

REPUBLIC OF NAURU

2021-22 BUDGET

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ON THE OCCASION OF THE BUDGET 2021-22

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PART 1 ECONOMIC OUTLOOK

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

ECONOMIC OUTLOOK

The IMF is projecting a stronger recovery in 2021 and 2022 for the global economy compared to the previous forecast, with growth projected to be 6 per cent in 2021 and 4.4 per cent in 2022.

There remains significant uncertainty on this outlook due to the pandemic. The IMF notes that the outlook presents daunting challenges related to divergences in the speed of recovery both across and within countries and the potential for persistent economic damage from the crisis.

For Nauru, the growth forecast has been upgraded, with growth in 2021 now expected to be 1.6 per cent (up from 1.3 per cent), reflecting global conditions and the extension of RPC arrangements, Port construction, and Nauru remaining COVID-19 free. With the anticipated wind-down in RPC activity, economic growth is expected to decline slightly to 0.9 percent in 2021-22. The continued success with the capture and contain strategy, and the high level of vaccination in Nauru should mitigate the severity of a COVID-19 outbreak, should one occur, underpins the outlook.

Item	2019-20	2020-21	2021-22	2022-23
Real GDP Growth (per cent change)	0.7	1.6	0.9	0.8
Nominal GDP (\$A million)	171	179	185	190
Consumer prices (period average, per cent change)	0.9	1.2	2.0	2.0

Table 1 Key economic indicators

Risks to the outlook are skewed to the downside, given the uncertainty around the enduring capability arrangements for RPC, COVID-19 and global economic conditions. Volatility in global commodity prices could raise additional downside risks for fishing activity.

Inflation is expected to remain low at 2 per cent. Nominal GDP is estimated at \$185 million Inflation remains flat at 1.2 per cent in 2021 and 2 per cent in the out years.

The nominal GDP estimate for 2020-21 is projected at \$179 million compared with \$171 million in previous year. Revenue projections were set against significant reduction in activity related to RPC and the surprise appearance of the pandemic which affects global world and local economy. During the year, a new agreement was reached with Australia on an extension to RPC arrangements up to 30 June 2021. This provided a significant uplift in expected revenue that was able to be recognized in supplementary appropriations through the year. Fishing revenue projections were set at higher levels considering most of the days has been sold.

KEY ECONOMIC STATISTICS

This part analysis in detail movement in 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 2020), 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. The 10-year Full census is schedule for 2021-22, aim is to provide detailed information about the characteristics and living conditions of the people of Nauru and will form the basis of socio-economic strategies for evidenced based planning and policy making for the peoples of Nauru.

In terms of gender workforce composition in Nauru, the 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.

PART 2 - ECONOMIC STATISTICS

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

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

Nauru become 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 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.

The compilation of national accounts statistics remains a dynamic process, and adaptions reflect a variety of measures and indicators consistent with the development and structural changes in the economy over a period. Revisions and updates are made to previous periods as new source data are brought into the model and validated. Nauru remains vulnerable to climate change and has a narrow economic base and limited capacity and initiatives to diversify its economy is required.

The Gross Domestic Product (GDP) estimation for fiscal year 2019 and 2020 has been challenging for the Nauru Bureau of Statistics (NBOS) in conjunction with its main technical partner and the results of these preliminary findings would warrant further revisions.

GDP by production is the current approach for official estimation of Nauru's GDP. According to the preliminary estimates for 2018-19 GDP, Nauru's economy has recovered since its peak in 2012-13

which gradually declined overtime to its lowest point in 2016-17 and then continued to expand showing positive growth for the 2017-18 year and estimated small growth between 2.0 and 1.6 per cent over the next two consecutive years. The economy grew by 5.7 per cent in 2017-18 after recording a decline in 2016-17 of negative 5.5 per cent. Preliminary growth estimates of 2.0 per cent over consecutive financial years are expected in 2018-19, and 2019-20. The strong performance in 2018 can be attributed to the positive growth in the following sectors: Transport and Communication; Trade; and Finance and Business services with the inclusion of construction during 2018-19 and 2019-20.

The challenges presented by the travel restrictions due to COVID19 meant that no technical mission was received to assist with the revisions for 2019-20 fiscal year and 2020-21 provisional estimates. Revisions for the year 2019-20 is ongoing and will be finalized once all the key data are received, however current estimations show a 2 per cent growth for 2018-2019, An average of 1.8 is implied for 2019-20 under stalling economic circumstances from the COVID pandemic. Current projections by the IMF for 2021 is estimated at 1.6 per cent with inflation at 1.2 per cent.

Chart 2.1. shows historic GDP performance and compares the IMF projections from the January Article IV report to the April 2021 World Economic Outlook



Chart 2.1. Historic GDP performance versus IMF projections April 2021 World Economic Outlook

Chart 2.1 above includes the latest revised projection from the IMF World Economic Outlook published in April 2021, and reflects the impact of the Coronavirus pandemic on world economic growth. Economic activity in Nauru is expected to moderate in 2021 and 2022 is likely to recover as global economic activity increases.

The moderate activity in 2021 reflects:

- extension of RPC operations to June 2021, this will further improved as another extension being granted by ABF to December 2021
- contraction in services as departure of expatriate workers being noted

• downside 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.

CONSUMER PRICE INDEX (CPI)

The Nauru inflation measuring change since the new base period December 2015 depicted in Chart 2.2 representing a fluctuation each quarter and in December 2020 decrease 1.07 percent since base period for the all-groups CPI.



Chart 2.2 All Groups CPI Historical Trend

Chart 2.3. CPI Annual percent change



The CPI increase by 1.83 percent in the year between December 2019 and December 2020 quarter



Chart 2.4. CPI Annual Percent Change by Major Factors

Two of the ten divisions in the CPI made upward contributions. By divisions, the main upward contribution came from Alcohol beverage and tobacco (up 14.51%) and Furnishings, household equipment and routine household maintenance (up 7.90%).

