



REPUBLIC OF NAURU

2022-23 BUDGET

BUDGET PAPER NO 2

CIRCULATED BY

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ON THE OCCASION OF THE BUDGET 2022-23

31 May 2022

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Conventions used in this Document:

- All amounts are expressed in Australian dollars unless otherwise stated.
- Due to rounding small discrepancies may occur in the totals shown in columns in tables.

PART I: 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 modest recovery in 2022 and 2023 for the global economy compared to the previous forecast, with growth projected to be 6% in 2021 and 4.4% 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 2022 now expected to be 0.9%. Slight improvement in growth projects reflects the extension of RPC arrangements to June 2022 and Nauru remaining COVID-19 safe community. With the extension of RPC to December 2022 and enduring capability commencing in January 2023, economic growth is expected to increase to 2.6% in financial year 2022-23. 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.

TABLE 1.1: KEY ECONOMIC INDICATORS

Item	2019-20	2020-21	2021-22	2022-23
Real GDP Growth (per cent change)	0.7	1.6	0.9	2.6
Nominal GDP (\$A million)	171	179	184.5	189.6
Consumer prices (period average, per cent change)	0.9	1.2	1.4	1.7

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%. Nominal GDP is estimated at \$184.5 million. Inflation remains flat at 1.4% in 2022 and 2% in the out years.

The nominal GDP estimate for 2021-22 is projected at \$184.5 million compared with \$179 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 2022. 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 1.7% year on year (October 2021), 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 full census was conducted in 2021. In summary, of those aged between 15-59 years, 62% were employed, and 38% not specified, and considered unemployed. Of the employed, public-sector entities (RON Government and SOEs) accounted for 63%, with the Private Sector, 31%, and Other 1%.

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 II: ECONOMIC STATISTICS

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

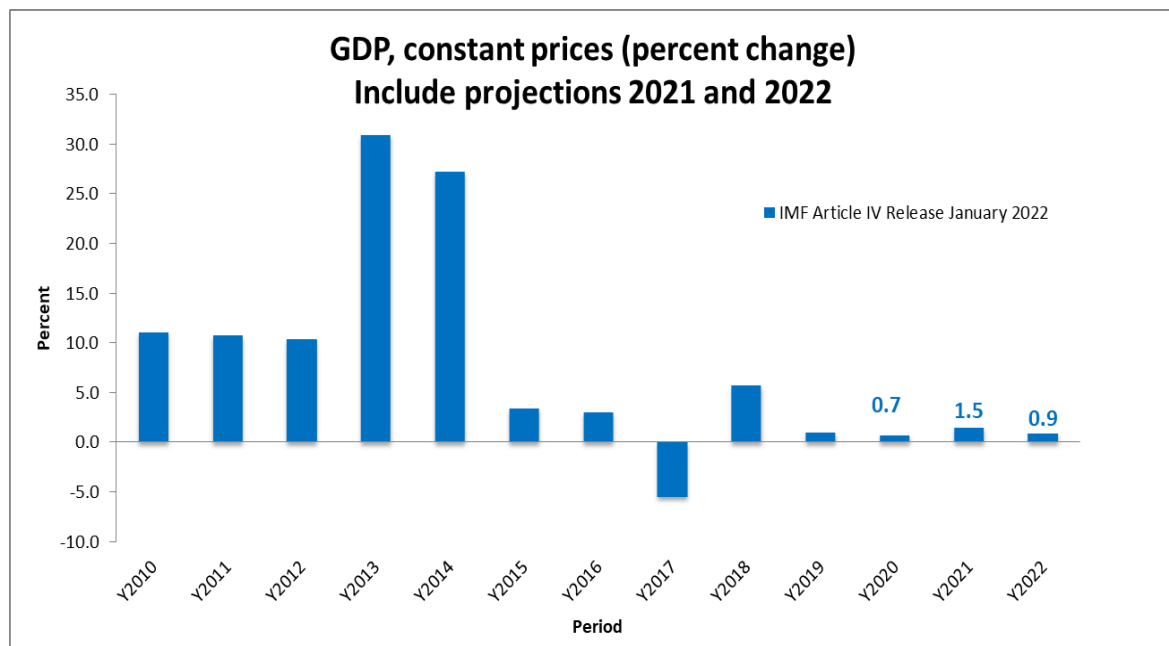
- National accounts
- Consumer prices
- Trade statistics, and
- Labour force statistics.

Nauru became a full member of the International Monetary Fund (IMF) since April 2016. 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 System of National Accounts (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.

CHART 2.1: HISTORIC GDP PERFORMANCE IMF PROJECTIONS 2021 AND 2022



The findings from the latest IMF Article IV reported that GDP growth in the Nauru economy continues to experience the moderate expansion during FY 2020-21 as it was already occurring prior to the pandemic. There are delay experiences in construction projects due to reliant on limited of imported resources.

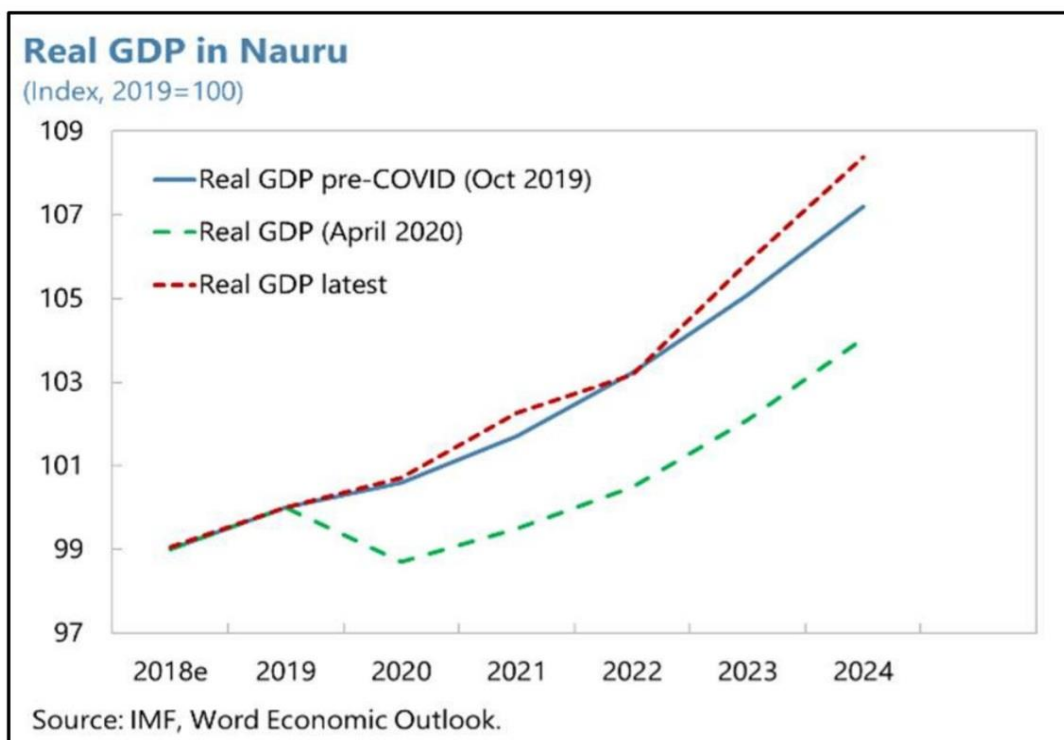
The Nauru economy expanded based on the GDP measures by 1.5% in FY 2020-21 and 0.9% in FY 2021-22.

