



# REPUBLIC OF NAURU

## 2017-18 BUDGET

## BUDGET PAPER 2

CIRCULATED BY  
THE HONOURABLE DAVID ADEANG, MP  
MINISTER FOR FINANCE OF THE REPUBLIC OF NAURU  
FOR THE INFORMATION OF HONOURABLE MEMBERS  
ON THE OCCASION OF THE BUDGET 2017-18

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## PART 1: Economic Outlook

Moderation in the economy has been experienced in the current financial year. No new GDP figures are available but a contraction has been evidenced during the year in government revenues. In the 2017-18 financial year, a further 4%<sup>1</sup> contraction is expected from the demobilisation of the expatriate workforce involved in the construction of the RPC and related facilities on the island. Further, uncertainty around the effect of an unknown number of refugees being resettled from the island to the United States during the year has been reflected in a decrease in expected government revenue compared to current year revised estimates.

Medium term expectations are that growth will return to around 2% per annum. Domestic inflation is running at around 4.53%<sup>2</sup> which is below expectations and is also expected to moderate to around 2% over the medium term. Improved Port operations flowing from the recent replacement of the deep-water moorings are expected to reduce import costs and potentially increase phosphate exports.

Fluctuations in the continued operation of the RPC and the number refugees settled in the community have major impacts in the local economy and the current expectation is that some refugees will be resettled in the United States during the forthcoming year.

Fishing revenues have remained high during the year and the expectation is that a similar level of return will occur next year. Phosphate production and export targets have not been achieved during the year and it is hoped that with recently replaced moorings loading problems associated with phosphate will be removed and exports improve. Sources of primary phosphate are small and future production will be dependent upon accessing secondary phosphate and improved efficiencies. Overall the level of economic activity associated with mining is expected to continue to diminish.

Domestic inflation in the economy has moderated as expected and based on the March 2017 quarter is 4.26% p.a. The major increase during the year have been in transport and communication costs. It is expected that the inflation rate will continue to moderate to around 2% p.a over the medium term.

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<sup>1</sup> IMF 2017 Article IV Consultation, January 27, 2017

<sup>2</sup> March 2017 Quarter CPI Nauru Bureau of Statistics

## PART 2: Economic Statistics

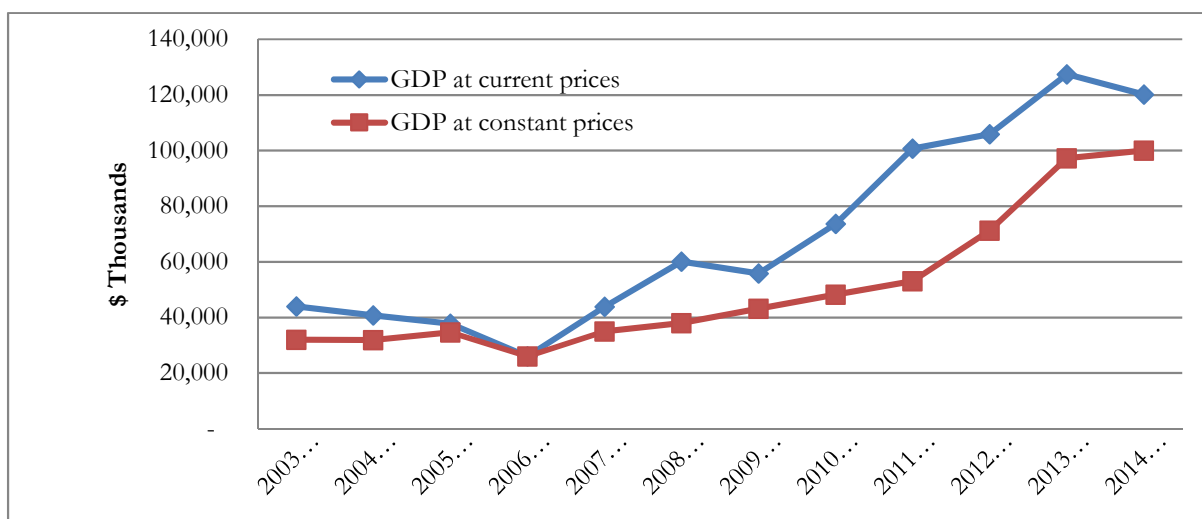
Nauru became the 189<sup>th</sup> member of the International Monetary Fund (IMF) in April 2016. Membership at the IMF requires the compilation of statistical data to comply with the IMF's surveillance program. Statistical data requirements are largely related to economic statistics comprising of the System of National Accounts (SNA) used for deriving the Gross Domestic Product (GDP), Balance of Payments (BOP), Government Financial Statistics (GFS), Consumer Price Index (CPI) and International Merchandise Trade Statistics (IMTS).

### National Accounts

The latest SNA update was made with extensive technical assistance (TA) from the IMF Pacific Technical Assistance Centre (PFTAC). This concentrated assistance was to provide and finalise Nauru's SNA numbers and calculations for the 2017 IMF Article IV mission. The SNA estimate is in line with the UN's System of National Accounts which enables international comparability of estimates.

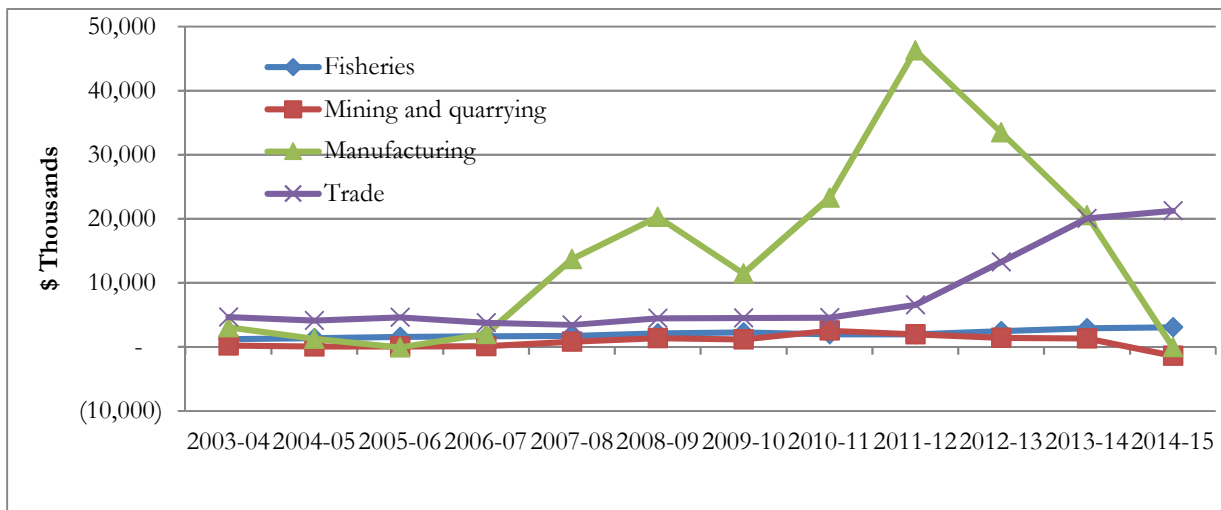
The following charts provide historical trends for national accounts based on the latest confirmed data ending 2015.

**Chart 1. Nominal GDP at current Prices, and Real GDP at current Prices (2007 Prices) from FY2004 to 2015.**



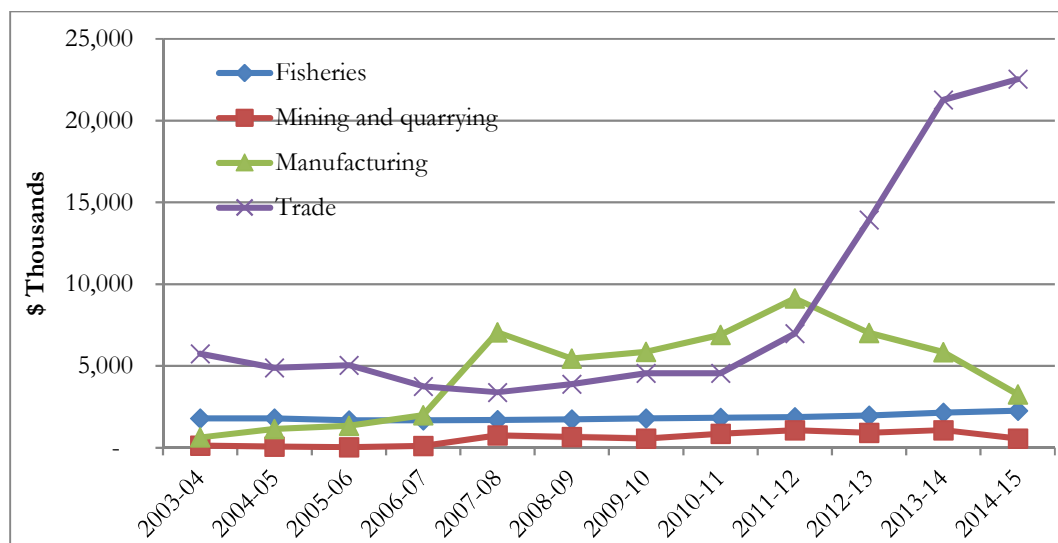
Real GDP growth was estimated to have rebounded to around 10 percent in Financial Year 2016 thanks to temporary seaport repair, robust service sectors, and a large increase in government spending.

**Chart 2. Nominal GDP at current prices 2004-2015 of four major industries.**



Inflation was about 9 percent on average during FY2015–16 owing to strong domestic demand, large cash payouts (A\$78 million) to landowners from the liquidated NPRT assets in FY2014, and supply shortages caused by the seaport problem.

