider of mobile telephony and data services in Nauru since 2009, Digicel Nauru Corporation provides a critical infrastructure link for government, private sector, communities and individuals. In April 2020, a dividend of over \$600k was provided to the Government, bringing the total to \$8.8m since operations began in Nauru.

CROSS-CUTTING SECTORS

In recent years, the majority of donor partner grant expenditure in the cross-cutting sectors has been directed toward enhancing the institutional capacity of public services and the environment, with a drop-off in grant funding for climate change activities (although this area is robustly supported through other modalities, and many climate change activities are categorised under infrastructure).

Graph 4: Cross-cutting sector breakdown by goal



Cross-Goal 1: Strengthen and develop the institutional capacity of the Nauru Public Service

The Public Administration division of the Department of the Chief Secretary has finalised a new fuel management policy and will begin implementation in FY20-21 to help reduce fuel consumption and improve the efficiency of Government services and operations. Buses will be procured for public employees to help improve attendance and reduce the burden of increasing transportation demand (approved pipeline, quotations obtained). All Government buildings and other public institutions are now protected by private security firms.

FY19-20 consolidated and built on the impressive previous progress for Nauru Post, including the presentation of a \$100k dividend to the government, transfer of warehouse operations from the Department of Finance, and the launching of several new services including the popular Frigate Logistics freight services. Plans for FY20-21 and beyond include strengthening the IPS.POST system and the potential for registered/insured postal services and an addressing regime for Nauru.

Progress was made through the year on improving public financial management through implementation of the PFM Roadmap that followed the PEFA self-assessment in 2016. Key milestones reached include the completion and submission to the Nauru Auditor-General for audit of

the 2016-17 financial statements, adoption of IPSAS cash accounting standard, publication of regular quarterly budget performance reports, configuration of the Financial Management Information System to better support the internal control framework and accuracy of transaction information, review of the chart of accounts, and commencement of regular bank reconciliations.

An outsourced internal audit function has been established and a stand-alone Ministry of Finance website is in development to improve the availability of key public finance information. A medium term fiscal strategy has also been implemented.

In 2019, a new Public Enterprise Act 2019 was passed, and this should underpin continued progress in improving the performance of State Owned Enterprises.

Cross-Goal 2: Strengthen Parliament, Audit, Justice, Law, Order and Border Control

A general upgrading of technical equipment was initiated for Parliament, including audio-visual systems, printing and recording for more efficient sessions and operations of the House. The digitization of Hansard old records is ongoing and technical assistance is being engagement through UNDP to assist in strengthening parliamentary management, building capacity of parliamentarians and staff on effective and transparent law-making, and committee roles rules and procedures.

At the judiciary, a new Court of Appeal has been established; over 40 graduates have now graduated from the Pleders course programme introduced in 2016; a new position for Director of Public Prosecution Electronic Database System was established and new immigration/visa management system and software commissioned.

Training and workshops continued for the continued development of the department's capacity; including national workshop on the United Nations Conventions Against Corruption and endorsement for a Law Revision and Consolidation Project which is expected to launch in FY20-21.

Cross-Goal 3: A transparent and fair land management system that supports social, economic and private sector development

The Nauru Rehabilitation Corporation (NRC) is embarking on the complex and massive task of rehabilitating Nauru's mined out lands. NRC has been working with the Pacific Community (SPC) over two years on plans on ways forward for Nauru's land rehabilitation – which will become the biggest project on Nauru, requiring multiple stakeholders. The SPC were engaged to see through the work on options for rehabilitating the topside area.

The Nauru Rehabilitation Corporation (NRC), in collaboration with other stakeholders including Government Departments, community leaders, NGOs and Private sector, are in the process of developing a comprehensive land use plan for future development and management of Nauru's limited land space, with support from New Zealand.

Cross-Goal 4: Sustainable use and management of the environment and natural resources for present and future generations

Ridge to Reef (R2R) is a long-term project that began in 2016 and is aimed at preserving biodiversity, ecosystem services, improve climate resilience and sustain livelihoods in Nauru using a ridge to reef approach. Priorities include installation of compost systems in government schools, establishment of kitchen gardens in more than 50 households, and a water harvesting project focused on households with kitchen gardens.

Cross-Goal 5: Build up resilience to combat the effects of climate change and natural disasters

The Nationally Determined Contribution report was revised and submitted during FY19-20, a National Climate Change Policy is under development, and the Environment and Climate Change Bill is now finalized awaiting parliamentary consideration.