The measures towards the pandemic policy response included such as:

- Cash support to Nauru Airlines and Nauru Shipping Lines to provide reliable freight services for food and fuel security
- Support to COVID19 taskforce for quarantine and protective measures
- Support to COVID19 taskforce to secure vaccine measures, and
- Increase the supplies of intensive care facilities.

Nauru first recorded a total six COVID-19 cases on the island during April and May 2022. The adult population at the age group of 18 and over are almost fully vaccinated. The population of the school age group from 12-17 were also nearly vaccinated. The vaccination appointment for all remaining younger population is to be confirmed.

CHART 2.2: REAL GDP IN NAURU



The moderate growth is expected to narrow in FY 2021-22 due to declining activity at the Regional Processing Center (RPC) which is a national important source of economic engagement. The economic growth projections expected to slow from 1.5% in FY 2020-21 to 0.9% in FY 2021-22 which mostly reflects the declining activity at the RPC.

TABLE 2.1: SOCIAL AND ECONOMIC INDICATORS (INCLUDE REVISED PROJECTIONS 2021-2022)

GDP (FY2020 est.) (in millions of Australian dollars)	170.5	Poverty		24 percent (2013)				
Per capita GDP (FY2020 est.) (in Australian dollars)	12,646	Life Expectancy at Birth		59.5 years (2015-2017)				
Population (FY2020 est.)	12,906	Total fertility rate		3.9 births per woman (2015-2017)				
		Infant mortality rate		25.4 per 1,000 live births (2015-2017)				
		Adult literacy rate		96.5 2011				
	2015	2016	2017	2018	2019	2020	2021	2022
						Preliminary	Projections	
Output								
Real GDP growth (change %)	3.4	3.0	-5.5	5.7	1.0	0.7	1.5	0.9
Real GDP per capita (change %)	-1.8	-1.5	-8.7	7.4	5.1	-3.6	-0.6	-1.8
Population (thousand)	12.5	13.0	13.4	13.2	12.7	12.9	13.2	13.4
Prices								
Consumer price index (period average, c)	9.8	8.2	5.1	0.5	4.3	0.9	1.2	1.4
General Government Finances								
Fiscal balance (% of GDP)	10.5	21.4	21.4	32.5	16.1	0.0	4.3	
Balance of Payments								
Current account (% of GDP)	-21.3	2.0	17.9	12.8	8.0	4.7	7.4	6.5

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

CONSUMER PRICE INDEX (CPI)

The Nauru inflation measuring change since the new base period December 2015 depicted in Chart 2.3 representing a fluctuation each quarter and in December 2021 increase 1.73% since base period for the all-groups CPI.

CHART 2.3: ALL GROUPS CPI HISTORICAL TREND

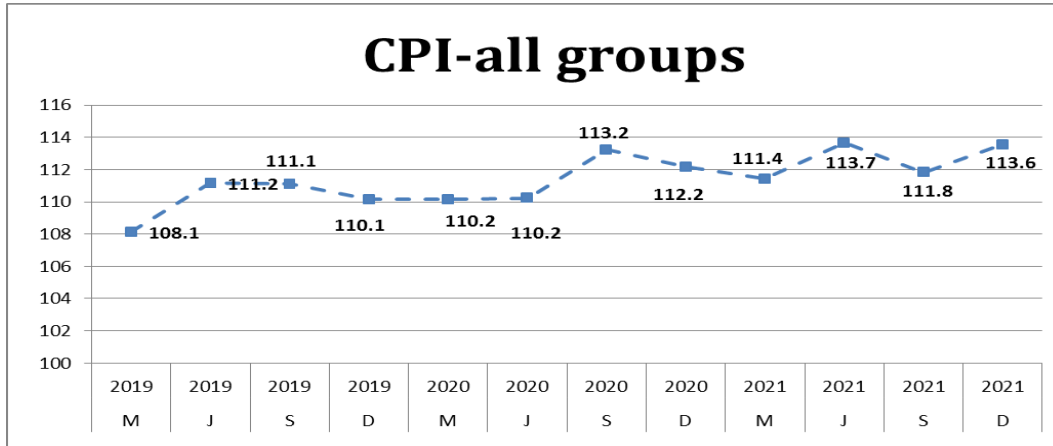


CHART 2.4: CPI ANNUAL PERCENT CHANGE

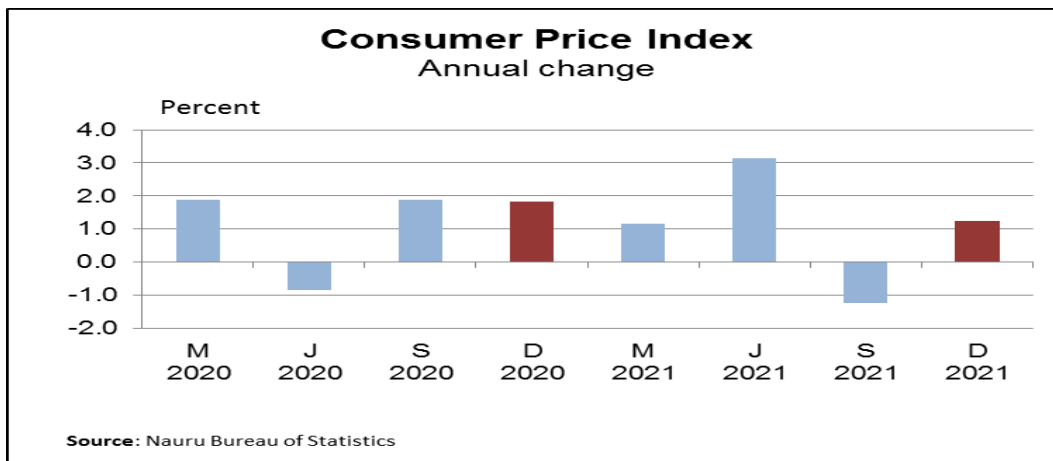
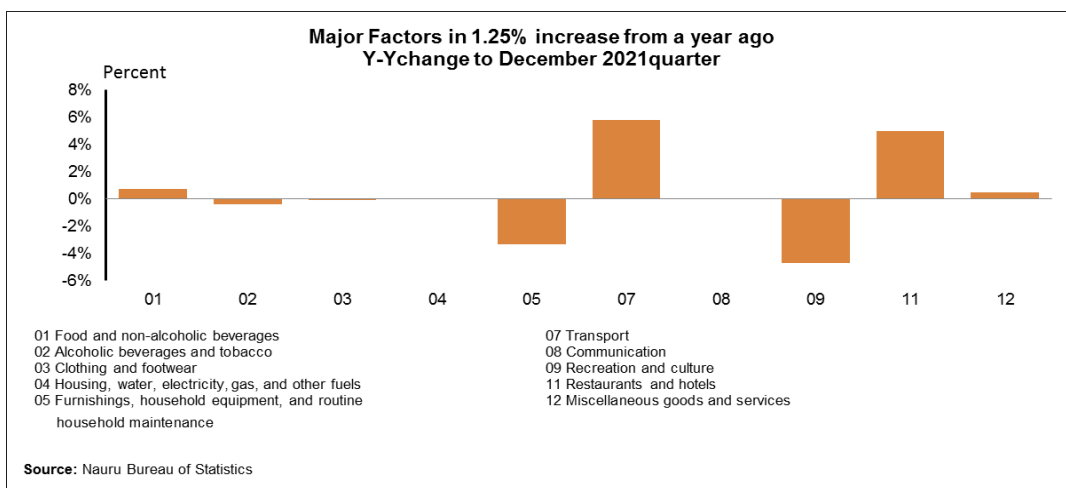


CHART 2.5: CPI ANNUAL PERCENT CHANGE BY MAJOR FACTORS



The CPI increased 1.25% in the year between December 2020 and December 2021 quarter.