**Chart 3. Real GDP at current prices (2007 Prices) GDP from FY2004 to FY2015 of four major economic industries.**

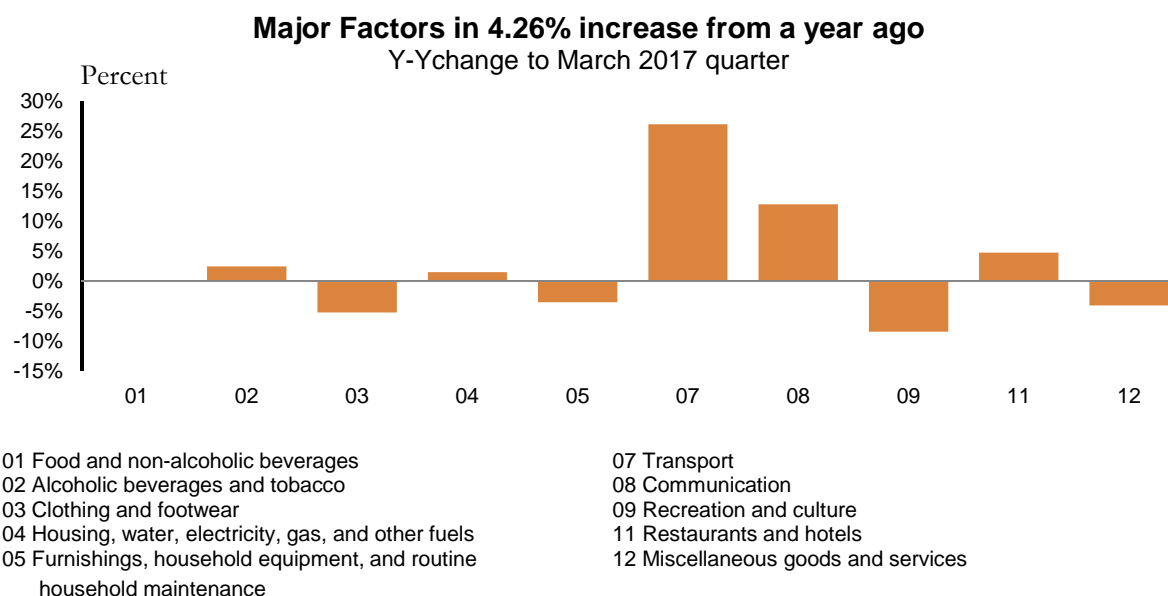


### Consumer Price Index (CPI)

For the March 2017 quarter, prices in the Transport group increased 26.12 percent, influenced by a significant growth in imported Japanese vehicle (up 248.23 percent), petrol (up 14.29 percent) and diesel (up 10.56 percent).

Chart 5 below depicts the annual CPI year on year change to March 2017 quarter

Chart 5. CPI Annual % change



**Source:** Nauru Bureau of Statistics

It is noted that five of the ten divisions in the CPI made upward contributions. By divisions, the main upward contribution came from Transport (up 26.16%). Higher prices were also recorded for the divisions:

- Communications (up 12.83%)
- Restaurants and hotels (up 4.77%)
- Alcohol beverages and tobacco (up 2.45%)
- Housing, water, electricity, gas and other fuels (up 1.51%)

Downward contributions came from the divisions:

- Recreation and culture (down 8.46%)
- Clothing and footwear (down 5.26%)
- Miscellaneous goods and services (down 4.04%)
- Furnishings, household equipment and routine household maintenance (down 3.51%)
- Food and non - alcoholic beverage (down 0.13%)

The main individual upward contributions during the year came from:

- Used car (up 248.23%)
- Internet top up at home (up 58.11%)
- Onions (up 37.38%)
- Potatoes (up 33.43%)
- Lamb chops (up 32.43%)

Individually, the main downward contribution came from lower prices for compact disc (down 46.59%). Lower prices were also recorded for:

- Used utility vehicles (down 43.68%)
- Washing machines (down 28.68%)
- Noddy birds (down 25.00%)
- Dishwashing soap (down 24.64%)

Communication group increased by 12.83 percent. This was influenced by a rise in prices of internet top up at home (up 58.11 percent), mobile phone (up 12.77 percent) and mobile phone credit top-up (up 4.75 percent).

The Restaurant and hotels group also reported increases with take-out meals from restaurants (up 4.77 percent) attributing to the growth.

The Housing, water, electricity, gas, and other fuels group increased 1.51 percent influenced by a rise in the price of Butane and LPG gas (up 12.20 percent).

The Food and non – alcohol beverages rose slightly with 0.64 percent and is mainly attributed to growths from onions (up 37.38 percent) and potatoes (up 33.43 percent).

The Recreation and culture group decreased 8.46 percent as a result of drop in prices for compact disc (down 46.59 percent)

The Clothing and footwear group declined 0.52 percent influenced by boy's pants (down 20.63 percent) and women's pants (down 12.64 percent).

Furnishings, household equipment, and routine household maintenance group decreased 3.59 percent. This was influenced by a rise in prices of washing machine (down 28.68 percent) and air conditioner (down 25.03 percent).

The Miscellaneous goods and services group also declined 4.03 percent influenced by a decrease in price of baby nappies (down 9.51 percent) and deodorant (down 8.88 percent).

### **Annual price change for Alcohol beverages and tobacco group**

For the year, up to the March 2017 quarter, Alcohol beverages and tobacco prices rose 2.45 percent. An increase in the price of spirits (up 17.65 percent) was a major contributor to the group's overall increase. Another contributor is the price increase for beer (up 6.67 percent) while cigarettes remained unchanged.

## **Balance of Payments**

Balance of Payment(BOP) estimates have benefitted from numbers produced by the International Merchandise Trade Statistics (IMTS) which contributed to large changes. Despite the progress, there is still a lot of work required to reduce the large net errors and omissions recorded to date.

Under IMTS, Nauru Bureau of Statistics have used partner country data and enterprise data to compile it's IMTS on an annual basis from 2006 to 2015 and will continue doing this until such time it is able to source data from Nauru Customs<sup>3</sup>.

Nauru's major trading partners/countries of consignment are Australia, Fiji and New Zealand. These are the three countries from which data have been sourced and after valuation adjustments turned into

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<sup>3</sup> Systems are being put in place at Customs to the capture of data.

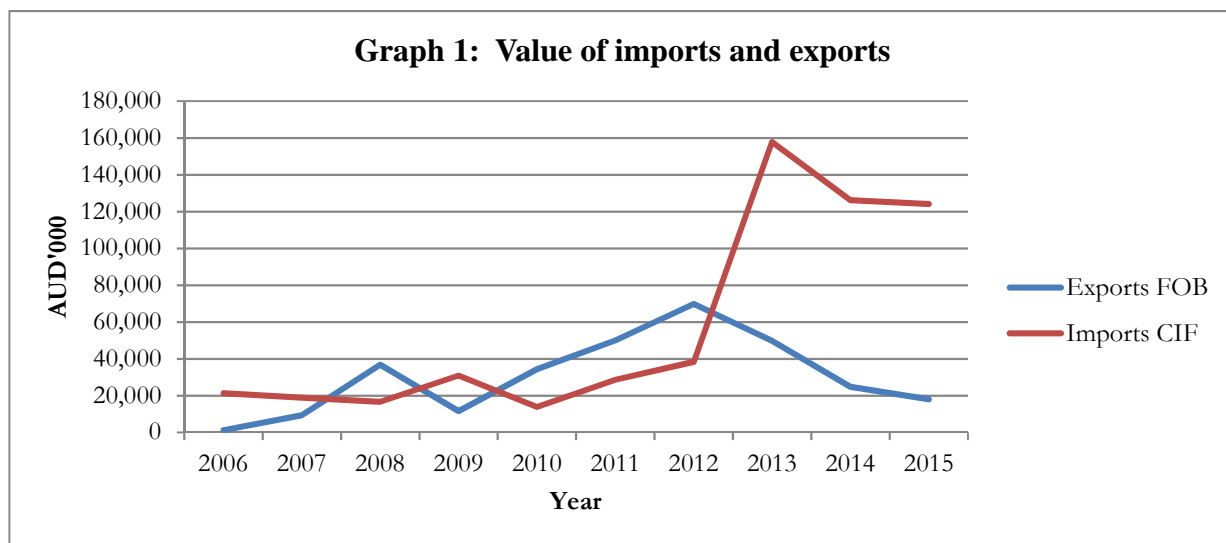
Nauru's IMTS. There is a possibility that information on some merchandise, in particular those that don't pass through these countries have not been accounted for. Omission of data, if any, is not deemed to be significant.

This release which provides statistics on exports and imports by commodity and country will help policy makers' better plan and negotiate trade deals as well as develop relevant trade policies.

## Provisional International Merchandise Trade Statistics 2006-2015

### 1. Value of exports and imports

Annual IMTS from 2006 to 2015 is depicted below.

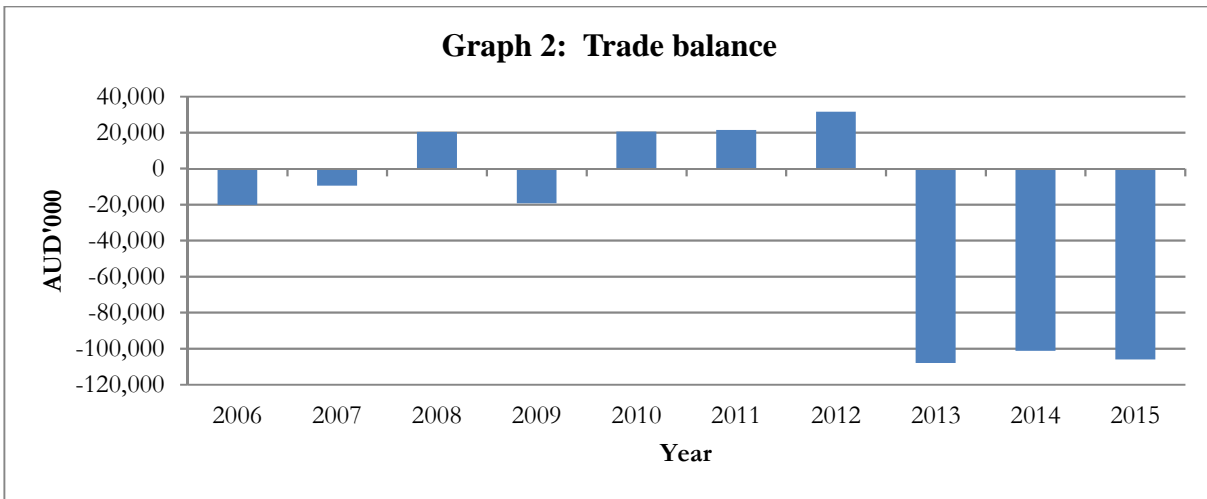


- Exports have grown from 2006 when it was \$1,302 thousand dollars to \$18,089 thousand dollars. It peaked at \$69,850 thousand dollars in 2012 due to higher exports of phosphate.
- Imports have grown steadily from 2006 when it was \$21,435 thousand dollars to \$124,165 thousand dollars in 2015. It peaked at \$157,812 thousand dollars in 2013 mainly due to the construction activities on the island, as well as the presence of the Regional Processing Centre (RPC).