Downward contributions came from the divisions:

- Transport (down 3.97%)
- Communication (down 2.89%)
- Housing, water, electricity, gas and other fuels (down 0.67%)
- Clothing and footwear (down 0.05%)

The main individual upward contributions during the year came from:

- Fresh Vegetable Onions (up 108.19%)
- Fresh Vegetable Potatoes (up 92.19%)
- Internet top-up at home (up 27.78%)
- Drink mix (refresh, vita fresh, cool-c, kool-aid, tang) (up 25.99%)

Individually, the main downward contribution came from lower prices for Pork based sausages and frankfurts (down 17.60%). Lower prices were also recorded for:

• Medium Grain – shoes (down 15.11%)

- Petrol (down 14.36%)
- Diesel (down 13.33%)
- Eggs (down 10.29%)

Annual price change for Alcohol beverages and tobacco group

For the year of the December 2020 quarter compared to the same period in the previous year, Alcohol beverages and tobacco group prices have increased by 14.51 percent which increased in the prices of beers (up 15.42 percent) and as for cigarettes and spirits prices remained unchanged.

Summary of other group movements in the quarterly CPI

In the December 2020 quarter, Prices in the Clothing and footwear group drop to 7.02 percent show a decline 0.40 percent to the quarterly CPI as a result of decrease prices for women shoes (down 23.69 percent), Men's Trousers (down 22.16 percent) and Men's shirts (down 17.58 percent).

As well as prices in the Furnishing, household equipment and routine household group also drop by 16.25 percent, contributing decrease 0.86 percent to the quarterly CPI. The evident in the decrease prices of Laundry Soaps (down 34.72 percent) and mosquito coil (down 11.09 percent).

Prices in the Transport group fell 0.42 percent contributed negative 0.06 percent to the quarterly CPI, as a result for decrease in the price of Diesel (down 2.67 percent) and Petrol (down 1.14 percent).

The Miscellaneous goods and services group showed a rise of 5.57 percent mainly due to an increase in the prices of baby nappies (up 10.02 percent), toilet paper (up 6.59 percent), deodorant (up 5.81 percent) and bathing soap (up 3.71 percent).

Four other groups showed no changes this quarter. This includes:

- 1. Housing, water, electricity, and other fuels groups.
- 2. Communications group.
- 3. Recreation and culture group.
- 4. Restaurants and hotels group

TRADE STATISTICS

The Nauru Bureau of Statistics continues to use 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. However the 2019 trade figures were based from the mirror database source which is a free online web base platform known as UN Comtrade database (https://comtrade.un.org/data/).

VALUE OF IMPORTS AND EXPORTS





Exports to have grown from 2018 when it was AUD11.8 million dollars to AUD14.5 million dollars in 2019. It peaked to AUD69.9 million dollars in 2012 due to higher exports of phosphate. This is also represent a positive increase by 23.5 percent in total exports including re-exports. Re-export item is sale of JET A1 fuel sold to the visiting airlines.

Imports trend shows a positive increase from 2018 when it was AUD 63.1 million dollars to AUD 74.8 million dollars in 2019. The positive increase in 2019 complement the commencement of the development of the new Port Project by the China Harbour Engineering Company (CHEC) which financially supported by the ADB and the majority of valuable imported items are mineral products such as portland cement and petroleum oil and petroleum gases whereas the second largest valuable imported items are heavy equipment and machinery.

BALANCE OF TRADE

The Balance of Trade experience a huge decline in the deficit of AUD121.2 million dollars in 2019 compared to 2018 in the trade balance reflecting the movements in exports and imports mentioned above under Value of exports and imports. For example, an attribution to higher imports of materials for the new port development such as:

- Mineral products Portland Cement, Petroleum oils and Petroleum gases.
- Heavy Machineries and equipment.

Chart 2.6 Balance of Trade



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

3. Performance of exports and re-exports

Performance of commodities imported. The higher imports for 2019 were mainly due to the:

- Materials and equipment for the development of the new port project
- Petroleum oil, Petroleum gases, Portland Cement
- Heavy equipment and plant machinery



Chart 2.7 Meat Imports

Meat of bovine animals, fresh, chilled or frozen Imports of meat of bovine animals, fresh, chilled or frozen stood at \$1.4m in 2019; an increase of 10.3 percent over 2018 whereas imports of Meat and

edible offal of poultry, fresh, chilled or frozen stood at \$1.9m in 2019 and imports of Edible preparation of meat, fish, crustaceans stood at \$1.7m in 2019.



Chart 2.8 Mineral and Aerated Waters - Imports

Mineral and aerated waters including sweetened or flavoured Imports stood at \$1.5m in 2019; an increase of 15.1 percent over 2018



Chart 2.9: Cigars, Cigarettes and Tobacco - Imports

Cigars, cigarettes and tobacco Imports of cigars, cigarettes and tobacco stood at \$0.9m dollars in 2019; a decline of 12.2 percent compared to 2018.



Chart 2.10: Mineral products - Imports

Imports of petroleum oils stood at \$7.8m dollars in 2019; a positive increase compared to 2018. This reflects the development of the new port project commenced in 2019 by the China Harbour Engineering Company (CHEC). The majority of imported items in 2019 comes under Mineral product includes the petroleum oils, petroleum gases and portland cement (most common use type of cement). The Petroleum oil is also an important commodity needed to generate electricity and fuel for the desalination plant for the national water supplies.



Chart 2.11 : Plastic imports

Imports of plastics and articles thereof stood at \$1.3m dollars in 2019; a decline of 40.3 percent compared to the previous year in 2018. The items consist mainly for building wares and housing purposes for instance fittings tubes pipes of plastic, flooring coverings of plastic, adhesive tapes of plastic, foil film sheets of plastic, bathroom materials of plastic, and kitchenware articles of plastic. This is useful source to monitor imported items that may complement the high demand of infrastructure development especially the public housing schemes supported by the government.



Chart 2.12: Construction Hardware - Imports

Imports of wood and articles of wood; wood charcoal stood at \$0.9m dollars in 2019; a decline of 42.3 percent compared to 2018, whereas Imports of machinery and mechanical appliances stood at \$12.2m experienced a spike increase over 2018 and Imports of electrical machinery and equipment and parts thereof stood at \$3.9m dollars in 2019; a decline of 37.5 percent over 2018. This is useful source to monitor imported items that may complement the high demand of infrastructure development especially the public housing schemes supported by the government.



Chart 2.13: Public Transport - Imports

Imports of public-transport type passenger motor vehicles and motor cars & vehicles for transporting persons stood at \$2.8m dollars in 2019; a positive increase of 21.4 percent over 2018. This may also a useful source reflecting the demand of fuel imports.

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 Chart 2.6 on Balance of trade by major partner countries.