Two of the ten divisions in the CPI made upward contributions. By divisions, the main upward contribution came from Transport (up 5.75%) and Restaurants and hotels (up 4.98%).

Downward contributions came from the divisions:

- Recreation and culture (down 4.72%)
- Furnishing, household equipment and routine household maintenance (down 3.39%)
- Alcohol beverage and tobacco (down 0.45%)
- Clothing and footwear (down 0.13%), and
- Housing, water, electricity, gas and other fuel (down 0.08%).

The main individual upward contributions during the year came from:

- Clothing – Men’s shirts (30.68%)
- Fresh Fish - Bonito (up 20.00%)
- Fresh Fish - Yellow Fin Tuna (up 20.00%), and
- Medium Grain (up 19.07%).

Individually, the main downward contribution came from lower prices for Drink mix (refresh, vita fresh, cool-c, kkol-aid, tang (down 34.14%). Lower prices were also recorded for:

- Compact discs (down 33.50%)
- Men - Shoes (down 30.01%)
- Tinned Tuna (down 26.63%), and
- General Saltwater Fish (down 25.00%).

ANNUAL PRICE CHANGE FOR ALCOHOL BEVERAGES AND TOBACCO GROUP

For the year of the December 2021 quarter compared to the same period in the previous year, Alcohol beverages and tobacco group prices have decreased by 0.45% which decreased in the prices of cigarettes (down 1.09%) and as for spirits prices remained unchanged.

SUMMARY OF OTHER GROUP MOVEMENTS IN THE QUARTERLY CPI

In the December 2021 quarter, the miscellaneous goods and services group showed a slightly increase of 0.43% mainly due to an increase in the prices of baby nappies (up 8.56%) and hair shampoo (up 4.77%).

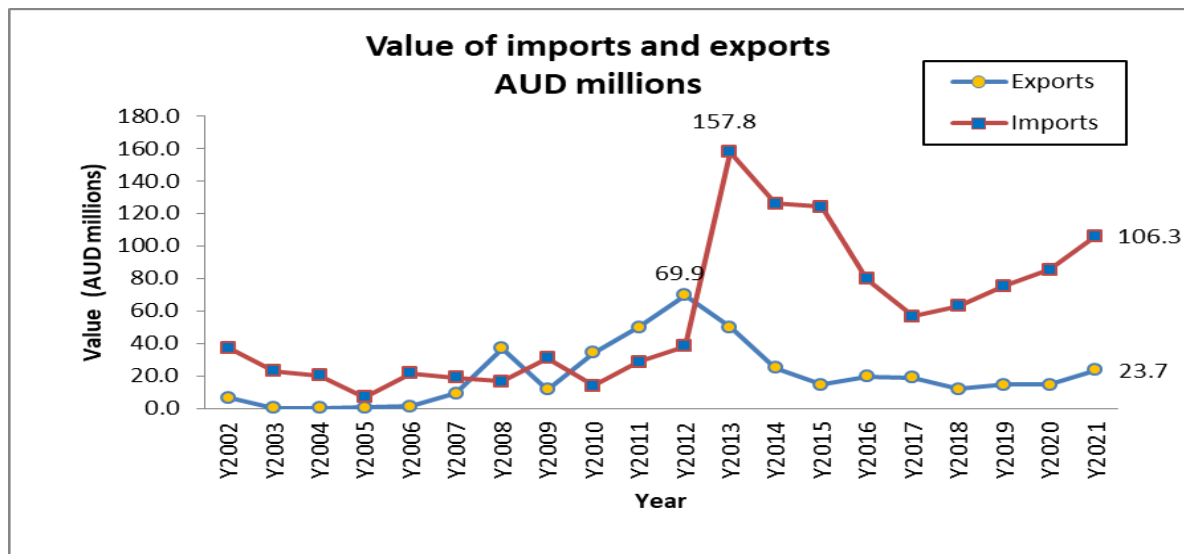
One other group showed no changes this quarter which the Communications group.

INTERNATIONAL MERCHANDISE TRADE STATISTICS (IMTS)

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. However, the 2021 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

CHART 2.6: VALUE OF IMPORTS AND EXPORTS



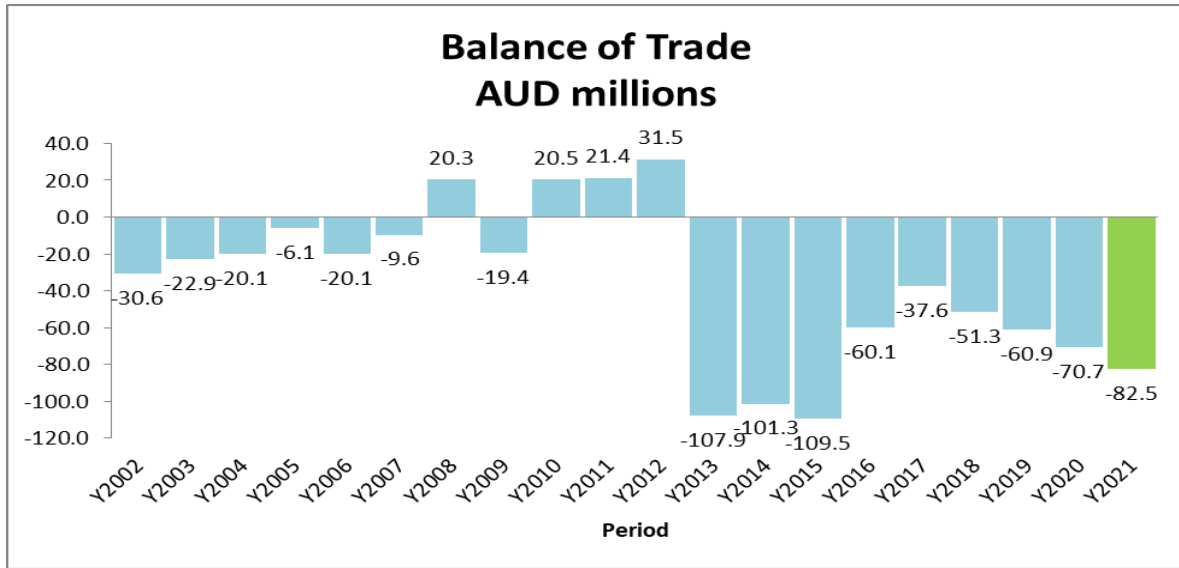
Total Exports have grown to \$23.7 million in 2021 compared from the previous year FY 2020-21. It peaked to AUD \$69.9 million dollars in 2012 due to higher exports of phosphate. Re-export item is sale of JET A1 fuel sold to the visiting airlines.