### 2. Balance of trade

From a trade deficit of \$20,133 thousand dollars in 2006, the deficit increased to \$106,076 thousand dollars in 2015.





The high trade deficit between 2013 and 2015 is attributed to higher imports which quadrupled in 2013 and continued through to 2015 due to the imports of:

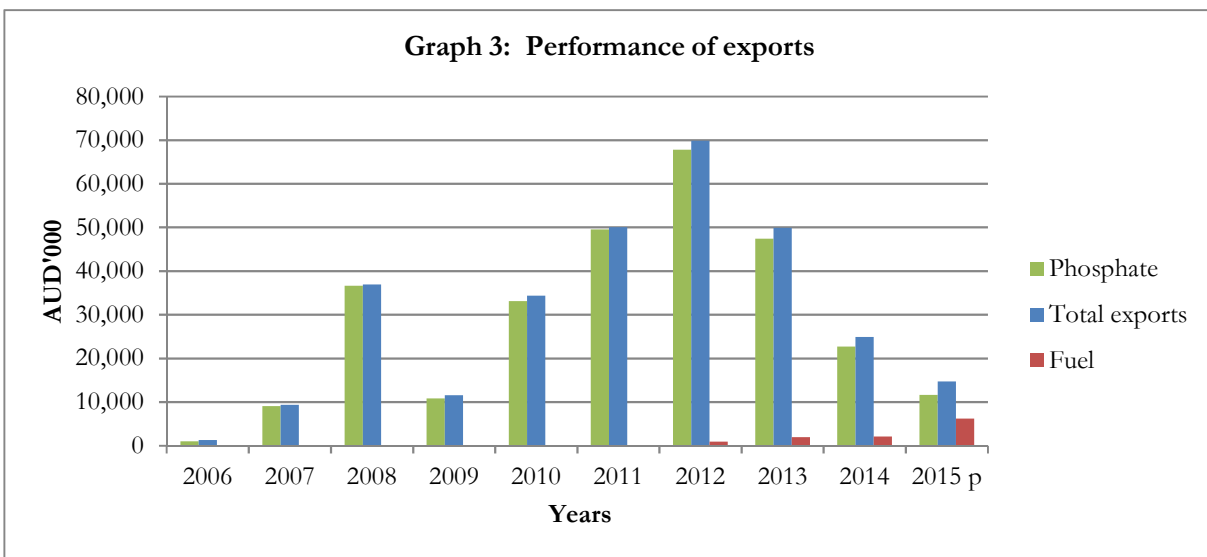
- construction materials,
- machinery,
- vehicles,
- fuel,
- food, and
- cigarettes.

Trade surpluses were registered in 2008 and from 2010 to 2012 due to increased exports of phosphate.

The reasons for the movement of imports and exports are depicted below.

### 3. Performance of exports and re-exports

Total exports from Nauru are inclusive of re-exports.



Phosphate is the most important export of Nauru and it dominates exports. Exports of phosphate grew from \$1,302 thousand dollars in 2006 to \$36,893 thousand dollars in 2008. It dropped significantly in 2009 to \$11,564 thousand dollars due to the tampering of the conveyer belts which temporarily stopped operation for a few months. Then from 2010 onwards exports of phosphate showed a steady growth and peaked in 2012 when its export was \$69,850 thousand dollars. Since then exports of phosphate is showing a declining trend and stood at \$14,663 thousand dollars in 2015.

Re-exports is dominated by the single most important commodity, fuel. The fuel re-export figures include the sale of Jet A1 fuel to visiting aircraft. Data on fuel are only available from 2012 and can be seen from Graph 3, shows an increasing trend which is further illustrated as follows:

- 2013 shows annual growth of 111.5% since 2012,
- 2014 shows annual growth of 6.3% since 2013 and
- 2015 shows annual growth of 201.5% since 2014.

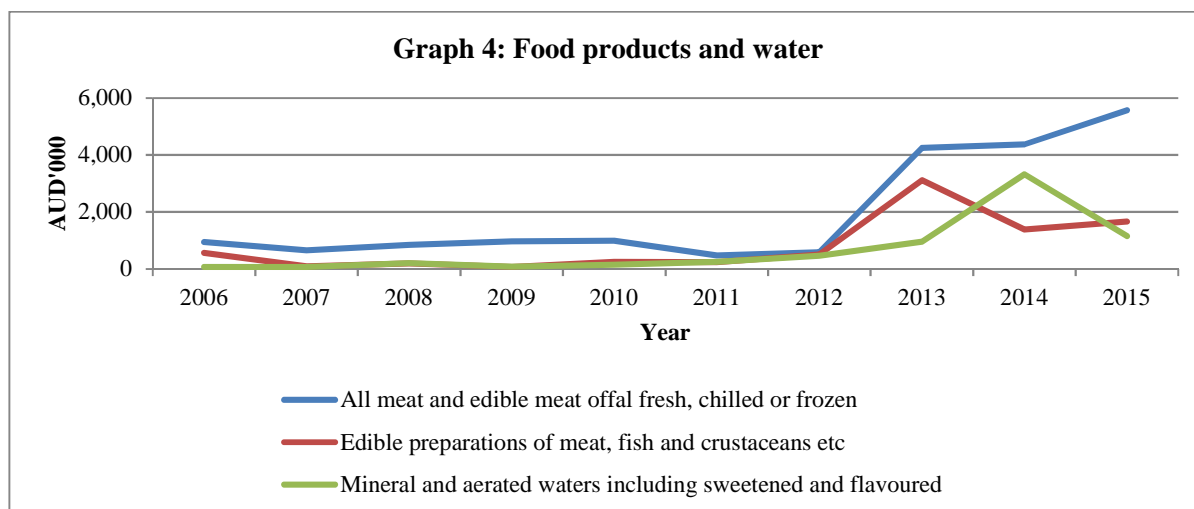
#### **4. Performance of imports**

As mentioned under value of exports and imports above, imports have grown from 2006 when it was \$21,435 thousand dollars to \$124,165 thousand dollars in 2015 and peaked to \$157,812 thousand dollars in 2013. Most of the commodities imported show increases from 2013. By 2015 whilst many have shown some decline, a few have continued to grow. The main reasons for the increase in imports are as follows:

- re-construction of the 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, resettled refugees and asylum seekers.

Commodities that have had a significant impact on the performance of imports for the period 2006 to 2015 are analysed below:

### a) Food products and water

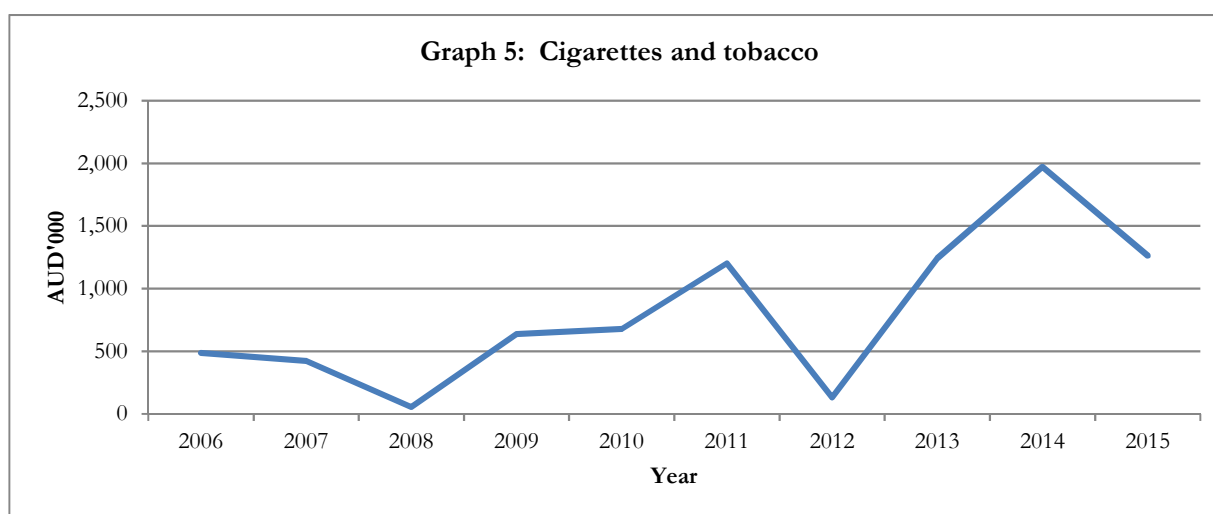


As of 2013 there was considerable increase in the imports of:

- meat including poultry and edible meat offal fresh, chilled or frozen from AUD589 thousand dollars in 2012 to AUD4,254 thousand dollars in 2013.
- edible preparations of meat, fish and crustaceans etc. from AUD505 thousand dollars in 2012 to AUD3,117 thousand dollars in 2013.
- mineral and aerated waters including sweetened and flavoured from AUD460 thousand dollars in 2012 to AUD960 thousand dollars in 2013.