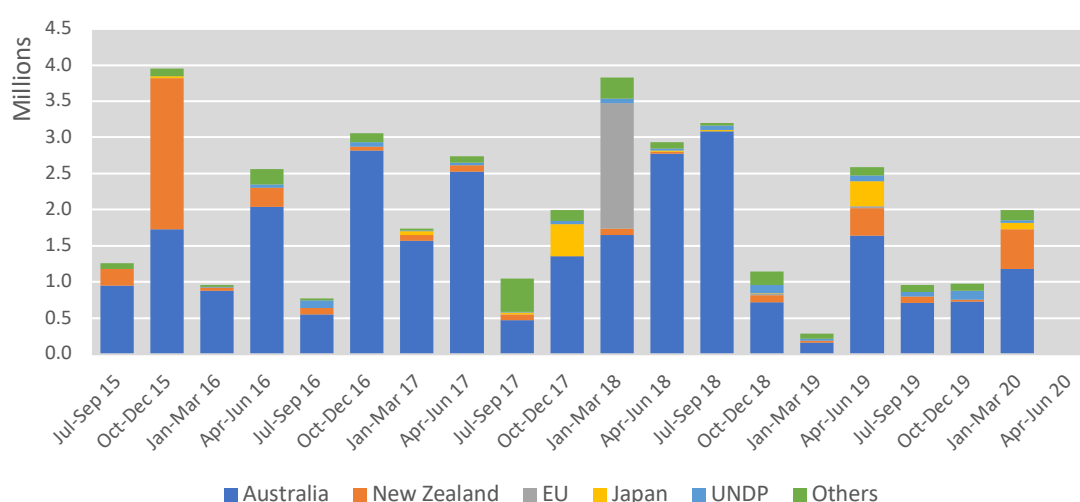
200 Household water tanks were procured and installed, funded by both Australia and GoN and other partners, and water distillation units were installed in 4 schools and at 3 community sites, with plans to expand the number of locations in FY20-21.

DEVELOPMENT PARTNER SUPPORT TO NSDS

Major development partners to Nauru remain unchanged from previous years. Support in the form of cash grants received and disbursed by government is led by Australia, EU, Japan, New Zealand and UN agencies plus a number of smaller bilateral partners, as illustrated in Graph 5.

Other donors, such as New Zealand provide significant cash support but this is not reflected by expenditure to-date, or in the case of Taiwan, budget support is provided directly into consolidated revenue and similarly not reflected here.

Graph 5: Top Donors by Grant Expenditure



The bulk of support received as in-kind (direct payments to vendors on behalf of Nauru, gifted assets, technical assistance or training/scholarships) and the balance as grants and budget support.

DEVELOPMENT FUND

The Development Fund was created in 2011 to receive grant funds from development partners and in-turn reimburse the Treasury Fund for eligible expenditure as per the specific agreement with each partner. Expenditure from the Development Fund is tied to capacity to implement projects by line agencies and disburse funds through the Nauru public financial management system. Bottlenecks in project management capacity, procurement or payment processes directly translate to slow disbursement from the Development Fund.

Development partner support in FY19-20 in the form of cash grants was projected at \$5.9m (exclusive of budget support from Taiwan, which is received into consolidated revenue), whereas funds received is approximately \$12.94m. This reflects changes in delivery modality for several projects (such as health support from Australia switching to in-kind) but is more than offset by one-off receipts in connection with the Indonesia tug boat and Covid-19 assistance.

Development Fund revenue for FY20-21 is forecast at \$22.4m – which includes \$3.68m for the tug boat/barge and \$3m Covid-19 funding carried over into FY20-21.

Table 4.1: FY19-20 Grant Expenditure vs Grant Revenue (AUD)

	Expenditure	Revenue
Quarter 1	958,500	592,482
Quarter 2	1,010,947	218,336
Quarter 3	1,992,117	4,985,235
Quarter 4	5,060,218 *	7,145,106 **
Total FY19-20	9,021,782	12,941,159

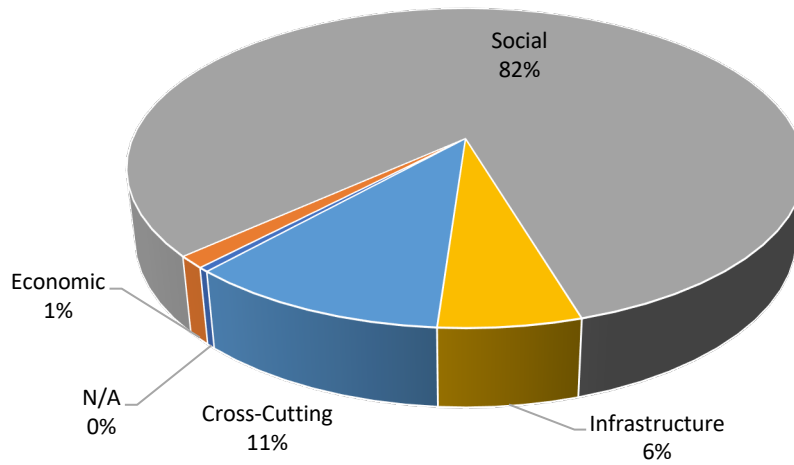
* estimate based on average plus \$3.7m COVID-19 expenditure