Total Imports trend shows a positive increase of \$106.3 million in 2021 compared from the previous year FY 2020-21. The positive increase in between 2019 to 2021 complement 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 decline in the deficit stood at \$82.5 million in 2021 compared to 2020 in the trade balance reflecting the movements in exports and imports mentioned above under Value of exports and imports.

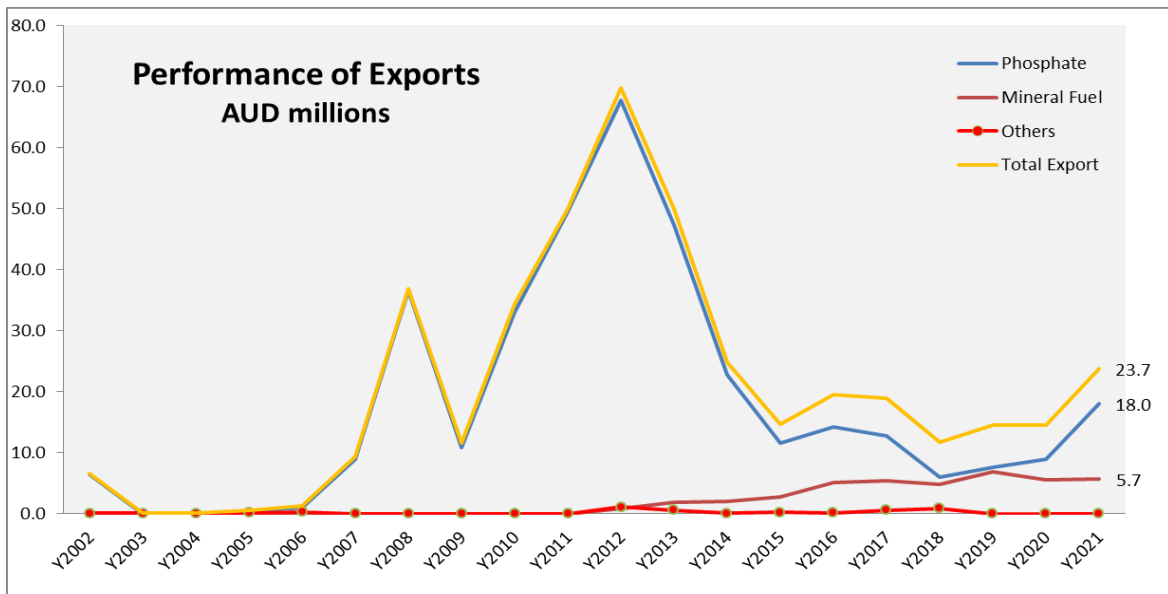
CHART 2.7: BALANCE OF TRADE



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

PERFORMANCE OF EXPORTS AND RE-EXPORTS

CHART 2.8: BALANCE OF TRADE

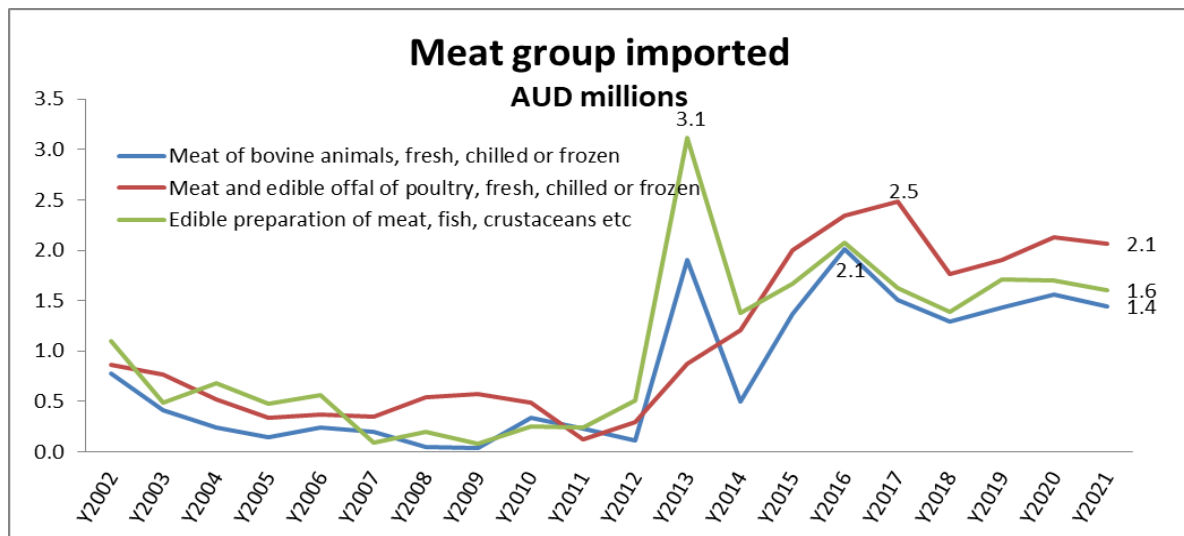


Exports: Graph 2.7 depicts the influence it has on exports. Phosphate is the most important exported commodity of Nauru. In 2021 it stood at \$18 million an increase from 2020.

Re-export: Fuel is the single most important commodity re-exported. In 2021, it stood at \$5.7 million which shows slight change compared from 2020. The important component is the Jet A1 fuel sold to visiting aircraft. As can be seen from Chart 2.7 data on fuel commence availability since 2012.

PERFORMANCE OF IMPORTS

CHART 2.9: MEAT IMPORTS

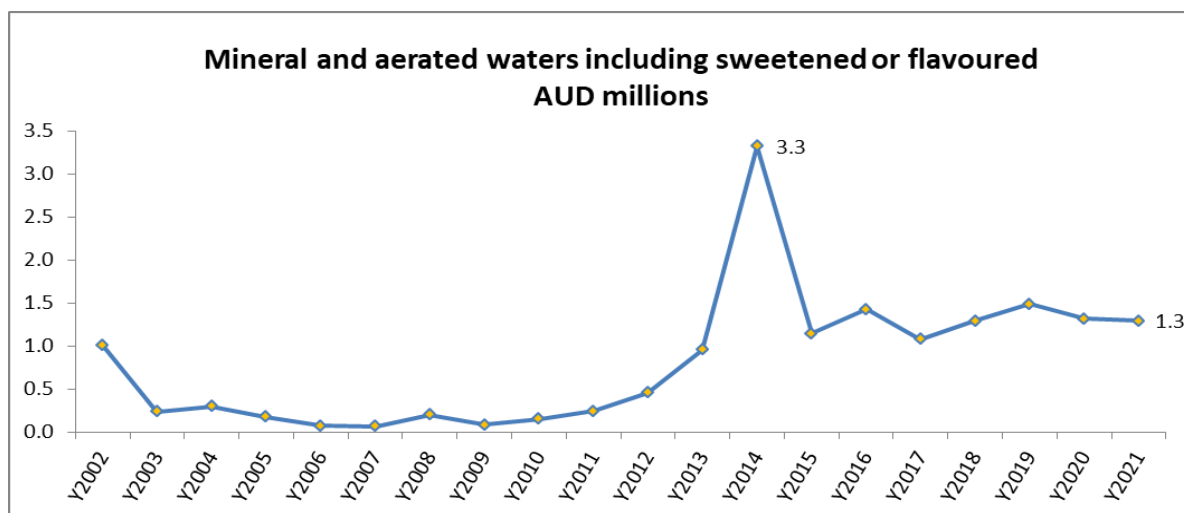


Meat of bovine animals, fresh, chilled or frozen stood at \$1.4 million in 2021 whereas the highest was experienced in 2016 which stood at \$2.1 million.