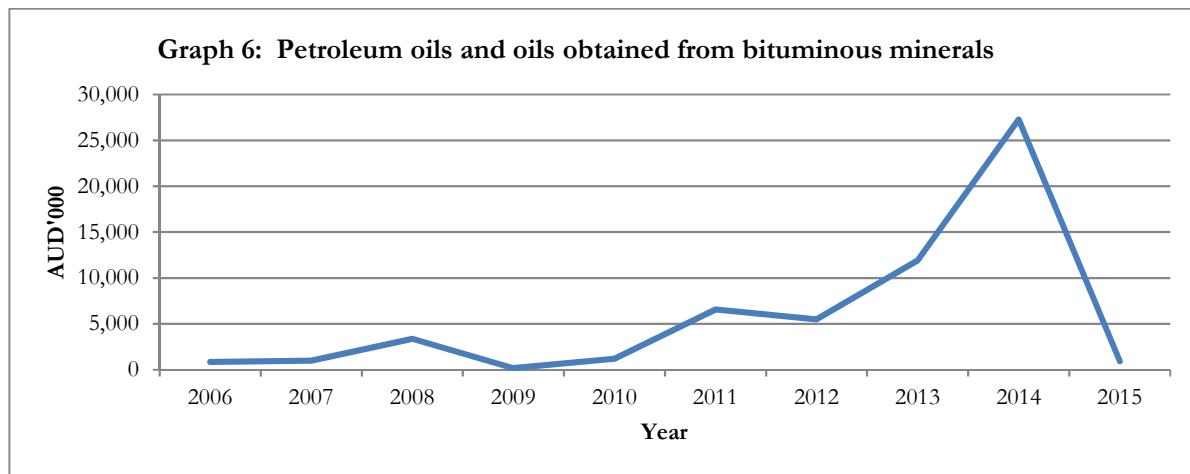
### b) Cigarettes and tobacco

Imports of cigarettes and tobacco over the period 2006 to 2015 were quite volatile. It dropped to AUD131 thousand dollars in 2012 after which it began to rise and in 2014 peaked to AUD1,973 thousand dollars.



### c) Petroleum oils and oils obtained from bituminous materials

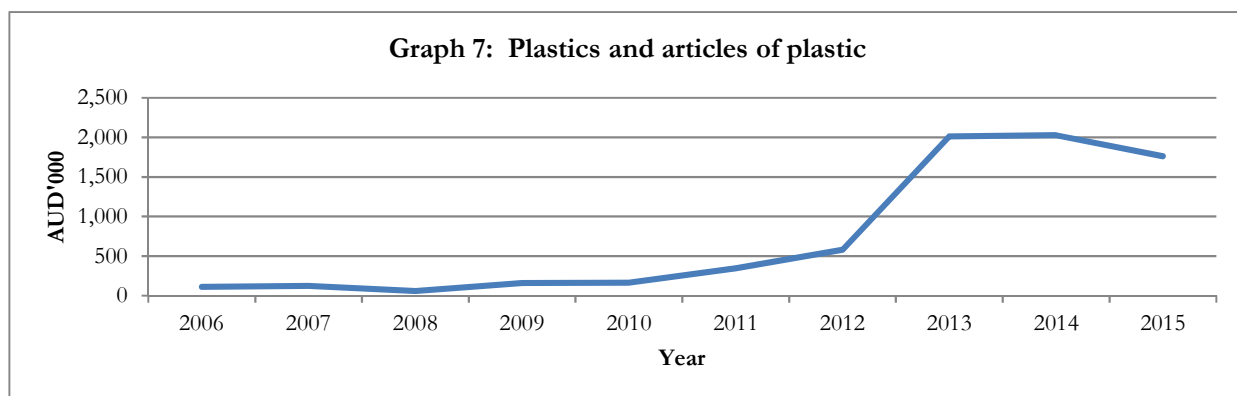
Imports of fuel showed a steady growth up until 2014 when it stood at AUD27,283 thousand dollars. In 2015 imports of fuel dropped to AUD923 thousand dollars which is a decline of 96.6% over 2014.



A decline in the imports of fuel was anticipated with some construction projects completed and a decline in the use of fuel in the phosphate industry. However, the main contributing factor for the decline was the stock of fuel held by Nauru Utilities Cooperation - Tank Farm as a result of the high import of fuel in 2014.

**d) Plastics and articles of plastic**

Plastics and articles of plastic showed a steady growth up until 2013 and then by 2015 started to decline.

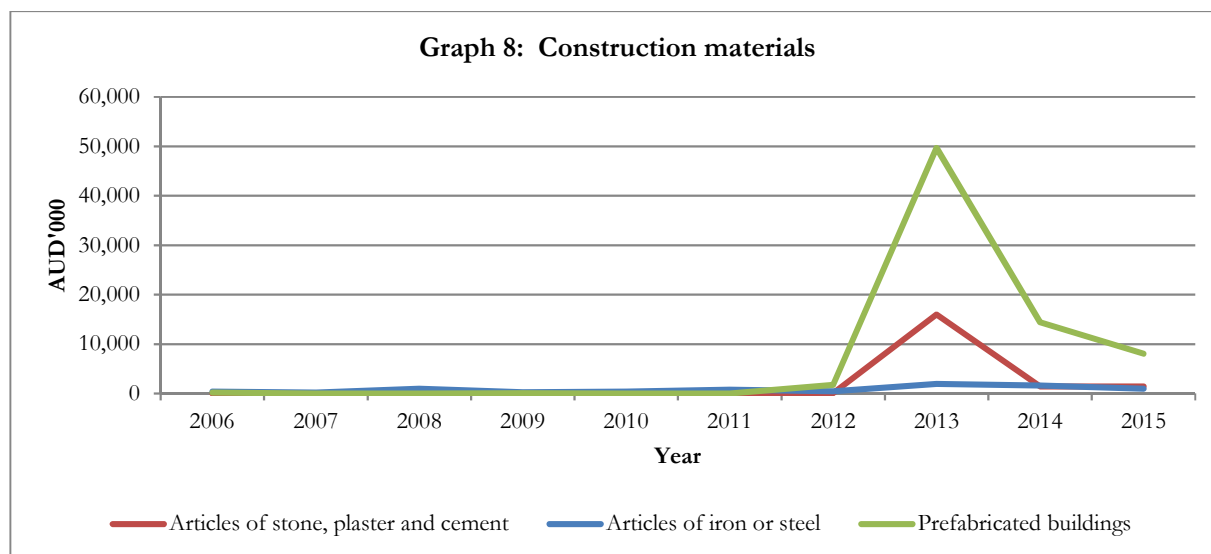


Commodities responsible for the increased imports were:

- rigid tubes, pipes, hoses and fittings,
- tableware and kitchenware of plastics,
- lavatory pans, flushing cisterns, bidets and similar sanitary ware, and
- reservoirs, tanks, vats and similar containers of plastics.

### e) Construction materials

The rise in the 2013 imports of the construction materials is attributed to the rebuilding of the RPC, as well as the local construction projects.



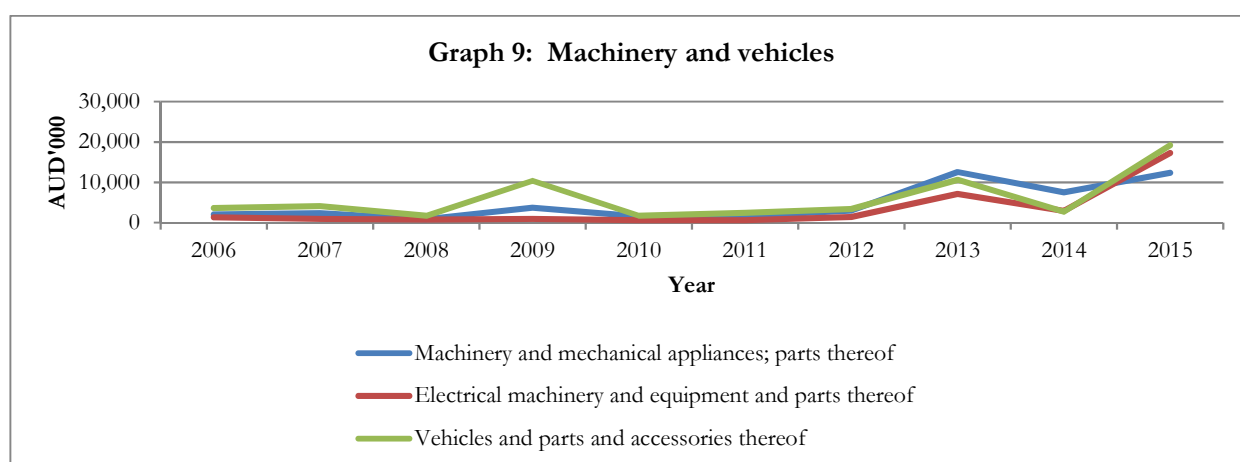
Key construction materials imported were the:

- prefabricated buildings,
- prefabricated structural components for building or civil engineering of cement, concrete or of artificial stone,
- grill, netting and fencing of iron or steel, and
- towers and lattice masts of iron or steel.

All of them show considerable increases from 2012 to 2013.

### f) Machinery and vehicles

During the period 2006 to 2015 imports of machinery and mechanical appliance and vehicles were quite volatile, with 2009 and 2013 showing significant growths.