Major Source Markets



Nauru's major source markets from 2018 to 2019 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 2.13 shows that most of the imports either originated from or consigned from Australia.

Imports from Australia stood at \$44.5m dollars in 2019; a decline of 16.4 percent over 2018. Whereas Imports from Fiji stood at \$5.0m dollars in 2019; a decline of 32.7 percent over 2018 and NZ stood at \$2.3m in 2019 a slight decrease compared to the previous year in 2018.

LABOUR FORCE STATISTICS

Table 2.1. Proportion of Employees whether Locals, Expatriates and Other by Employer 2013-2016,2019-2021

	TOTAL (%)				LOCAL (%)	EXPAT (%)			
EMPLOYER	Y2013	Y2014	Y2015	Y2016	Y2019	Y2020	Y2021	Y2021	Y2021
RON Government	38.6	43.5	44.0	45.1	50.6	51.0	51.2	47.8	4.2
Regional Processing Centre (SOE)	7.0	32.0	31.1	29.3	22.1	21.1	24.3	24.1	0.6
Ronphos (SOE)	15.1	9.6	9.8	9.2	8.8	5.4	6.6	6.4	0.3
Eigigu Holdings (SOE)	12.3	7.8	8.2	9.2	6.8	7.0	7.2	7.0	0.3
Nauru Rehabiliation (SOE)	9.7	5.6	5.3	5.3	3.6	2.7	3.4	3.3	0.1
Nauru Airlines (SOE)	1.3	1.5	1.5	1.9	2.8	2.1	1.4	1.4	0.0
Nauru Utilities (SOE)	-	-	-	-	4.0	3.6	4.3	3.7	0.6
Other (Private)	na	na	na	na	na	92.8	98.3	na	na

Sources: Derived from administrative sources

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

Table 1 represents the breakdown proportion of employees by Local and Expats. Other is mainly classifications for Refugees engaged to local employment. Agencies with an advantage of large number of manpower employment such as the RON Government and State Owned Entity (SOE):

- RON Government represents all Government Departments in the public service for instance Finance Department, Education Department, Health Department, Justice Department, Home Affairs, Commerce Industry and Environment (CIE), Information and Communication Technology (ICT) and so forth.
- Regional Processing Centre representing Eigigu Solution Corporation (ESC), Canstruct, Host, IHMS and JHSS.
- Eigigu Holdings represents the umbrellaship for Eigigu Headquarters, Eigigu Supermarket, Civic Centre, Menen Hotel, Eigigu Transport, Eigigu Enterprise, Enigin

Chart 2.14: Proportion of Employees whether Locals, Expatriates and Other by Employer 2013-2016, 2019-2021



Source: Administrative data

Average estimates due to absence of current administrative data

PART 3 STATE OWNED ENTERPRISES

Government of Nauru is the one and only major shareholder for all State-Owned Entities (SOE) and its investments represent a major component of total assets, hence making continuous monitoring and surveillance of the financial performance and position is critical to maximise returns and improve service delivery. Similarly, the management of SOE liabilities or debt is equally important to safeguard against fiscal risks and guarantee sustainability of entities in the long-term.

The new PE Act that came into effect in 2019 strengthens the monitoring of SOEs and ensure improved financial performance and operational efficiencies. Government will continue to report on all SOEs as they are 100% owned by the GON. The performance of the SOE sector remains weak as the pandemic which affects the whole world tend to slow business environment and this will be offset by Government intervention in the form of Community Service Obligation (CSO) and operational budget support. Management changes at the SOEs following the 2019 election is completed and the new management teams are focussed on improving corporate planning and performance. The presence of the RPC facility in the islands has boosted business for all commercial enterprises and especially SOE, driving the consumption level upwards which in turn generates positive return.

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 earnt 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. The performance of the SOE sector is expected to improve over 2020-21.

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 2021-22 Budget includes measures to improve the efficiency of SOEs. They include the implementation of the Public Enterprise Act 2019 (PEA) and the continuation of rollout of Community Service Obligation (CSO) framework which commence last year, to improve the competitive neutrality of government owned businesses.

PUBLIC ENTERPRISE REFORM

Government in collaboration with ADB are developing a Governance framework to enhance operations of SOE. The key elements of the new governance framework include a commitment to improve governance of Nauru's public enterprises, with a view to improving their efficiency and effectiveness towards the sustainable economic development of Nauru. Implementation of the PEA should improve Nauru's economic resilience through improving SOE performance, and reducing the need for additional

government support. It will place high expectations on SOE Boards to articulate the vision for each business, and to properly plan and report on how that vision is implemented

PUBLIC ENTERPRISE MONITORING UNIT

The coming into effect of the Public Enterprise Act 2019 (PEA) strengthens the establishment of Public Enterprise Monitoring Unit (PEMU). PEMU role is to administer the PEA and ensure SOE complies with its requirements.

PEMU's role and responsibilities are set out in the Public Enterprises Act 2019 sections 81 - 84. Key broad areas of PEMU includes:

- To ensure that PEs provide the key documents in accordance with the timetable required by the Act, then to review them and provided analytic reports to Department of Finance senior management and to Ministers. The key documents are the Statement of Corporate Intent (SCI), Half-Year and Annual Reports (which include the financial statements). The review of SCIs is especially important as Ministers are able to "comment" (in the case of SOEs) or require changes (GCEs) to the SCI.
- To provide summary reports to Ministers (which are tabled in Parliament) and summary financial reports (which need to be "published
- To be closely involved with review and analysis of any bids from PEs for funding typically CSOs, new capital, loans, etc. or approval by ministers, e.g. major transactions.
- To providing advice on selection of directors. The present appointments have been made by the President without receiving advice. It is desirable that over time, a process is developed that moves towards skill-based selection of directors. provides a modern framework for governing SOEs consistent with international better practice.

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)). PEMU role is to ensure SOE aligns their business and corporate operations along that vision. 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.