** estimate based on average plus \$6.7m COVID-19 revenue

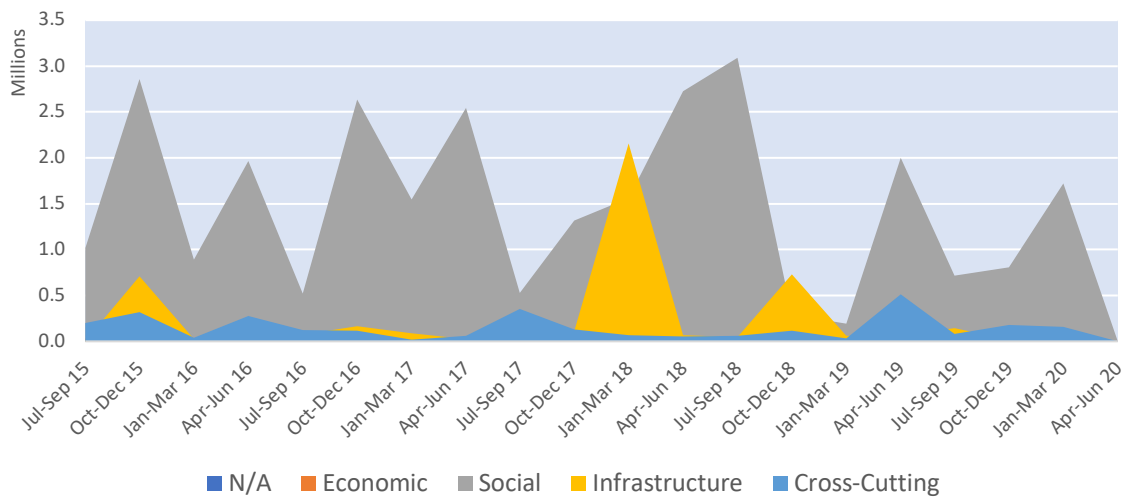
As illustrated on Table 4.1, there is little correlation between cash grant revenue and expenditure. Revenue is received in tranches and typically take time to disburse (sometimes across multiple fiscal years), whereas expenditure patterns are project-specific (lumpy for some projects and linear for others) and also reflect the implementation capacity of the receiving agency.

Funds received for the Indonesian tug boat and barge account for the spike in revenue in Q3 and Australian, New Zealand, ADB and Taiwanese Covid-19 support is included in the large revenue figure for Q4. Withheld invoices for education account for the solid quarterly expenditure in Q3.

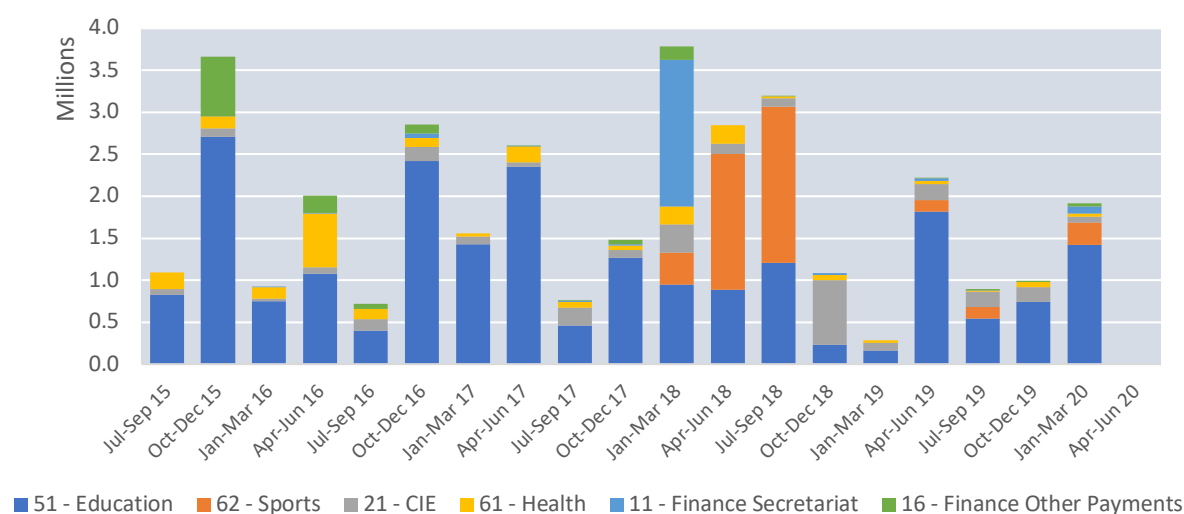
Significant differences between quarterly grant revenue and expenditure is normal and not cause for concern. However, over the period of four quarters, the total expended should be similar to the total revenue for the same period.