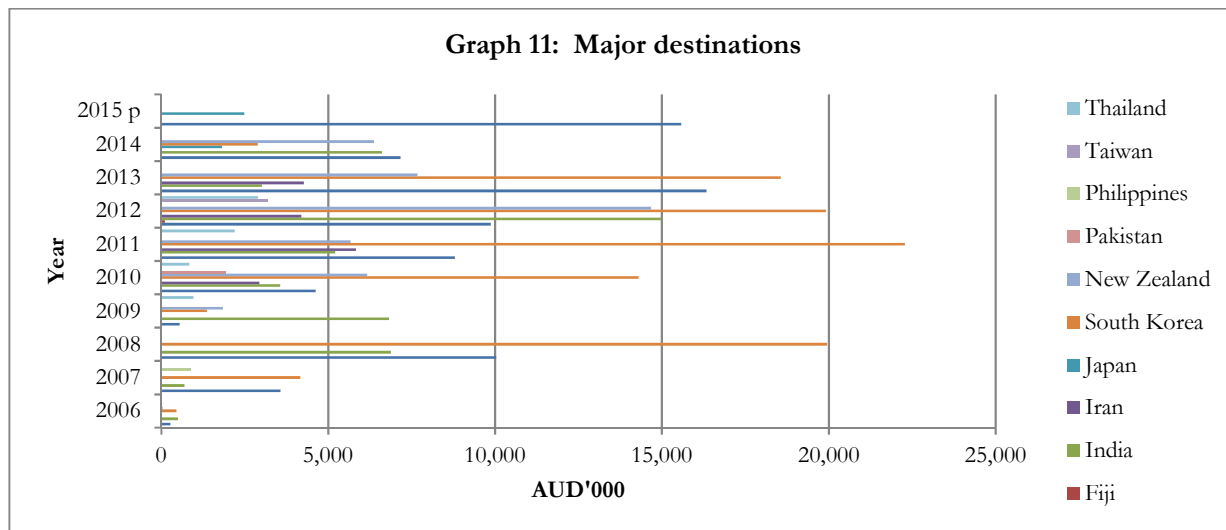


The increase in 2009 and 2013 of those commodities and in 2013 of electrical machinery and equipment as well, correlates to the imports of construction materials. This indicates that the increased imports of machinery and mechanical appliances; electrical machinery and equipment and

vehicles and parts and accessories thereof was to support the construction projects carried out at those times. 2015 showed strong growth in the imports of machinery and mechanical appliances; electrical machinery and equipment and Vehicles and parts and accessories thereof.

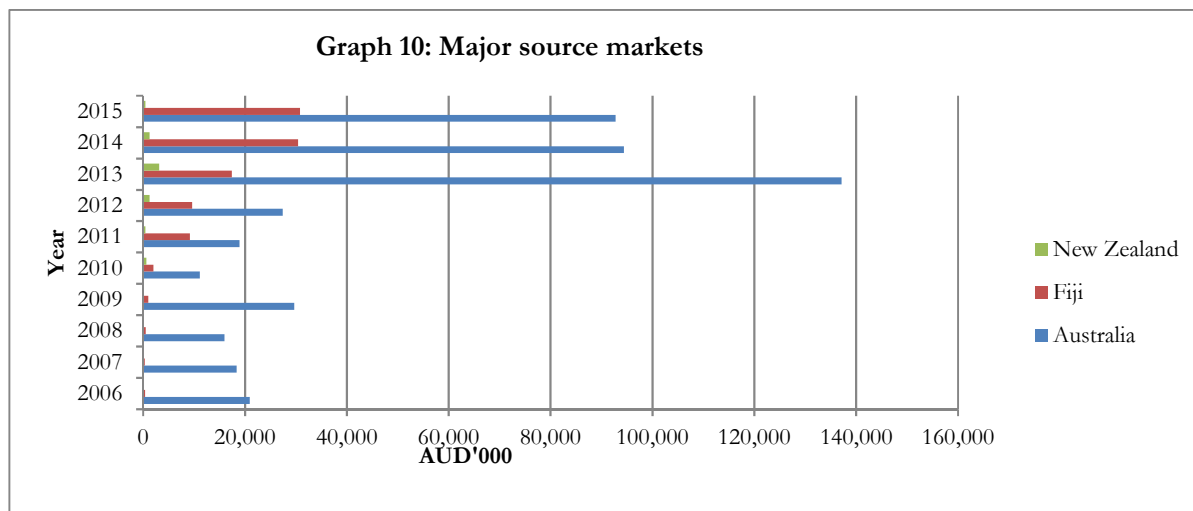
### 5. Direction of Trade

Traditionally for direction of trade exports need to be reported by country of destination and imports by the country of origin. For Nauru, except for exports of phosphate, reporting by country of origin and destination is not possible for a lot of commodities because of the source of data used for the compilation of IMTS. Therefore, except for phosphate, commodities are reported by the country of consignment.



#### a) Major Source Markets

Nauru’s major markets from 2006 to 2015 were 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 came either from or through Australia. The graph also shows considerable increases of imports from or through Australia from 2012-2015 for which the commentary under performance of imports can be referred to. Also, imports from Fiji have grown rapidly since 2009 due to direct shipment being re-established.

### b) Major destinations

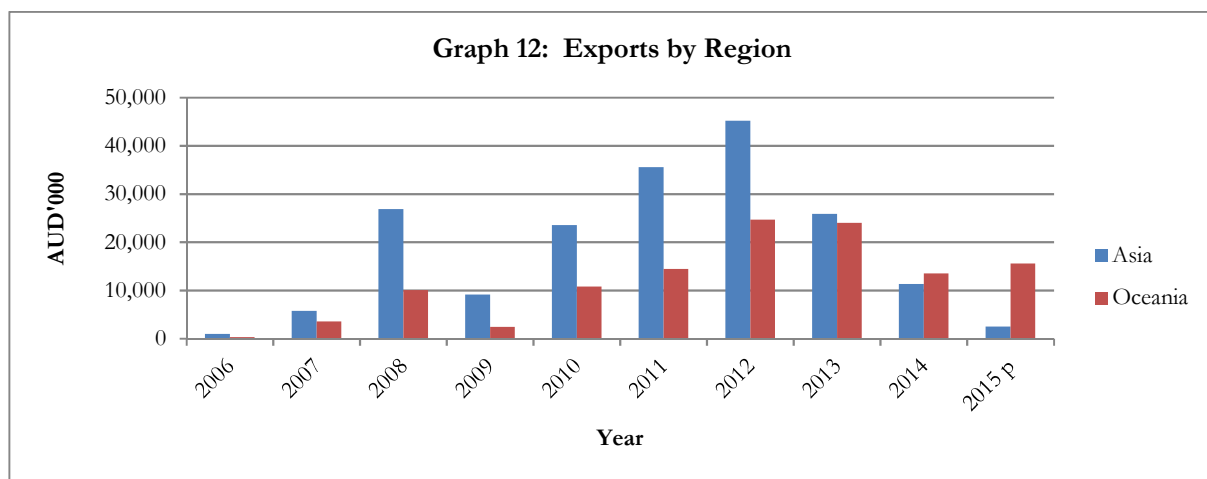
Nauru’s major destinations from 2006 to 2015 were:

- For re-exports of fuel, Australia
- For phosphate, Australia, India, Iran, Japan, South Korea, New Zealand, Pakistan, Philippines, Taiwan and Thailand.

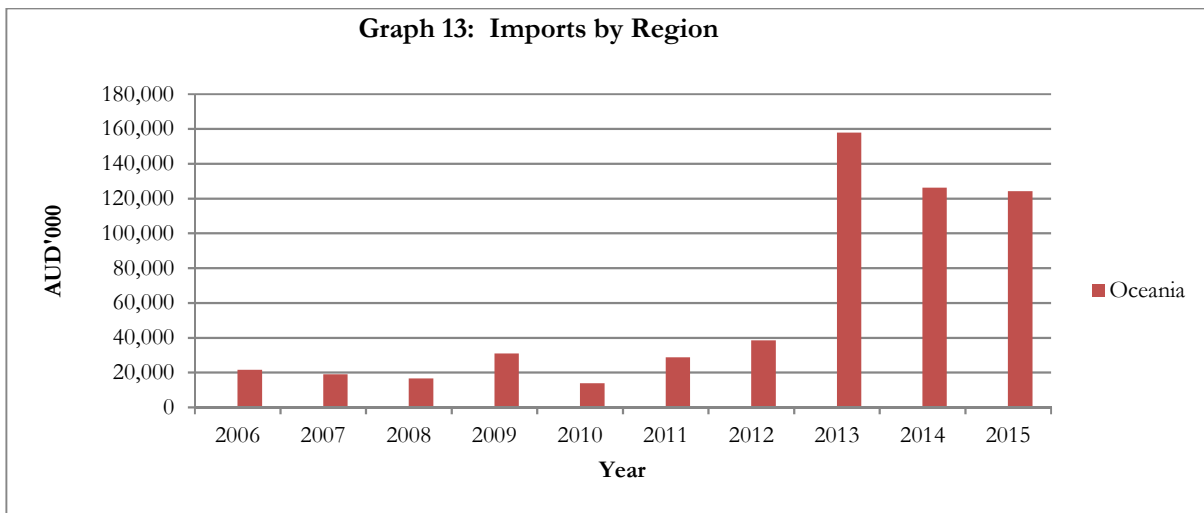
Other than fuel and phosphate, exports from Nauru went to or through Australia, Fiji and New Zealand to the final destination. Refer Graph 11 and commentary under performance of exports. Reference can also be made to Table 6 in the Appendix.

### c) Trade by Geographical Regions

Nauru’s export analysed by Geographical Regions show Nauru exports going to Asia and to or through countries in Oceania to its final destination.



For years from 2006 to 2013 Asia dominated, because of high exports of phosphate to South Korea. From 2014, because of a decline in exports of phosphate to Asia, the trend changed to Oceania now being the main destination for Nauru’s phosphate.



Nauru’s imports analysed by region show Nauru importing from or through Oceania only. Reference can be made to Graph 13 and commentary under performance of imports.

## Labour Force Statistics

### *Labour Force Administrative Sources 2013-2016*

Table 1 and Chart 1 indicate similar results concerning the employment situation within the Nauru economy. Currently the two largest line agencies where most of the working population are engaged are for RON Government public service and the RPC officially known as the Regional Processing Centre.