Meat and edible offal of poultry, fresh, chilled or frozen stood at \$2.1 million in 2021 whereas the highest was experienced in 2017 which stood at \$2.5 million.

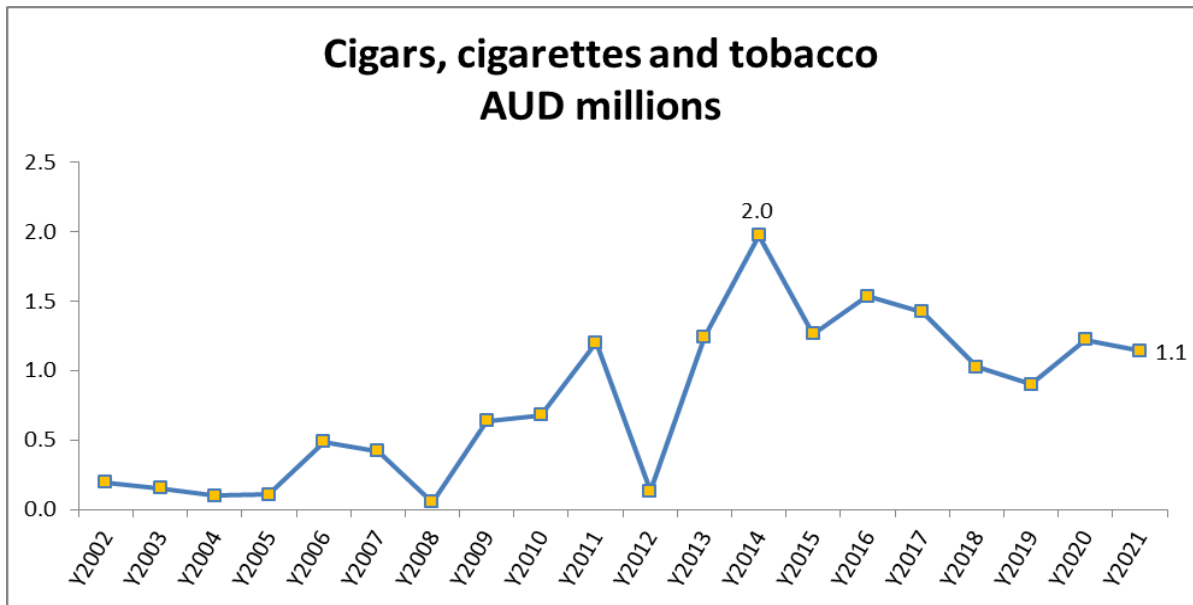
Edible preparation of meat, fish, crustaceans etc stood at \$1.6 million in 2021 whereas the highest was experienced in 2013 which stood at \$3.1 million.

CHART 2.10: MINERAL AND AERATED WATERS - IMPORTS



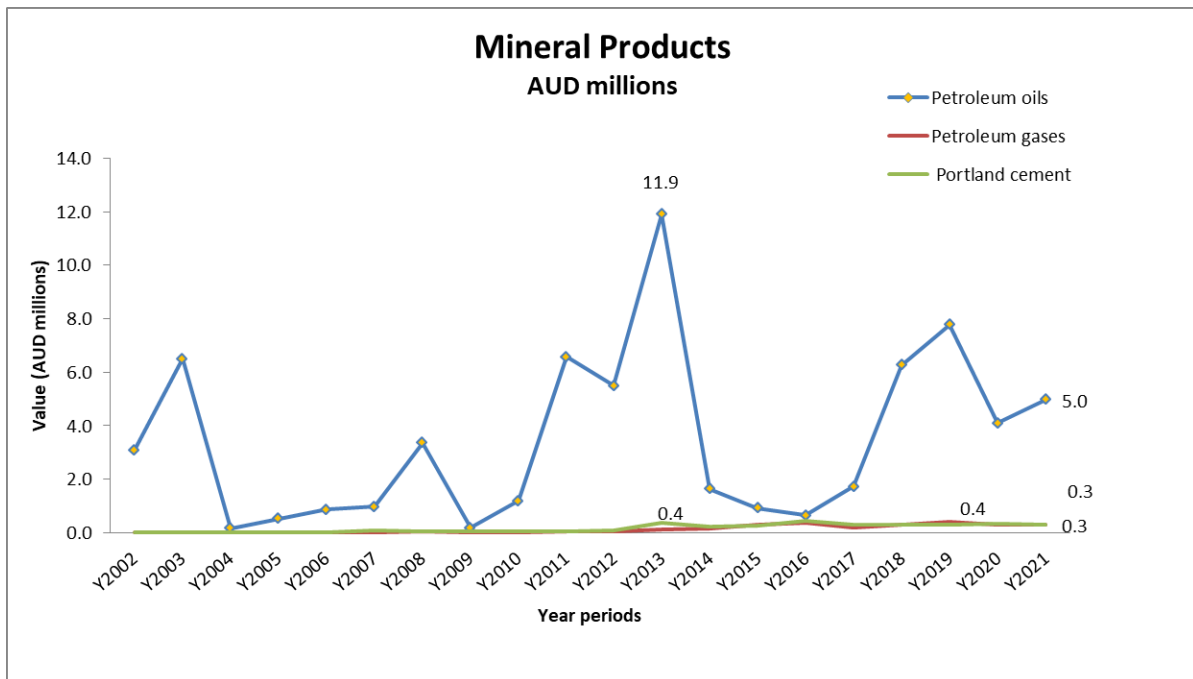
Mineral and aerated waters including sweetened or flavoured Imports stood at \$1.3 million in 2021 whereas the highest was experienced in 2014 which stood at \$3.3 million.