Graph 6: FY19/20 Expenditure by NSDS Priority (up to Q3)

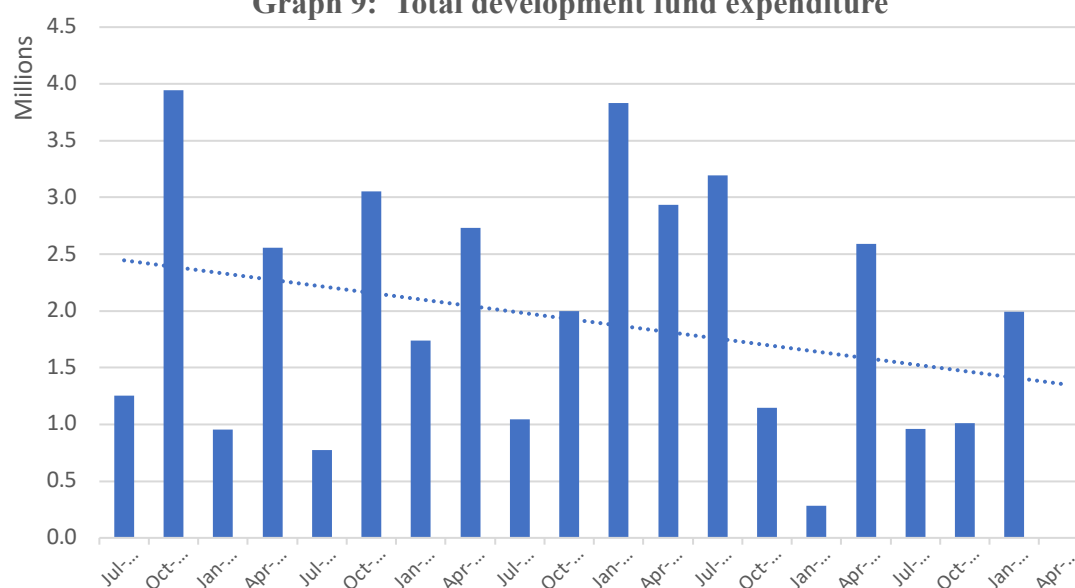
The bulk of grant funds are directed to the social and community sectors, predominantly in education and health, as seen on Graph 6. This generally reflects the 5-year trend (graph 7), with a few exceptions for major infrastructure projects that were funded via cash grants (less common now).

Graph 7: Quarterly spend per priority sector

A historic view of expenditure by Government department (refer to Graph 8) similarly reveals that education has received the bulk of grant funds over a sustained period of time, with expenditure peaks displayed for other specific projects, such as for the sports complex in 2018.

Graph 8: Top departments by Dev Fund expenditure over last 5 years

Graph-9 highlights the highly variable nature of quarterly grant expenditure. Expenditure is beginning to show a downward trend, reflecting a gradual shift in delivery modalities for support, most notably from grants to in-kind assistance from Australia in the health sector.

Graph 9: Total development fund expenditure

CHALLENGES AND OPPORTUNITIES

Key challenges fall into the categories of prioritisation of needs and implementation capacity.

Seamless coordination of domestic and development fund spending requires clear planning and a disciplined use of resources. FY19-20 saw relatively low submission rates and document quality for Annual Operational Plans across the various departments and divisions which point to significant room for improvement in the planning of funds disbursement. However, this was ameliorated by

higher-than-expected domestic revenues which masked planning deficiencies through readily available funds and several supplementary budgets.

FY20-21 will require greater prioritisation of needs, covering both domestic and development partner funds, hence more emphasis has been placed on support for planning in anticipation of a lean revenue year. There was a significant increase in AOPs submitted as part of the budget process.

Implementation capacity remains a challenge for Nauru, most notably problematic procurement, insufficient staffing capacity and a broad need to enhance technical and project management skills. These issues led to the return of \$3.9m in unspent, expired funds to Australia in January 2020, and underspending on existing education grants from Australia and New Zealand.

Much of this issue relates to prior years where funds received exceeded the capacity to disburse, leading to an ever-growing balance of unspent funds that carried the problems forward into each new fiscal year. These unspent balances are slowly being resolved and funds received are now generally in the vicinity of actual expenditure on an amortized basis. Ultimately, however, Nauru needs to address the issue of implementation capacity through ongoing upskilling programs, allocation of responsibilities appropriately and the inclusion of project management capacity within project budgets.

In the context of development support, opportunities for Nauru exist in building the confidence with donors to increase the portion of assistance provided as general budget support or grants. Hence, ongoing public financial management reforms, maintaining discipline with respect to wise spending and priorities, and upskilling of Nauruans is critical.