**Table 1. Proportion of Employees of Locals and Expatriates by Employer during Periods 2013-2015**

EMPLOYER (%)	LOCAL			EXPATS			TOTAL			
	Y2014	Y2015	Y2016	Y2014	Y2015	Y2016	Y2013	Y2014	Y2015	Y2016
<b>RON Government</b>	39.9	40.5	41.4	3.6	3.5	3.7	38.6	43.5	44.0	45.1
<b>Regional Processing Centre</b>	17.2	17.2	18.9	14.8	13.9	10.4	7.0	32.0	31.1	29.3
<b>Ronphos</b>	9.3	9.5	8.1	0.3	0.3	1.1	15.1	9.6	9.8	9.2
<b>Eigigu</b>	7.3	7.1	7.3	0.5	1.1	1.9	12.3	7.8	8.2	9.2
<b>Nauru Rehabilitation Corporation</b>	5.4	5.0	5.1	0.2	0.3	0.2	9.7	5.6	5.3	5.3
<b>Nauru Airlines</b>	1.5	1.5	1.9	0.0	0.0	0.0	1.3	1.5	1.5	1.9
<b>*Other</b>	0.0	0.0	0.0	0.0	0.0	0.0	16.0	0.0	0.0	0.0
<b>Total (%)</b>	80.7	80.9	82.8	19.3	19.1	17.2	100.0	100.0	100.0	100.0
<b>Actual Totals</b>	3,790	3,837	3,941	909	908	819	3,086	4,699	4,745	4,760

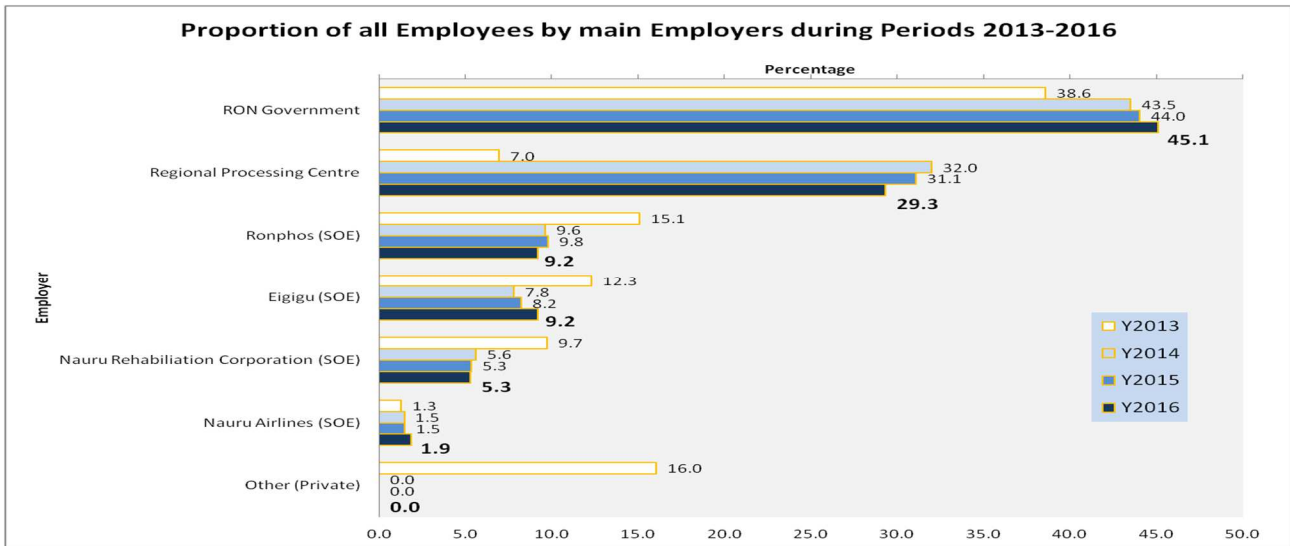
Sources: Derived from administrative sources

Note: \*not available mostly private sector i.e. security services, retail stores, restaurants and any small businesses  
Nauru Airlines are Nauru based only

Chart 1 shows that the employment population at the RON Government public service reached a slight increase to 45.1 percent in year 2016 compared to year 2015 which was 44.0 percent and 43.5 during the previous year in 2014.



**Chart 1: Proportion of all Employees by main Employers during Periods 2013-2016**



The employment population at RPC shows a slight decline to 29.3 percent in year 2016 compared to year 2015 which was higher at 31.1 percent. There is also a significant change in 2013 to 2014 during the early stages of establishing the RPC which increased rapidly from 7 percent to 32 percent in the following year. Administrative data for private sector are not available during the last 3 years since 2014 as such sources are captured from national census and household surveys.

For the periods starting from 2014 through to 2016, the population engaged in employment for the state-owned entities (SOEs) such as RONPHOS, Eigigu Holdings and Nauru Rehabilitation have continued to fall below 10 percent whereas Nauru Airlines remains steady as a proportion of all employment. Alternatively, RONPHOS and Eigigu Holdings have in the past achieved over 10 percent during year 2013.

## PART 3: State Owned Enterprises

This section provides a brief overview of the objectives and financial expectations of the SOE's in 2016/17

### Ronphos

The 2017-18 Budget for RONPHOS Corporation continues the current business strategy from last year.

1. To maximise return to our shareholder through vigilant management of assets of the Corporation as well as contributing to the growth of the Nauru economy by investigating options for future growth and stability.
2. To prepare RONPHOS for the future by careful management of operations and execution of business strategies to ensure that all parties are treated equitably when the transition is made from phosphate processing and sales to whatever operation that succeeds the current business structure. on

RONPHOS's budget and strategic/corporate plans in the past few years specifically have concentrated on: phosphate price, export targets, debt reduction, business continuity (plant and equipment), decommissioning of obsolete plant and equipment and research & development – secondary mining & alternative revenue sources. All but debt reduction and research & development are on track going forward.

2017-18 budget summary (A\$):

- Phosphate sales is estimated at \$22.8 million
- Operating expenses are estimated at \$22.8 million
- Net operating income is \$62,136
- Capital expenditure is \$850,000
- Debt repayment is \$1.0 million

Operating expenditure accounts for 93% of total expenditure. Projected Capital investment represents 3% of total expenditure with debt repayment the remaining 4%.

Production for the budget is estimated at 155,849 metric tonnes (mt). In addition to the opening stock of 5,700 mt, 160,000 is expected to be exported during the financial year. A conservative estimate for phosphate rock price per metric tonne is set at USD\$104. This estimate is based on forecasted market conditions at the time of this report.

While recognising three areas of emphasis: depleted cash reserves, NRC – mining performance & cash flow impact and land lease rates – revision of rates to \$8.50 from the former rates of \$3.60 (2014), the Board members are confident that the proposed estimates of revenue and expenditure will continue the current strategy of the business while at the same time contribute to the GoN's national strategic plans. As no balance sheet was produced for the budget it was not possible to review the current state of liquidity for the SOE or to review to actual cashflow requirements for the 2017-18 year.

## Nauru Rehabilitation Corporation

The 2017-18 NRC budget is in line with rapidly diminishing primary phosphate reserves, the need to transition to a secondary phosphate mining and the need to diversify revenue sources. The first six months of the 2017-18 year are critical to the future of both NRC and RONPHOS in their current delicate liquidity status.

NRC's projected revenue for this financial year is \$10.3 million. Projected operating expense are \$5.8 million. This will result in net cash flow from operations of \$4.5 million. If the budget is achieved, NRC will commence the rebuilding of its financial reserves that are required to finance continuing operations.

NRC revenue sources will be much more diverse than the 2016-17 year or the past. New sources of revenue include armour rock exports, seawall construction and land clearing. This diversification will allow NRC to build on into the future.

- Waste management revenues are projected to be around 263,000 up from \$100,000.
- Plant hire will remain similar from last year at \$415,000.
- Aggregate sales are estimated at \$1.1 million while RPC demand has fallen it is being taken up by household and local business demand.
- Armour rock while still depressed demand, NRC has recently offered a draft contract to Tuvalu for a value of \$1.3 million.
- Seawalls and land clearing revenues are estimated at \$1.4 million.
- Road maintenance will be close to \$1.0 million.
- Non-phosphate revenues are projected to be \$6.0 million.

Projected operating expenses for 2017-18 are 5.8 million up \$1.1 million from last year. This reflects the increased activities and corresponding direct operating costs. There is also an increase in the repairs and maintenance to ensure equipment is available to perform the work. NRC has made significant progress in containing fixed expenses.

Rather than cutting the absolute level of costs (\$5.7 million) the focus this financial year will be to address unit costs. This is achieved through improvements in truck/excavator productivity which has fallen in the past 5 years. NRC management will be conducting an analysis of productivity and exploring options for improvement along with seeking assistance in new methods of secondary mining in Nauru. As with RONPHOS no balance sheet was produced for the budget and with the large amounts of 90 days+ accounts receivable there will be substantial cash flow challenges if the revenue budget is not achieved.

## Eigigu Holdings Corporation

Eigigu Holding Corporation (EHC) has undergone a number of major management changes from both board appointment level to the operational management team. Eigigu Holdings Corporation has 7 subsidiaries namely, Eigigu Supermarket, Menen Hotel, Enigin, Eigigu Transport, Eigigu Hardware, Eigigu Constructions and Civic Centre in Nauru. Eigigu also have hotel namely The Great Eastern hotel in Majuro, Marshal Island. Currently, hotel is under dispute and unfortunately there is no revenue coming. Eigigu Holdings Corporation is taking care of expenses for this overseas subsidiary with landowners, lawyers, registration and travelling expenses to resolve the disputed issue of hotel.

During the 2016-17 year, Eigigu Supermarket has shifted to working on different business model. Supermarket used to have 1 supplier from Australia. Now, the Supermarket have multiple supply chain from Australia, Fiji and few Asian market. This was due in part to supplier issues and the change in shipping schedules.

Eigigu Civic centre is gearing to renovate, refurbish and give face lift to Civic Centre. This move is to make Civic centre ready for Nauru's 50<sup>th</sup> Independence year, 2018, Pacific Business Forum leaders meet in September 2018, Pacific Police Commissioner conference and other events. Eigigu is looking to spent close to \$ 1.0 million on renovation and inside fittings with furniture and making conference hall ready for all official events. This Budget has the Civic centre renovation expenses as well.

During the past year, various efforts have been undertaken to look at the levels and confirmation of trade creditors, establish the viability of operations in all divisions and overdue long-term liabilities to allow EHC to move forward. Threats to the group would include these unreconciled liabilities, current trading debts and uncertainty of the RPC level of operations along with the major risk of reliance on the Menen Hotel full occupancy revenue to support many of the non-performing activities.