COMPETITIVE NEUTRALITY

Government is committed to fostering a vibrant private sector in Nauru. This is essential to use resources effectively within the economy and thus achieve growth and development for all business, small to large and whether privately owned or SOE

SOEs receive benefits as a result of government ownership, such as a Government guarantee, that make it difficult for private enterprises to compete effectively. To not crowd-out private sector activity, SOEs are expected to:

- At all times be solvent, and not operate insolvently
- Be a good corporate citizen and pay invoices and commitments on time i.e. do not accrue accounts payable arrears, or land rental arrears
- o Not make future commitments without securing necessary funding
- Not take advantage of government ownership and support to artificially reduce prices below the cost incurred in bringing the goods to market (predatory pricing)
- o Keep up to date financial records
- Be fully compliant with the Public Enterprise Act 2019 and other relevant legislative requirements

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 2021-22 Budget, Government will continue with CSOs programs 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.

o 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. Operating a small airline is financially perilous. NAC's approach is to purchase older Boeing 737-300 aircraft which lowers initial capex but increases maintenance and fuel costs. The introduction of CSO funding in 2020 has provided sufficient funding to cover operating costs

NAC's performance in 2019-20 was mixed. Improvements in cost control and operational performance were severely impacted by the coronavirus pandemic. In April 2021 reprot, 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.

Financial year 2020/21 saw the need for the airline to quickly adapt to its new operating environment. Strategic initiatives were deployed, and the organisation effectively reset itself and set the platform for a path towards remaining an ongoing concern. Initiatives will be closely monitored for their ability to ensure they contribute positively towards the organisational goals.

In 2022-22 NAC is forecasting a 76 percent (\$17.6m) drop in business related to RPC, with freighter charter being the window that will be severely affected as contracts related to new extension to December 2021 is yet to be considered by relevant stakeholders.

The provision of Community Social obligations has provided necessary comfort to the Airline which faces challenges from border closes and limitations in travel. Recognise that this period is extremely unusual, with pandemic impacts on the aviation industry globally, also directly affecting the Airline locally and affecting ability to quickly replace long term profitable contracts from RPC operations. The CSO support through this period will enable the Airline to be best placed to secure new business and in the longer term be able to deliver services to Nauru, cross subsidized by other contract and charter work.

In 2021-22, NAC's business plan includes the following strategies:

• 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 be fully rolled out by end of next year. Deliver services that meet minimum travel need

• Freighter 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 Exim 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 with extension of the facility to 31 December 2021.

	2019-20	2020-21	2021-22
NAC	Actual	Forecast	Budget
	\$	\$	\$
Revenue	61,021	42,102	35,300
Expense	65,307	41,050	44,200
Operating profit before tax	(4,285)	1,052	(8,850)

Table 3.1: NAC revenue and expenses

NAURU UTILITIES CORPORATION

NUC generates electricity and desalinates water. Electricity generation has been from diesel but donors have funded new (more efficient) diesel generators and agreed to fund solar power so that the cost of generation should reduce in future. Water provided by NUS is from desalination plants though most households also use rainwater tanks.

NUC's 3-year Business Plan 2021 – 2023 is aligned with key national development frameworks, particularly the Pubic Enterprise Act 2019 and National Sustainability Development Plan, which aims at "A future where individual, community, business and government partnerships contribute to a sustainable quality of life for all Nauruan's"

NUC's financial performance for the 2020-21 financial year period to date has reflected a favourable outcome resulting in a positive financial trend from July 2020 to March 2021. NUC's revenue shows that it is able to cover its operating costs including depreciation to date.

This situation has been helped by the Government Community Service Obligations (CSO) where Government pays NUC based on the lifeline electricity kilowatt hours used, up to 200kWh per customer at \$0.25 per kWh capped at \$1,388,213. The reduction in fuel costs in the period and increase in water sales due to the continued dry spell have both contributed to the financial outcomes for the 2020 period.

Operation and maintenance activities on Company's generation and distribution network ensured sufficient generation capacity to meet the demand each month for energy. The continued dry spell has impacted on both electricity and water services, where water demand has peaked at 1.5 megalitres per day in some months. The drought has also seen a spike in distribution network interruptions due to

pole top wooden crossarm fires. Pollution and salts including high humidity has led to increased incidents, however NUC continues to carry out preventive maintenance on the network

Gender equality and Social Inclusion

NUC has commenced gender inclusive project employment, creating positions for female technicians within the renewable energy business. NUC's participation in Career Open Days at various Schools encourages young women to consider a career path in the technical and engineering fields relating to power and water sectors.

The review of the Human Resource Management Policies and Procedures including the development of a Gender Strategy which includes actions that support women in leadership and technical positions has also been progressed.

The outlook for 2021-22 is mixed, with lower refugee numbers and wind down of the RPC expected to impact both water and electricity demand. The 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 2021-22. 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 \$24.2 million, with total expenses (excluding depreciation and tax) of \$21.2 million

	2019-20	2020-21	2021-22
NUC	Forecast	Forecast	Budget
	\$	\$	\$
Total Income	18,048,608	18,866,276	24,228,849
Total Expense	16,685,194	18,808,902	21,243,359
EBITDA	1,363,414	57,374	2,985,490

Table 3.2: NUC revenue and expenses

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 2020-21 consolidated budget expected the group to earn \$21.1 million in revenue and \$15.9 million in expenses resulting in an operating profit before income tax of \$5.2 million. Actual performance to January 2021 showed operating revenue of \$12.3 million and expenses of \$9.3 million and an operating profit before income tax of \$3.1 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.

For the current year, 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 a slight improvement in financial performance in 2021-22. Total revenue is expected to be \$22.8 million, and total expenses of \$19.3 million, with an operating profit before income tax of \$3.5 million. It expects to provide a \$200,000 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.

	2019-20	2020-21	2021-22
	Forecast	Budget	Budget
	\$	\$	\$
Menen Hotel	2,957,228	2,116,086	2,924,050
EIGUGU Supermarket	288,119	465,785	519,921
EIGUGU Civic Centre	111,604	21,145	115,402
Enigin	133,462	128,934	83,481
Eigigu Enterprise	(30,490)	91,414	91,035
Eigigu Transport	342,928	681,839	575,332
Eastern Gateway Hotel	(2,768)	6,232	3,554
Other	(137,215)	47,225	(780,495)
Consolidated	3,662,868	3,558,660	3,532,271

Table 3.3: EHC consolidated operating profit before tax to January 2021

NAURU POST OFFICE

The Nauru Post Office year to date performance exceeding expectations as volume of freight coming into the Island is channeled through Frigate services. It paid a \$100,000 dividend in 2020-21 Financial year and with improved business expected next year, dividend payment is budgeted at \$200,000 as per Company's plan. Budgeted and actual performance is in the table below.