CHART 2.11: CIGARS, CIGARETTES AND TOBACCO - IMPORTS



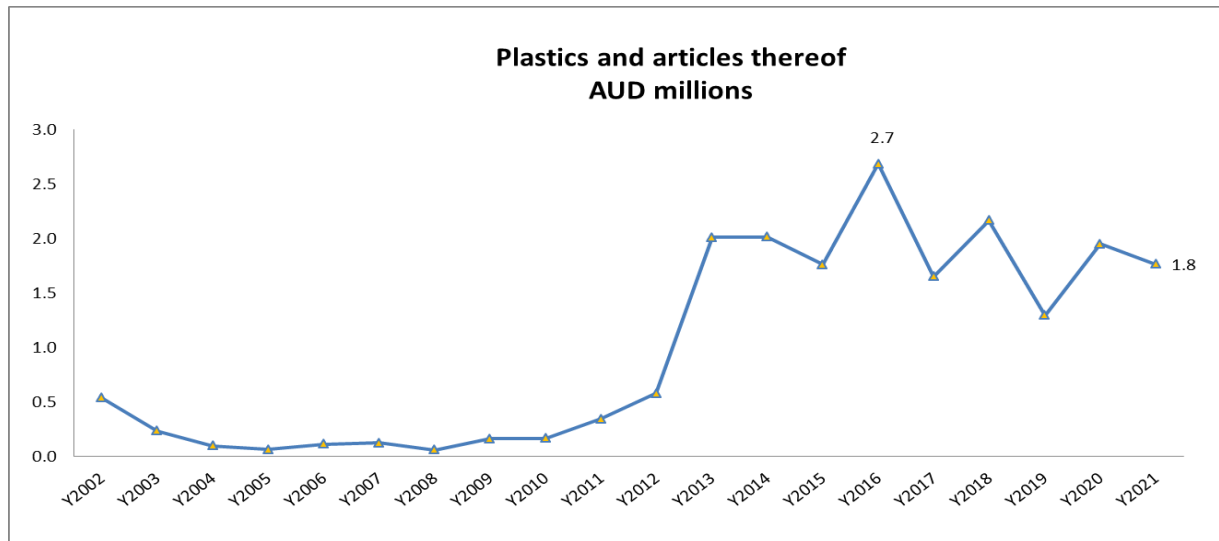
Cigars, cigarettes and tobacco Imports of cigars, cigarettes and tobacco stood at \$1.1 million dollars in 2021 whereas the largest import was experienced in 2014 which stood at \$2.0 million.

CHART 2.12: MINERAL PRODUCTS - IMPORTS



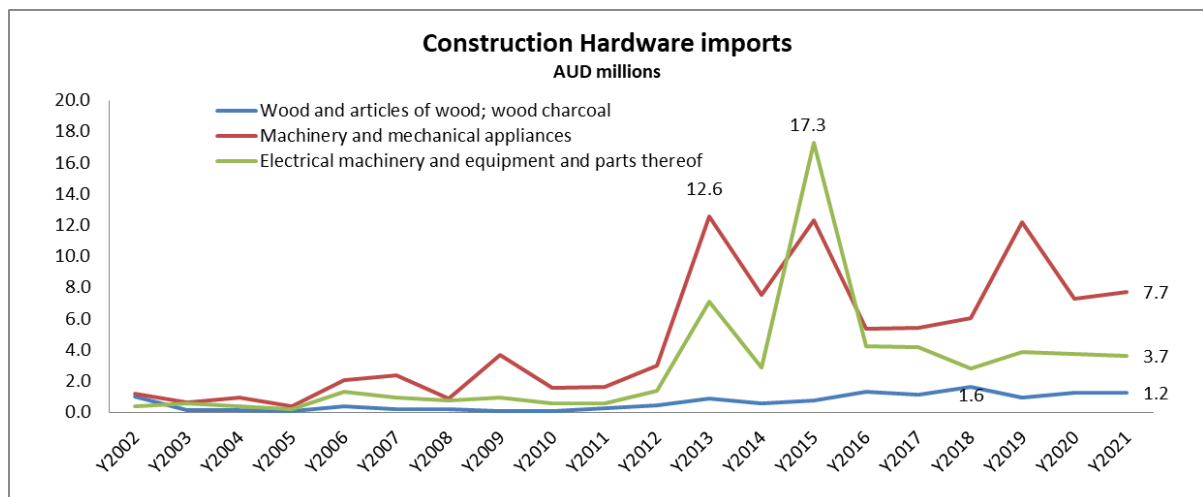
Imports of petroleum oils stood at \$5.0 million in 2021 - a positive increase compared to 2020. This reflects the development of the new port project commenced in 2019 by the China Harbour Engineering Company (CHEC). The majority of imported items in 2021 comes under Mineral product includes the petroleum 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 2.13: PLASTIC IMPORTS



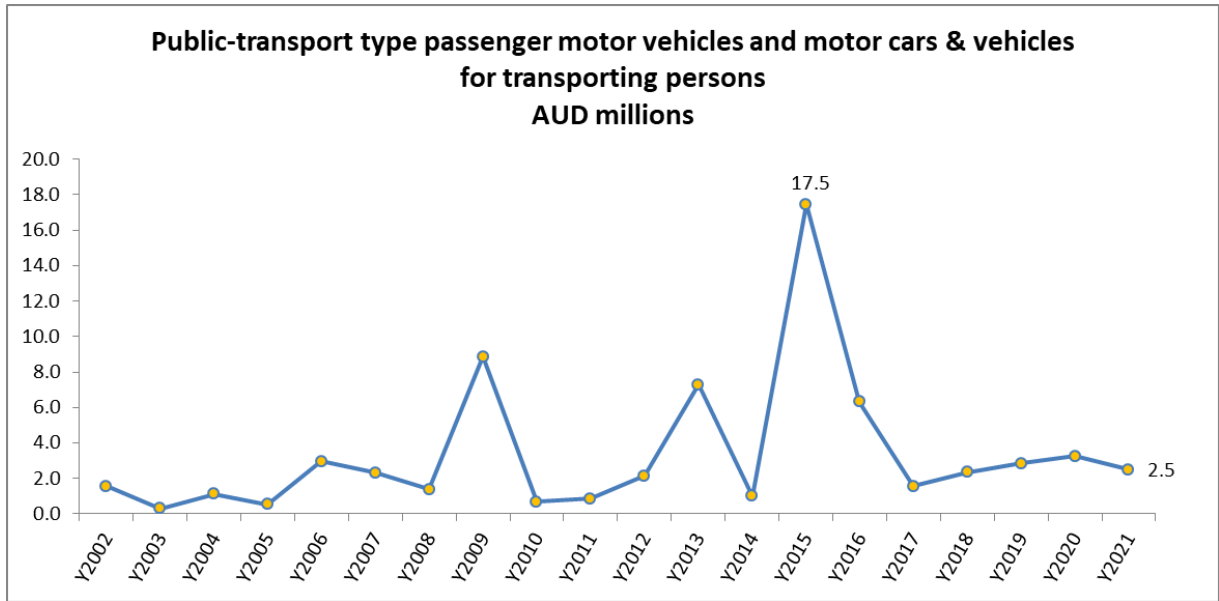
Imports of plastics and articles thereof stood at \$1.8 million in 2021 which experienced a decline compared to the previous year in 2020. The items consist mainly for building wares and housing purposes for instance fittings tubes pipes of plastic, flooring coverings of plastic, adhesive tapes of plastic, 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 2.14: CONSTRUCTION HARDWARE - IMPORTS