Currently management is reviewing all activities and is recruiting a number of new staff to assist in the day to day management. The FY 17-18 budget has with Revenue of \$ 30,560, 860 and Expenses of \$ 25,006,215. This revenue of \$ 30.5 million and expenses of \$ 25.0 million is expected to have profit of \$ 3.72 after tax. The Menen Hotel operations are generating around 57% of the net profit revenue, supermarket 12%, construction 16% and the hardware 8% with all other activities contributing the balance of 7%. The total trading operating profit before tax and before management overheads is budgeted at \$5.6 million. No balance sheet was produced so the liquidity of the operation could not be evaluated. Any downturn with Menen Hotel revenues would have a major effect on the viability of EHC in the 2017-18 financial year.

## Nauru Airlines

The 2017-18 Budget for Nauru Air Corporation results in a surplus after tax. The budget like in past years has been prepared on a "bottom-up budget principles" and uses standard ICAO methodologies for cost allocation.

The budget is the heels of a difficult previous 2016-17 year for the airline. Significant extra-ordinary costs and foregone revenue opportunities have plagued the airline – principally engineering related. Extensive damage to VH-YNU as a result of a freak storm at Brisbane airport in November 2016 has reduced capacity for flying for over six months of the year. Extensive corrosion to the freighter VH-VLI has grounded the aircraft for again six months requiring cross hires to be sourced at additional costs.

A slowing down of the volume of DIBP flying as well as the reduction of the RPC related set-blocking by supplier (such as Construct) has led to a tapering of these revenues during 2016-17.

The budget assumes a further slowing down of RPC related flying as a result of the uncertainty of the level of activity that may remain if the refugee numbers decline. The budget assumes a further market consolidation and growth of the "north/south" sector through the airlines increased and targeted marketing activities. The inclusion of the Guam northern end and the reduction of the insufficient traffic ports of Kosrae and Chuck is budgeted to deliver a positive contribution to the 'island-hopping' services this financial year.

The Corporation needs to maintain an adequate level of overhead structure in order to be able to comply with all regulatory requirements of the safety regulator. At the same time, overhead structure needs to be kept as lean as possible to reduce unavoidable fixed costs.

The key challenges that face the airline in the budget and years going forward include:

- the uncertainty of the continuing level of the RPC and related DIBP fling services
- increasing and evolving regulatory requirements that may result in increased overheads
- the aging fleet and the need to start providing for upgraded replacement aircraft

For the 2017-18 year Nauru Airline is budgeting to achieve \$60.8 million in revenue of which \$11.1 will be from the freighter services. The budget is proposing returning \$1.1 million after tax profit. This is a reduction on last year and is affected by increased variable and overhead costs.

## Nauru Utilities Corporation

Nauru Utilities Corporation (NUC) continues to make major inroads into improving performance through proactive management initiatives in the strengthening and improving of the essential services the NUC provides to Nauru and its people. NUC has clear and achievable objectives going forward.

The major infrastructure addition of the two new ADB funded 3 MW generators will take place in the 2017-18 year. The safety inspection ongoing project has had the secondary economic benefit of reducing the illegal connections and drastically reducing the unbilled power generation. The upgrade and supply of metered services to all uses is progressing.

The 2017-18 budget was prepared taking into consideration the NUC's Strategic Plan 2014-2020, the Nauru Energy Roadmap and the NSDS.

Some of the key objectives of the Strategic Plan are:

- to make NUC financial sustainable by 2020
- provide 50% of the electricity demand from renewable sources by 2020
- improve maintenance of key assets, customer service, business efficiency and ICT network and service to support the business
- transform NUC work culture to be more vision and mission driven whilst adhering to core values
- achieve n-2 security levels for the production of electricity and water

The electricity sales budget will increase this year to 27.5 million kwh which with the tariffs recommendations the revenue is expected to be \$14,050,894. This will be a 25% increase on current sales.

Water sales are looking like remaining stable at current levels. This of course is always reliant on the rainfall scenario during the year.

The cross subsidy from the Government, Industrial and Commercial sectors to the Residential sector is \$2.8 million. The proposed operational expense budget will be \$17.1 broken up between operational - \$8.8 and fuel budget of \$8.3 million.

Total Capex budget will be \$5.6 million which \$1.9 is critical to NUC. Collection with the support of the Government from government departments and SOE's is required to be in a position to fund the capital project in 2017-18.

NUC remains confident on achieving its budget along with continuing to make improvements to all parts of its operations in the form of improved efficiency and reduction of costs wherever appropriate

## PART 4: National Sustainable Development Strategy

The 20-year National Sustainable Development Strategy 2005-2025 (NSDS) will continue to provide the relevant development agenda for the Government and the People of Nauru. The strategy is implemented through; medium-term Corporate Plans, Annual Operating Plans (AOP) and the Budget. However, it is noted that Nauru's evolving socio-economic environment since 2009 requires an extensive revision and formulation to update the strategies.

The current NSDS revision is expected to be completed and published in 2017. An internal review within the Government of Nauru ministries was completed at the end of 2016.

An extensive public consultation process for the revision of the National Sustainable Development Strategy (NSDS) Nauru is envisaged to commence in the latter half of 2017.

### Report on the National Sustainable Development Strategy progress

The following also incorporates information of work implemented, planned or in progress during the financial year. The information was extracted from Annual operating plans received from Ministries in the four main sectors.

#### Cross Cutting Sector

The Cross-Cutting Sector has a total of 148 milestone activities. Some of the sustainable activities achieved for this sector include the membership of INTOSAI<sup>4</sup> and PASAI<sup>5</sup> by the Department of Audit and the public awareness program for climate change.

#### Public Administration

The goal for the Public Administration Sector is to strengthen and develop the institutional capacity of the Nauru Public Service. The Public Administration Sector also has a total of 29 milestone activities.

It is noted that twelve milestone activities have been developed which include the strengthening of the public finance management system, contracting a procurement agent, outsourcing non-core government functions, revision of the Public Service Act, maintenance of the government offices and the housing of all contracted employees.

#### Governance Institutions

The goal for the Governance Institution Sector is to strengthen parliament, audit, justice, law & order and border control. The Governance Institution Sector has a total of 73 milestone activities.

A total of eleven milestone activities were developed with the enactment of the Leadership Code Act, adoption of the Parliamentary Handbook, the development of a Constitutional Review Committee, Standing Orders, Parliamentary proceedings and media coverage of the Parliament sessions. It is also noted that the appointment of key Justice positions, improved border control and capacity building for correctional officers, further contributed to the milestone activities. The Department of Audit's membership to the INTOSAI and PASAI organizations are other positive steps towards achieving sustainable activities.

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<sup>4</sup> International Organisation of Supreme Audit Institution

<sup>5</sup> Pacific Association of Supreme Audit Institution

## **Land Management**

The goal for the Land Sector includes a transparent and fair land management system that supports social, economic and private sector development. The Land Sector has a total of 13 milestone activities. The development of GIS<sup>6</sup> mapping is an example of a developed action for Land Management. Despite the positive steps taken to date, there are however, still a need to revisit the national land use plans and the incorporation of relevant land legislature required for development.

## **Environment**

The goal for the Environment Sector is for the sustainable use and management of the environment and natural resources for present and future generations. The Environment Sector has a total of 33 milestone activities.

Progress to date have been in the form of five milestone activities ranging from the National Adaptation Program of Action (NAPA), the completed second National Communication (SNC) project and the endorsed strengthening of the disaster risk management and climate change adaptation responses. Other achievements for the environment sector include the community and public awareness of climate change.

## **Economic Sector**

A Public Expenditure Financial Accountability (PEFA) self-assessment was undertaken by key central agencies to gauge the current financial system as part of ongoing work for the improvement of this sector.

The economic sector has a total of 179 milestone activities essential for economic growth and development. Some of the success for this sector have been in the Fishing industry which has become a major revenue source for the economy and government. The sector also has long term challenges associated with the mined phosphate lands that have not been rehabilitated for other functional use.

## **Macroeconomic Management**

The goal for the Macroeconomic Management sector is for a stable macroeconomic environment conducive to private investment. The Macroeconomic Management sector has a total of 55 milestone activities.

It is noted that ongoing effort is being undertaken to address key problems associated with the public financial management system, low production, productivity and inefficient delivery of essential services to the general public. These problems have in some form contributed to the unsustainable development experienced by Nauru in the recent past.

The integration of the aid budget into the annual budget process, increased domestic revenue percentage of the total budget, possible introduction of the PACER<sup>7</sup> Plus tax systems, and the expanding of the Revenue and Customs offices are ongoing work for this sector.

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<sup>6</sup> Geographic Information System

<sup>7</sup> Pacific Agreement on Closer Economic Relations (PACER)



## **Agriculture**

The goal for the Agriculture sector is to increase the level of domestic agricultural production aimed at addressing **food security and healthy living**. The Agriculture sector has a total of 20 milestone activities.

Some of the challenges for the Agriculture sector includes the mined phosphate lands that need to be rehabilitated before agricultural activities can be undertaken. There is also recognition that there is a capacity gap in agricultural productions with households requiring technical guidance on how to improve kitchen gardens. The lack of water and soil quality also contributes to the slow development of the Agriculture sector.

Some of the developed milestone activities include the identification of commercially viable forestry and agroforestry products and a Resource Centre for agricultural and livestock production. The establishment of the 3 nurseries (Buada, ROC<sup>8</sup> Anabar and Connect hydroponic leafy greens also in Anabar) is an example of sustainable achievements for this sector.

## **Fisheries**

The goal for the Fisheries sector is to enhance development and sustainable management of marine and fisheries resources to provide sustainable economic returns. The Fisheries sector has a total of 33 milestone activities.

Improving the legislation/regulations for the Fisheries sector has been identified as a key challenge. There are recognised limitations especially with opportunities to build human resource capacity for marine science, fisheries techniques, monitoring and analyzing the effects of climate change for the management of coastal and marine resources, and for providing seafaring training.

A significant milestone achieved under this sector was the upgraded NFMRA<sup>9</sup> infrastructure that is consolidated in one site.

## **Mining & Quarrying**

The goal for the Mining & Quarrying sector is for efficient and effective use of mining and quarrying resources. The Mining & Quarrying sector has a total of 16 milestone activities.

Revenue from phosphate export is gradually in decline with a lack of capacity in rehabilitation techniques and land use planning. The review of the Lands Act 1976 is yet to be formally endorsed. The customary land tenure system has complicated land management and the issues relating to land rights discourages foreign investment as well as affecting the implementation of infrastructure development programs.