Postal Office is expanding business next year and this due to commencement of Nauru Post Logistic Services as new name to look after logistic service for whole of Nauru. Income from storage, delivery, agency fee at Meneng Storage warehouse as Departments use warehouse for their storage, *Post Eat* – like Uber where you eat or deliver to your house and the Taiwan government is providing \$60,000 to commence the Post Eat business. The company is also considering selling spare parts for all types of motor vehicles. Expansion of business and rebranding is projected to improve profitability of the company in 2021-22.

	2019-20	2020-21	2021-22
Post Office	Forecast	Budget	Budget
	\$	\$	\$
Revenue	2,129,137	4,322,000	8,350,000
Expense	2,229,772	4,062,911	8,147,321
Operating profit before tax	(100,635)	259,089	202,679

Table 3.4: Post Office revenue and expenses

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 2021-22 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. In addition, the following are broad areas of operations heading into new FY:

(i) Refurbish and Develop Port Infrastructure/Implement Physical Resource Strategy - Ongoing maintenance of the four (4) powered barges that are operational with two bought in 2016 from Australia and two received in 2017 from Japan under Japan Grant In Aid.

- (ii) Develop Regular Sea Freight Service NMPA has established the Nauru Shipping Line (NSL) as a subsidiary entity under the NMPA, to provide regular and cheaper freight services for cargo shipments between Fiji and Nauru;
- (iii) Implement a Human Resource Strategy- Internal re-assignment of employee positions and the organizational structure, including recruitments to fill vacant and new positions in both the NMPA and NSL, is being undertaken under the Port Reform Project during the transitional period to when the new port is completed in 2022 or 2023;
- (iv) Implement a Finance Management Strategy NMPA is now implementing the full 100% increase in port tariffs in FY2020/21, however, the stevedoring and container handling charges are being billed to the consignees at the old rates and the difference between the old rates and the new rates are being subsidized by the Government through the Community Service Obligation (CSO) as provided for under the Public Enterprises Act 2019;

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

	2019-20	2020-21	2021-22
NMPA	Actual	Budget	Budget
	\$	\$	\$
Revenue from operations	2,112,271	2,259,162	3,607,651
CSO revenue	-	1,183,500	1,393,000
Expense	2,986,876	3,277,777	3,557,003
Operating profit before tax	(874,605)	164,885	1,443,648

Table 3.5: NMPA revenue and expenses

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 2021-22 included rock harvesting, rock crushing and 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.

For 2021/22, NRC is supporting Government in the following projects:

- Port construction
- Land development
- Cemetery
- Housing scheme; and

• Seawall

There were issues with machinery during the year that impacted on land clearing, rock and aggregate production. These are expected to be resolved soon 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.

	2019-20	2020-21	2021-22
NRC	Forecast	Budget	Budget
	\$	\$	\$
Revenue	6,562,414	16,125,899	15,206,187
Expense	4,838,704	8,820,724	9,713,740
Operating profit before tax	1,723,710	7,305,175	5,492,447

Table 3.6: NRC revenue and	expenses
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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 are the largest focus for donor support (Econ Goal 3) This focus is not surprising given that it remains one of Nauru's most productive sectors and a reliable source of foreign income. Developing a robust fishing economy is a key factor in Nauru's economic success.

Total expenditure in the Economic sector remains small compared to other NSDS sectors.

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

The Department of Finance engaged a Consultant early 2021 to undertake a review of RON Debt position. The aim is to ensure that the Government has a clear picture of its debt position, and a clear framework to manage debt into the future. This will include future proofing debt-management arrangements, and ensuring that sound liability management practices are in place, should the Government seek to increase its borrowings in the future.

Australia and ADB also provide support for general public financial management. Australia continues to provide technical advisers to Treasury and Planning and Aid Division. ADB provides technical assistance to strengthen and improve the performance of State-owned enterprises. Progress to date includes the development of Statements of Corporate Intent, Business Plans, half-year reports and the submission of Annual Reports by State Owned Entities. The advisor will also support public enterprises to review and reform their business models to improve financial performance going forward.

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

The Department of Commerce, Industry and Environment (CIE) has received government approval to farm on government leased land in Meneng. The land will be used to farm mainly breadfruit trees and other root crops to increase supply of local staple food. The products from this farm will be given to the public for free to increase consumption of locally produced and healthy products.

The Taiwanese Technical Mission farms in Buada and Anabar districts continue to be Nauru's main supplier for healthy and locally produced food. These farms produce agriculture products which are sold in the market at a low price to attract demand for healthy and locally produced food.

Inmates of Nauru's correctional centre also produce chickens, pigs and eggs which are sold to the local community. This additional source of food not only provides locally-produced items, but also contributes to the rehabilitation of inmates, contributing to Social-Goal 5.

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

Revenue from fisheries resources continues to be a major contributor to Nauru's total revenue, averaging at 30% over the last three years. Nauru's management of its fisheries resources continue to be developed to ensure that its resources and economic revenue are sustainable. Nauru Fisheries and Marine Resource Authority (NFMRA) is responsible for managing the fishery resources in the coastal and offshore areas and Nauru Ocean Resource Incorporated (NORI) is responsible for the management of resources in the deep-sea area.

NFMRA's role in managing the coastal fisheries and aquaculture resources in Nauru has been strengthened with the *Coastal Fisheries and Aquaculture Act 2020*. This Act enables NFMRA to impose regulations on coastal fishery activities to ensure that resources are sustainably managed. The Act also strengthens community engagement in managing the fisheries resources in their respective districts through the locally managed marine areas (LMMA's). NFMRA and the communities are working together to sustainably manage the resources in the coastal fishery area.

Revenue from off-shore fishery is the backbone of Nauru's economy. Revenue received from licensing and fishing days amounted to \$72 Million in 2019-20. To ensure that off-shore fishing activities are within regulations set by Nauru, all fishing vessels are required to have an observer on board and vessel monitoring system is always online. NFMRA has 40 observers trained and registered to ensure that foreign vessels fishing within Nauru waters are operating within the regulations.

The management of ocean seabed resources is one of Nauru's continuing developments aiming to diversify the economic returns. Nauru recently established an ambassador role to the International Seabed Authority (ISA) to actively lead Nauru's development in this oceanic resource sector. Nauru Ocean Resource Incorporation (NORI), has contributed \$280,000 to Nauru over the last three years to support Nauru's effort in tapping into this economic opportunity. This fund is also providing scholarships opportunity to the Nauruan people focussing in marine studies. The fund is also looking for community projects aimed at 'Ocean Health & the Environment' as well as other areas. NORI is

working on increasing Nauru's revenue stream as well as ensuring that the environmental impact in deep sea mining is minimised.