Imports of wood and articles of wood; wood charcoal stood at \$1.2 million in 2021 experienced a decline compared to 2020, whereas Imports of machinery and mechanical appliances stood at \$7.7 million in 2021 which experienced a slight increase from 2020. The Imports of electrical machinery and equipment and parts thereof stood at \$3.7 million in 2021. 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 2.15: PUBLIC TRANSPORT – IMPORTS



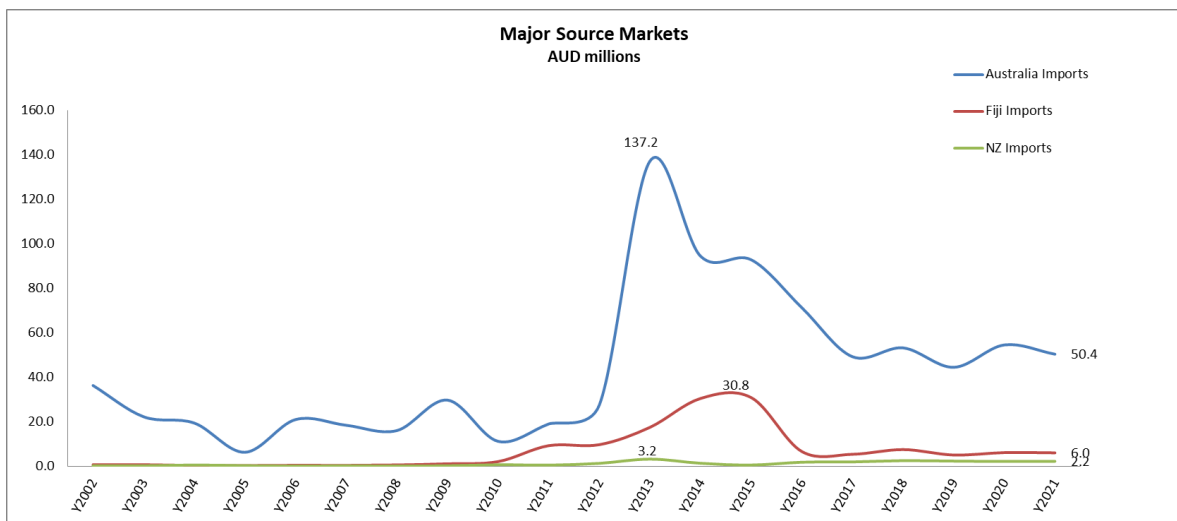
Imports of public-transport type passenger motor vehicles and motor cars & vehicles for transporting persons stood at \$2.5 million in 2021 which experienced a decline from 2020. This may also be a useful source reflecting the demand of fuel imports.

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

CHART 2.16: 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 2.15 shows that most of the imports either originated from or consigned from Australia.

Imports from Australia stood at \$50.4 million in 2021; a decline compared from 2020, whereas Imports from Fiji stood at \$6.0 million in 2021 and NZ stood at \$2.2 million in 2021.

LABOUR FORCE STATISTICS

TABLE 2.2. PROPORTION OF EMPLOYEES BY LOCALS AND EXPATRIATES BY EMPLOYER IN THE PUBLIC SERVICE AND STATE-OWNED ENTITIES 2013-2016, 2019-2022

EMPLOYER	TOTAL (%)								LOCAL (%)	EXPAT (%)
	Y2013	Y2014	Y2015	Y2016	Y2019	Y2020	Y2021	Y2022	Y2022	Y2022
RON Government	38.6	43.5	44.0	45.1	51.3	39.9	42.3	42.6	38.7	3.9
Regional Processing Centre (SOE)	7.0	32.0	31.1	29.3	22.4	19.9	16.6	15.2	14.4	0.7
Ronphos (SOE)	15.1	9.6	9.8	9.2	8.9	6.3	7.9	8.8	8.4	0.4
Eigigu Holdings (SOE)	12.3	7.8	8.2	9.2	6.9	8.3	8.6	7.7	7.0	0.8
Nauru Rehabilitation (SOE)	9.7	5.6	5.3	5.3	3.6	3.1	4.1	3.4	3.4	0.0
Nauru Airlines (SOE)	1.3	1.5	1.5	1.9	2.8	2.5	1.6	2.8	2.8	0.0
Nauru Utilities (SOE)	na	na	na	na	4.0	4.2	5.1	5.9	5.1	0.7
Eigigu Solution (SOE)	na	na	na	na	0.0	15.8	13.7	13.7	13.0	0.7
TOTAL	3,086	4,699	4,745	4,760	4,082	3,503	3,462	3,462	92.7	7.2

Sources: Derived from administrative sources

Note: 1) Not available private sector i.e. security services, retail stores, restaurants and any small businesses

2) Nauru Airlines are Nauru based only

Table 2.2 represents the breakdown proportion of employees by Local and Expats. Agencies with an advantage of large number of manpower employment such as the RON Government and State-Owned Entities (SOE):

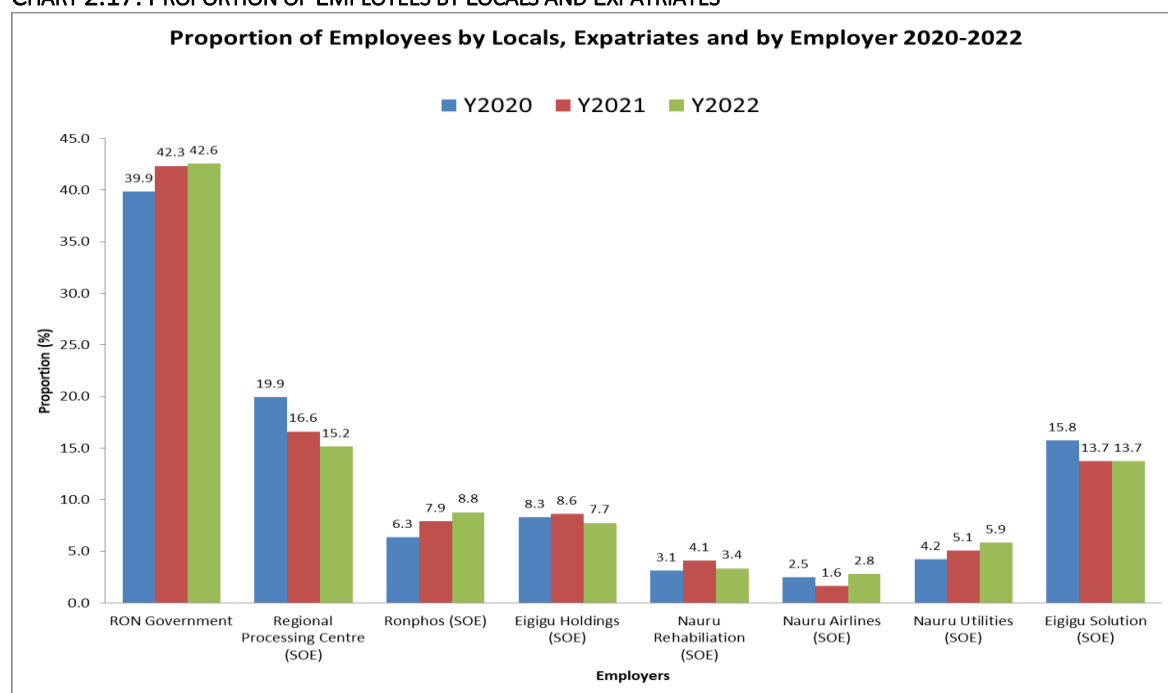
- RON Government represents all Government Departments in the public service for instance departments with large number of staffs such as Finance Department, Education Department, Health Department, Justice Department, Home Affairs, Commerce Industry and Environment (CIE), Information and Communication Technology (ICT), Nauru Media, Nauru Police Force and so forth. The RON Government also includes the new departments established during the recent fiscal year such as the Department for Climate Change National Resilience (CCNR), Department for Women Social Development Affairs (WASDA), Department for Internal Affairs and Department of People Living with Disability.
 - Table 2.2 and Chart 2.14 depicts that the RON Government employs the major number of employees more than State owned entities. The proportion size of employees at the RON Government from the actual total of 3,503 is 39.9% during year 2020 and gradually increases to 42.3% from the total of 3,462 in the following year in 2021 and 42.6% from a similar total estimate of 3,462 in the current year 2022.
- Regional Processing Centre representing, Canstruct and Security Services including CLOs.
 - The Nauru Regional Processing Centre is the second major key agency employing local and expatriate staffs to the people of Nauru. The proportion size of employees at the