Some milestone activities have been developed with the payment of pending salaries and phosphate monthly updates. It is noted that one milestone activity was sustainably achieved with the rehabilitation of 10 hectares of mined lands (Pit 6).

## **Commerce, Industry and Business Development**

The goal for the Commerce, Industry and Business Development sector is to promote the development of small and micro enterprises, foreign investment and economic integration into the

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<sup>8</sup> Republic of China, Taiwan

<sup>9</sup> Nauru Fisheries and Marine Resources Authority

global economy. The Commerce, Industry and Business Development sector has a total of 27 milestone activities.

The structure of the economy makes the development of the private sector very challenging. Domestic product are very limited and consumable goods are virtually all imported with phosphate the main export commodity. The challenges of remoteness, small size and dependence on a narrow group of activities are areas that need to be addressed if progress is to be made in developing commerce.

### **Tourism**

The goal for the Tourism sector is to promote development of small-scale sustainable eco-tourism. The Tourism sector has a total of 9 milestone activities.

The remoteness makes the cost of transportation a disincentive to potential tourists. Quality of infrastructure and the limited availability of goods and services also discourages tourism development. Culture and tourism strategies are not readily linked which is also affected by the lack of human capacity to develop the Tourism sector.

### **Financial Services**

The goal for the Financial Service sector is an effective, competitive and stable financial system that will enhance economic growth and development. The Financial Service sector has a total of 10 milestone activities.

Some milestone activities have progressed with the establishment of Bendigo bank and offshore insurance providers. It is also noted that one milestone activity was sustainably achieved with the exclusion of Nauru in the FATF NCCT<sup>10</sup> blacklist.

### **Social and Community Sector**

The Social and Community Sector has a total of 233 milestone activities. The sector comprises of key areas of education, health, sport, culture, women, youth and civil society.

### **Education**

The goal for the Education Sector is to improve the quality and broaden the scope and reach of education. The Education Sector has a total of 51 milestone activities.

The table below provides a snapshot of the progress made by the Education sector over the current financial year.

<b><u>PROGRESS</u></b>
Learning Village project on schedule for official commission and use by 2018
Development with Education Summit for the Footpath IV Education Strategic Plan 2017-2021
The approval and adoption of the Attendance Policy (2016), to be implemented.
Continued efforts and promotion of Professional development opportunities and staff upskilling, including return of Statistics Manager from training and School Grants Program.
Community Stay`N`Play Centers strengthened with Community support

<sup>10</sup> Financial Action Task Force (FATF) Non-Cooperative Countries or Territories (NCCT)

## **CHALLENGES**

- Recruitment & retention of skilled staff for various sections within Education Department
- Low number of Queensland Certificate of Education(QCE) graduates annually.
- Reliance on Development Partners for Operational functions and recurrent expenditures.
- Accommodation for essential expatriate staff
- Challenging procurement system to receiving essential resources on-time

### **Health**

A healthy and productive population is the overall goal for the Health Sector. The Health Sector has a total of 71 milestone activities.

Twenty-seven milestone activities were developed with a preventative health focus in place. Some of the activities range from training of local staff to improved health service delivery, Health Information Systems, public health surveillance programs and the preparedness programs for virus outbreaks in the region or internationally.

Strengthening of the health workforce also contributed to development of the 27 milestone activities but retaining the workforce continues to be a challenge.

Fourteen milestone activities were sustainably achieved with the annual operating plans. These ranged from Health reforms, standard treatment guidelines, commissioning of 3 Wellness Centre, research documents on Non-Communicable Disease managements, preventative strategies, qualification of local health workers and reproductive health strategies.

The Health sector continues to make progress despite encountering complex and unique challenges. For the financial year 2016-17 the Ministry of Health focused on the following four key result areas (KRAs) which are;

1. Health system strengthening
2. Primary health care and healthy islands
3. Curative health
4. Support service and networking

The following provides information on the following key achievements and challenges.

## **PROGRESS**

Phase 2 of the Hospital Redevelopment project completed

Nauru Health Staff Education Strategic Plan developed is strengthened

Memorandum of understanding signed between Nauru Health Department and Fiji National University to deliver a number of courses to local Health staff

Updated Health Operational Plan and implementing

## PROGRESS

Standard Treatment Guidelines & new Protocols developed

Commissioning and operations of the 3-Wellness Centers in the Community

Improved awareness on Non-communicable disease with ongoing healthy island activities

## CHALLENGES

- ❖ Recruitment and retention of skilled staff both local and expatriate
- ❖ **Minimizing financial burden from Overseas Medical Service (OMS).**
- ❖ Accommodation for expatriate staff.
- ❖ Problematic procurement system including necessary storage facility
- ❖ Skilled Human Resource capacity gaps
- ❖ Increase in number of dialysis patients
- ❖ Increase in STIs<sup>11</sup>, teen pregnancies or in general, unplanned pregnancies

### Sport

The goal for the Sport sector is for enhanced quality of life through sports for all. The Sport sector has a total of 23 milestone activities.

One of the key strategies for Sports is to upgrade the development of sports infrastructures. This is a major challenge for Sports in Nauru as lack of Sports infrastructures may have contributed to the slow progress of sports development and healthy life style in Nauru.

### Traditional Leadership & Culture

The goal for the Traditional Leadership & Culture Sector is a healthy, socio-cultural, inclusive, cohesive and self-reliant community with sustainable livelihoods. The Traditional Leadership and Cultural sector have a total of 32 milestone activities.

Progress was made with the initial phases for establishing the National Commission on language and culture. This initial phase had close collaboration from the Education ministry and other key stakeholders.

### Women and Development

The goal for the Women and Development Sector is for a just society that recognizes and respects the rights of women and promotes equal opportunities. The Women and Development Sector has a total of 23 milestone activities.

Four milestone activities have been actioned or remain to be developed or sustainably achieved. Some milestone activities were sustainably achieved with the implementation of CEDAW<sup>12</sup> and the development of a safe house for victims of domestic abuse. It is noted that the key support partners for the sector are from United Nations Women and Australia Department of Foreign Affairs & Trade.

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<sup>11</sup> Sexually Transmitted Infections

<sup>12</sup> Convention on the Elimination of all Forms of Discrimination Against Women

## **Youth Development**

The goal for the Youth Development Sector is to invest in our youth – a sustained future for Nauru. The sector has a total of 23 milestone activities.

The progress to date for this sector was in the establishment and operationalization of the Youth Council. This is part of a number of necessary investments for the sustainable development of Nauru's youth sector.

## **Civil Society**

The goal for the Civil Society Sector is a robust, vibrant and effective civil society for a just and peaceful Nauru. The Civil Society Sector has a total of 10 milestone activities. The 2016-NSDS internal review indicated that all milestones were still in a state of progress towards actions that can be adequately measured.

## **Infrastructure Sector**

The Infrastructure Sector has a total of 98 milestone activities. This overall sector comprises of energy, water, sanitation, sewerage and transport.

## **Energy**

The goal for the energy sector is to provide a reliable, affordable, secure and sustainable energy supply to meet socio-economic development needs. The Energy Sector has a total of 25 milestone activities.

One of the key activities within the Energy sector is the procurement of two new 2.8 megawatt diesel generators, the diesel engines are on route to be delivered and installed in 2017. In addition, the IUCN<sup>13</sup> project with NUC<sup>14</sup> was established (in 2016) to promote energy efficiency and energy conservation.

## **Water and Sanitation**

The goal for Water and Sanitation Sector is to provide a reliable, safe, affordable, secure and sustainable water supply to meet socio-economic development needs. The Water and Sanitation Sector has a total of 22 milestone activities.

The security of water for Nauru is an essential activity in building resilience against the long drought periods.

## **Progress –**

- 2x 10,000Litre Water Tanker funded by USAid delivered.
- Remedial Plan of Community Underground Water Facilities for restoration and maintenance.
- Household Water Tank project by Australia-Department of Foreign Affairs & Trade in progress to procurement stage of water tanks.
- Household water tank project by Italy funds received.

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<sup>13</sup> International Union for Conservation of Nature

<sup>14</sup> Nauru Utilities Corporation

- Meneng Community and Development Partners (European Union & University of the South Pacific) re-installed the underground water reticulation system for Meneng housings situated in elevation.

### **Challenges –**

- Problematic procurement systems

### **Waste and Sewerage**

The goal for the Waste and Sewerage Sector is for the effective management of waste and pollution that minimizes negative impacts on public health and environment. The Waste and Sewerage Sector has a total of 8 milestone activities.

It is noted that some activities are progressing with the development of the solid waste management strategy as a guide for implementation and management. Japan also funded a GGP<sup>15</sup> waste segregation project that was implemented during the current 2017 financial year. There are however challenges that include the current dumpsite management and a need to reduce the constant POPs<sup>16</sup> emissions from the burn off at the dumpsite.

### **Transport**

The goal for the Transport Sector is to improve transport infrastructure and provide reliable and affordable public transport service. The Transport Sector has a total of 23 milestone activities.

One of the key infrastructure development projects is the proposed Port Development Project. This major project is progressing with assistance from the Asian Development Bank, Australia-Department of Foreign Affairs & Trade, Japan and the Government of Nauru. It is noted that further financial support is still required to meet the tentative Ports development project cost of US\$68 million. Current efforts to secure more funding for the project includes a proposal submitted to the Green Climate Fund for possible funding assistance.

The delivery of two sea-mules funded by the Government of Japan and the re-installation of the Mooring System are significant 2017 achievements for the Maritime Ports sector. Despite the achievements, it is recognised that further investments are necessary for the sustainable development of Nauru

### **Communications and Media**

The goal for the Communication and Media Sector is to provide universal and reliable access to internationally competitive communication services and an independent and commercially viable media. The Communication Sector has a total of 20 milestone activities.

NSDS review indicated that some milestone activities were developed with the phone and internet services provided by Digicel.

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<sup>15</sup> Grant assistance for Grassroot Projects

<sup>16</sup> Persistent Organic Pollutants