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

RONPHOS is on track to produce 225,000 metric tonnes of phosphate for the financial year 2021 with an estimated total cost per metric tonne at \$156.19. For the financial year 2022, RONPHOS has budgeted to produce 309,000 metric tonnes of phosphate and estimated a total cost per metric tonne at \$119.91. This is a strong indicator that RONPHOS is becoming more effective and efficient in producing phosphate. Longer term, phosphate production continues to decline, with the exhaustion of primary reserves.

In addition to phosphate, the Nauru Rehabilitation Corporation (NRC) processes armour rock and aggregate by products of the phosphate mining process. These items are critical inputs for building projects on the island, such as the provision of public housing and the redevelopment of Aiwo port. The NRC forecasts production of 154 thousand tonnes of aggregates for the 2021-22 financial year. To ensure that local demand can be met as the Port redevelopment progresses to completion, the Nauruan government and Republic of Japan are providing support to the NRC in the form of funding, technical expertise and equipment.

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

In 2019-20, a total of 183 new businesses have registered with the Department of Justice. 32 different types of businesses were newly established. This is a strong indication that Nauru has a good enabling environment for the development of small and micro-enterprises.

Preparation work is underway for a new micro finance loan scheme with the continued support from Taiwan. Lessons have been learnt from the previous scheme and improvements are now being made to ensure that the new loan scheme is more sustainable.

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

The Nauru Tourism Corporation (NTC) continues to strive towards developing a small-scale, eco-friendly and sustainable tourism for Nauru. NTC and South Pacific Tourism Organisation co-hosted a workshop for repurposing plastic waste into jewellery to help diversify household incomes and reduce plastic waste. Future projects include the development of an information hub and kiosk for tourists to purchase local souvenirs including traditional Nauruan artefacts.

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

The ADB Financial Capability Coaching Program (FCCP) continues to develop financial literacy in Nauru. In 2020, fourteen coaches were trained in financial literacy and these coaches were to train a minimum of five people within six weeks. This program continues in 2021 with seven new coaches completing the FCCP. Discussions are underway to include financial literacy in the education curriculum.

SOCIAL AND COMMUNITY SECTORS

Development support in the social and community sectors is primarily directed toward Education and Health, with some Sports related infrastructure projects.

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.

Australia is supporting access to quality education across all grades is being enhanced through accreditation of technical and vocational education instructors to TAFE QLD standards. To-date, 42 Nauruan teachers have now graduated through the University of New England teacher training program. Eight teachers are on track to finish by the end of this calendar year and a new cohort of 13 teachers has been successfully picked to begin the training.

The Queensland Certificate of Education 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. The Australia Certificate of Education (ACE) has also been newly introduced into secondary school level at the beginning of this calendar year. \$200k per year is also allocated for secondary scholarship studies in Brisbane.

In 2016 only 15 Year-12 students graduated with 40 students successfully completing year 12 studies in 2019. A total of 74 Year- 12 students graduated in 2020, 30 of which graduated with the Queensland Certificate of Education (QCE). By 2021, 85 Year 12 students are expected to exit with a qualification, and the Year 12 retention rate is expected to increase to 80 percent by the end of 2021.

By helping students travel to and from school, Nauru is helping to improve access to education. Japan is contributing a wheelchair accessible school bus to ensure children of all abilities have suitable school transport. This complements the Nauruan government's school bus transport program, which provides safe and reliable school transport for all school-age children.

Some of the key challenges include the ongoing reliance on expatriate teachers at a cost of almost \$500k per year, improved analysis of data, quality and consistency of internet connectivity and low capacity of teachers to undertake continuing professional development activities. The capacity of education administrators to implement projects has been stretched over the past year, illustrated by the considerable underspend of Australian and New Zealand funding. Australia is recruiting technical expertise to assist the Department of Education plan and implement its activities; however, this has been hampered by the COVID-19 pandemic.

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. Other noteworthy achievements to date under this sector goal are the acquisition of general medical officers

and highly qualified medical specialists on long-term contracts, mobile clinics in Yaren and Anibare; rollout of the health information system, and work commenced in engaging telemedicine consultations with international consulting specialist clinic. The mobile clinics in Yaren and Anibare will be renovated, and four specialist nurses allocated to the four mobile clinics across the island.

The rising incidence of 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 Nauru's most urgent Health targets, the Ministry of Health initiated the "Every Life Matters" campaign. The three-year campaign is currently at 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.

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. Mass Drug Administration (MDA) for Trachoma is also progressing.

The facilities expansion and renovations in paediatrics will boost Nauru's 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. 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.

The annual World Food Day was once again 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.

The Nauru Health Professional Training Institute (NHPTI) commenced its accreditation process with open dialogue with the University of New England and the University of Fiji in 2019. Additionally, the

institute is working closely with IHMS to develop a training plan for the ongoing education of medical staff. Work is also progressing to establish a Nauru-based centre to provide a Diploma of Nursing, with regional accreditation.

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. With the support of Australia, New Zealand, Taiwan and the Asian Development Bank, Nauru has strengthened its medical facilities to accommodate potential COVID-19 cases. Improvements include the establishment of an isolation ward, increasing the number of hospital beds, laboratory consumables and test kits, oxygen cylinders and a mobile x-ray machine for the isolation ward. By the end of the financial year, a new pharmacy will be developed to house Nauru's drug supply safely and in conditions that ensure the medication's efficacy. Funding has also been provided for repatriation flights of stranded Nauruan citizens, and to facilitate the transport of essential supplies to Nauru. Medical staff have been provided with mandatory annual courses targeting management of pandemics and outbreaks. Donors have also provided critical support to protect Nauru through a robust quarantine and testing system, which has helped keep Nauru COVID-19 free to date. Support to develop Nauru's medical capacity to sustainably manage a large-scale COVID-19 outbreak will be a focus going forward.

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

FY20-21 marked a busy year for sport in Nauru. The ongoing Women's AFL competition remained a great success from both participation and spectating perspective. Development of sports administration and sports officiating or coaching are ongoing.

Four existing facilities began renovations in 2019 in partnership with local communities, including three basketball/volleyball courts in Uaboe, Denig and Yaren and a tennis court in Denig. All renovations have been successfully completed and have been opened for public usage. Two new basketball/ volleyball courts in Anibare and Aiwo have been constructed and completed with an additional one in Ewa still under construction.

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. The procurement and instalment of roller-doors are underway to ensure that the sports complex remains usable under any weather condition.

Priorities for FY21-22 include the development of a Sports Strategy that will include a review of the Epon Karamen 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. The assistance of a consultant to help in developing the Sports Strategy Plan was further delayed with the travel restrictions under the COVID-19 pandemic.

Australia remains the largest donor to Sports programs in Nauru including the recent procurement of multiple sport equipment to promote a variety of sports to the local communities and schools.

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 one 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 colors 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 Internal 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 support people with disabilities to access employment. Efforts have also been maintained to renovate homes of persons with physical disabilities so that the houses are disability-friendly.

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.

Two locally owned fashion and design companies, "Amatalines Nauru", and "T3'STR33T" continue to promote and sell local fashion and designs for clothing, accessories, and artwork." Amatalines Nauru" 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.

Nauruans participating in the Labour Mobility Scheme are now participating in the hospitality industry, with a number of participants remaining in Australia during the COVID-19 pandemic.

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

Nauru now has a single department dedicated to championing the needs of women and children. In November 2020, Cabinet approved the creation of a stand-alone Department of Women's and Social Development Affairs. The Department has three divisions: A Gender Mainstreaming Unit, Child Protection Division and a Women's Affairs Department.

There has also been significant progress towards this goal. A Pandemic Policy Concept Note and a juvenile justice paper have been completed. The International Women's Day programme and the 10th year anniversary of the Safe House provided opportunities to raise awareness regarding the *Domestic Violence and Family Protection Act 2017*. The Department is also considering a Case Study note on the linkage of alcohol and domestic violence and how Nauru has used funding for women's and child protection.

The Nauru National Women's Summit Outcomes Document called the "Tomano Declaration" saw specific budget allocation for the recommendations that is slowly being implemented and of the seven recommendations, three have been allocated activities for implementation.

The hosting of the 1st ever virtual Triennial Regional Women's Conference saw 100 women converge at Tomano room following two days of national consultations. During the virtual conference, Nauru took the lead as Chair of the Micronesian Caucus.

The Child Protection Division completed a successful International Children's Day campaign in November 2020. Another milestone achievement is the building and opening of the Zero to Three Development Centre. The centre is the first of its kind in the Pacific- a working collaboration with Education and Health for the holistic development and support for pregnant mothers, infants, and toddlers.

The reallocation of the Gender Mainstreaming Unit into the Department is a step towards progress in tackling matters of gender inequality on Nauru.

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

The activities and participation of the Youth of 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 provided with a grant under the Small Grants Programme (SGP); a GEF funded programme to provide financial and technical support to projects that conserve and restore the environment while enhancing people's well-being and livelihoods. 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 Pleaders Course programme and are now fully qualified pleaders.

INFRASTRUCTURE SECTOR

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

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

Although tariffs, rates and fees for electricity have remained unchanged since 2019, many improvements were made in the energy sector. The Support to Energy Efficiency and Renewable Energy project funded by the European Union (EU) EDF 11 Program involved the upgrading of the electricity distribution network. The EDF 11 project concluded towards the end of 2020 and the targeted portions of the distribution network were upgraded successfully. One of the expected outcomes of the network upgrade will be the further stability of electricity supply- in 2020, power outages were reduced by 54% and 32% for SAIDI and SAIFI respectively compared to the previous year.

The Supporting Mainstreamed Achievement of Roadmap Targets on Energy in Nauru (SMARTEN) promotes the application of feasible renewable energy and energy efficiency technologies to socioeconomic development activities in Nauru, in accordance with the country's energy roadmap targets. Program targets include a 24/7 grid electricity supply with minimal interruptions, 50% of the grid electricity supplied from Renewable Energy sources and 30% improvement in Energy Efficiency in the residential, commercial and government sectors.

One of the targets of the NSDS for the energy sector is to increase the use of renewable energy and other alternative forms of energy. As of 2020, the NUC reported a total of approximately 2,350 kW of renewable energy is generated through solar panels systems.

The 6MW Solar Development Project includes the construction of a 6MW grid-connected solar power plant and a 2.5MWh, 5MW battery energy storage system to supply continuous power when solar energy is interrupted by cloud cover and to maintain network stability. The design and development work have commenced on the installation of a 6MW solar power project funded by ADB and Government of Nauru. The project will help boost the capacity of electricity generation from renewable sources from 3.0% to 47% and it is scheduled for completion by the end of 2022.

In December 2020, the Grant Funding Agreement for the Nauru Energy Efficiency on the Demand Side (NEEDS) project was signed and is now in its implementation phase. This project is funded by the Ministry of Foreign Affairs and Trade (MFAT) of the Government of New Zealand aiming to support the achievement of the 30% energy efficiency target set in the NERM. The Grant funding Agreement is signed for Phase 1 funding of AUD 1.4 million over three years.

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

Addressing water concerns is a high-priority for the Nauru Government and this is reflected in several major undertakings in the past years to procure and install water tanks for households. The Household Water tank project funded by Australian Government is on-going and will be completed within the 2021-2022 financial year. The project involves the procurement and installation of 120 water tanks for the most vulnerable households to address their need for freshwater storage. The Nauru Government undertook the same initiative in 2019, procuring 50 poly tanks, and through the Global Climate Change Alliance Plus Scaling up Pacific Adaptation (GCCA+ SUPA), the CIE was able to partner with SPC to secure a further 100 water tanks of 20,000 litre capacity.

In terms of the reliability of supply of Reverse Osmosis water, the NUC noted in their 2019 Annual Report that water delivery success ratio- measured by the number of orders delivered within 2 days of payment- was improved to 94% from 83.4% the previous year.

The ADB-funded Nauru Sustainable Urban Development Project will assist Nauru improve water supply, waste management and sanitation services. Scheduled for approval in 2023, the project has indicative financing of \$20,000,000. The project will run until September 2025. In September FY 21-22, a grant of USD\$5,000,000 (AUD \$8,000,000) will be provided from ADB's Special Funds resources to help finance project preparation, design activities, and procurement of the ensuing project investments.

The Department of Climate Change & National Resilience will chair the project steering committee for the Project Readiness Finance Stage. Once planning is complete and projects advance to implementation, it is envisaged that the project management approach will be reviewed.

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, along with a plan to install 50 community rubbish stands in targeted locations for better waste management.

The Ozone Depleting Substances (ODS) project continues to support Nauru meet its obligation as a member of the Montreal Protocol through:

- an Institutional Strengthening Project, which assists Article 5 countries meet their obligations through hiring an ODS officer and equipping and operationalising an Ozone Office;

- the HCFC Phase-out Management Plan (HPMP), which implements measures to phase out Hydrochlorofluorocarbons (HCFC) substances; and

- a HCFC Enabling Project to assist Nauru in becoming a member of the Kigali Amendment and domesticating treaty obligations to manage or control HCFC gases.

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

Due to the consistent increase of the vehicles in Nauru, there is a requirement to expand the scale of operation of the Vehicle Registration Identification (VRID) into Land Transport Authority. The Authority will frame and implement transport policy for Nauru which is safe, sustainable and environmentally friendly. The authority will also manufacture number plates domestically, manage the sale of helmets for motorbike riders and introducing state-of-the-art vehicle inspection. Additionally, being a small island country, the issue of space availability and improper disposal of vehicles remains a challenge. The authority will also establish a vehicle recycling centre to help manage Nauru's vehicle waste sustainably. The Department of Transport will progress plans to establish the authority this coming financial year.

In regards to the Port, the Sustainable and Climate-Resilient Connectivity Project (formerly Port Development Project) will improve port operations in Nauru by building a wharf, breakwater, and a berth pocket at Aiwo, reconstructing port buildings and the container storage area, and strengthening the institutional capacity of Port Authority of Nauru. The project is funded through contributions from ADB, Global Climate Fund, Australia and Japan. Due to COVID-19 travel restrictions, the project completion date has been extended to April 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.

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

The new media building structure was completed in October 2020, providing new, purpose-built facilities for the new Media Department. Staff have been trained to manage the newly established radio and TV studios to their full capacity.

Other works include upgrading Nauru's television and radio network from analogue to digital network. In the future, the analogue transmitter will also be replaced. Staff have been trained to manage the newly established radio and TV studios to their full capacity.

In early September 2020, the Australia Pacific channel was launched in Nauru, supported by a satellite dish. The Media Department plans to acquire extra two channels streamed via a multiplexer, which will allow the department to stream multiple channels using the one satellite dish and transmitter. The department will also to expand the reach of current TV system to improve coverage across the island, through an AIA system.

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 the public service under Cross-Goal 1, and sustainable management of the environment under Cross-Goal 4, with a drop-off in grant funding for climate change activities under Cross -Goal 5. It should be noted that climate change is robustly supported through other modalities, and many climate change activities are undertaken in the Infrastructure sector, such as the redevelopment of Aiwo port.

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

The Department of the Chief Secretary completed a review of all Government Public Service job classifications and their salary structure in June 2020. The main purpose of the review was to better align public servants' salaries with their salary structure. The result of the review is an improved salary classification and remuneration structure which will help improve and maintain institutional capacity of the public service through increased employee motivation and job retention rates. A salary review of the Public Service was previously undertaken in 2004-2005 to reduce the impact of salaries on the budget, reduce the number of excess staff within the Public Service and assess the pending salaries amounts owed to the government employees.

The Public Administration division of the Department of the Chief Secretary has also finalised a new fuel management policy to help reduce fuel consumption and improve the efficiency of Government services and operations.

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

The *Parliamentary Services Bill 2020* was passed by Parliament this financial year, which now enables Parliament to manage its own financial, administrative and governance affairs. The Act will enable Parliament and Members of Parliament to manage their administration and finances more effectively and efficiently and ultimately to carry out their legislative and constitutional functions in accordance with the constitution, free from unlawful interference.

Over 30 graduates have now graduated from the Pleaders course programme introduced in 2016 and approximately 40 enrolled for the 2020-2021 program. The pleaders program enables graduates to represent clients in the Nauruan legal system, expanding access to justice to more Nauruans, and facilitating faster resolution of legal matters.

The Law Revision and Consolidation Project was approved and launched in FY20-21. The project is now complete. The project reviewed all legislation and subsidiary regulations to ensure consistency and relevance and finished the reconciliation and consolidation of the index for all statutes.

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) was a long-term project that began in 2016 aimed at preserving biodiversity, ecosystem services, improve climate resilience and sustain livelihoods in Nauru using a ridge to reef approach. Priorities included the 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. The two targets for the project were achieved in January 2021, with 10% of Nauru's coastal and marine water under active management as a Locally Managed Marine Area (LMMA), and all five districts actively implementing a land-use management plan.

Parliament recently enacted the Environment Management and Climate Change Bill 2020. The Act will:

- facilitate the coordination of Government environmental management and decision-making:
- ensure environmental conservation and sustainable use principles are considered in relation to the development of natural resources;
- facilitate environmental impact assessments prior to activities taking place;
- promote meaningful public and civil society involvement in relation to environment al management;
- ensure the proper collection, transportation and disposal of waste;
- foster the protection of natural resources from pollution;
- establish the Climate Change and Environment Protection Fund;
- promote the understanding, management, conservation and protection of biological diversity; and

- facilitate the implementation of necessary measures to strengthen the environmental resilience of the Republic and its environment to climate change.

The Department of Commerce Industry and Environment, which is the primary lead for implementing the Act, introduced the Environmental Management and Climate Change (Ban on Single Use Plastic Shopping Bags) Regulations 2021 under this legislation. The regulations will minimise pollution from single-use plastic bags on the island.

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

In early 2019, the Department of Commerce, Industry and Environment (DCIE) requested the Climate Technology and Centre Network (CTCN) for a Feasibility Study for Sustainable Land Transport Strategy that reviewed Nauru's current transportation situation and developed a roadmap for technological solutions for sustainable transport. Following on from this work, a Sustainable Land Transport Strategy and Proposed Actions have been drafted for stakeholder review. The strategy proposes six main components:

- Integrated land-use and transport planning;
- Providing a reliable and affordable public bus system;
- Encouraging and improving walking and cycling facilities;
- promoting cleaner and more efficient fuels and vehicles;
- electrifying transport with renewable energy as fuel; and
- awareness-raising for sustainable land transport.

Additionally, the Nationally Determined Contribution report was revised and submitted during FY19-20 and a National Climate Change Policy is under development.