RONPhos from the actual total of 3,503 is 19.9% during year 2020 and declining to 16.6% from the total of 3,462 in the following year in 2021 and 15.2% from a similar total estimate of 3,462 in the current year 2022.

- Eiguu Holdings represents the umbrella-ship for Eiguu Headquarters, Eiguu Supermarket, Civic Centre, Menen Hotel, Eiguu Transport, Eiguu Enterprise, Enigin.
 - The proportion size of employees at the Eiguu Holdings from the actual total of 3,503 is 8.3% during year 2020 and slight increased to 8.6% in the following years in 2021 and experienced a decline to 7.7% in the current year 2022.
- **RONPHOS Corporation**
 - The proportion size of employees at the RONPhos from the actual total of 3,503 is 6.3% during year 2020 and gradually increases to 7.9% from the total of 3,462 in the following year in 2021 and 8.8% from a similar total estimate of 3462 in the current year 2022.

The table 2.2 and chart 2.14 also includes the employment status for the Nauru Rehabilitation Corporation, Nauru Airlines and Nauru Utilities Corporation and the Eiguu Solution Corporation.

CHART 2.17: PROPORTION OF EMPLOYEES BY LOCALS AND EXPATRIATES



Source: Administrative data

PART III: STATE-OWNED ENTERPRISES

Performance of Nauru's State-owned Enterprises (SOE) has been weak for over decade now. The SOEs place a significant and unsustainable strain on the Nauru economy due to their low performance. They absorb large amounts of government resources on which they provide very low returns. SOEs often crowd out essential sectors and absorb funds that could otherwise be invested in social sectors such as health and education. The SOE portfolios' average return on equity was 2.5% and return on assets below 2 percent. This rate is substantially below the profitability target set by the government, demonstrating that SOEs cannot cover their costs of capital. In most cases, these SOEs' poor performance is due to weak governance arrangements, conflicting mandates, the absence of hard budget constraints, and lack of transparency and accountability.

SOEs do not operate with the same efficiency incentives as private sector firms; there are few consequences for poor financial performance and few rewards for profitability. Investing in underperforming SOEs has opportunity costs by absorbing funds that could generate higher returns through more productive activities.

The new *Public Enterprise Act 2019* (PEA) 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.

Given the uncertain economic outlook, the need to sustain a resilience economy is vital, 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 financial year 2022-23 Budget includes measures to improve the efficiency of SOEs. They include the implementation of the PEA and the continuation of rollout of the CSO framework, to improve the competitive neutrality of government owned businesses. The sequence in which Public Enterprises are to establish a better governance framework is to start with a Board Charter, then setting clear statements of objectives, strategy and targets by way of a Statement of Corporate Intent and Business Plan. Following this, Boards will provide improved accountability reporting comparing actual achievements against what was planned. With the support of ADB, over 30% of the SOEs in Nauru have submitted governance documents. In the longer term, the aim is to focus on moving all SOEs towards profitability and to reduce the reliance upon subsidies and financial support.

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 PEA strengthens the establishment of Public Enterprise Monitoring Unit (PEMU). PEMU's role is to administer the PEA and ensure SOE complies with its requirements.

PEMU's role and responsibilities are set out in the PEA in 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's role is to ensure SOE aligns their business and corporate operations along that vision. A SOE is considered a successful business if:

- It is at least as profitable and efficient as comparable businesses in the private sector, and
- 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 CSO are covered in sections 25 and 26 of the PEA.

COMMUNITY SERVICE OBLIGATIONS

In line with international better practice, the CSO framework provides opportunities for Government to seek SOEs cooperation 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), and
- 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, and
- 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:

- Only the Government can request that an SOE pursue a social objective funded through a CSO – the request must come from government
- 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
- The CSO objective is to be clearly specified, and conditions for the CSO, including key performance indicators are to be documented
- The objective would not be pursued if the SOE was operating on a purely commercial basis

- The CSO is costed at ‘avoidable cost’ (that is, marginal cost of service), and this costing is based in evidence
- Agreements are to be annual, and funded in the budget, and
- 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.

SUBSIDIES TO SOEs

The financial year 2022-23 Budget acknowledges the need for government to continue fiscal support to State Owned Entities (SOEs) to ensure they generate commercial returns for the Government and to meet the requirements of the Public Enterprises Act.

In financial year 2020-21, the Government of Nauru established a CSO framework that acknowledges that the government from time to time will require public enterprises to pursue social policy objectives that undermine the entities’ ability to be fully commercial and to generate sufficient revenue to comply with its primary objective under the Public Enterprise Act 2019, of being a successful business.

The CSO frameworks seeks to compensate public enterprises for the difference between the commercial based prices that the public enterprise would have charged for the service and the discounted prices that the services are actually being delivered to the public as requested by the Government.

The financial year 2022-23 Budget includes provision for the continuation of the CSO agreements for the following:

- \$1.7 million provided to Nauru Utilities Corporation to provide affordable electricity through a pre-pay lifeline for up to 200kw/hr of power including a small amount for public lighting services
- \$4.7 million to 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 a weekly service continues to be provided for the rest of the year, and
- \$1.9 million to 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 gazette rate’ that has been set to ensure that NMPA can 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. There has been an increase from current level due to expected increase in cargo demand for local importers.

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 financial year 2019-20 was mixed. Improvements in cost control and operational performance were severely impacted by the coronavirus pandemic. In April 2021 report, IATA data indicated that year on year, the number of world-wide flights was down by 80%. 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. Despite having significant cash holdings and improved Equity at June 2021, NAC remains in a fragile financial situation. It is reliant upon ongoing financial support from Government. Some of this support is direct support for contracted CSOs, but there is also significant indirect financial support through financing of aircraft through Sunco and Nauru Leasing Corporation, which are entirely equity financed by Government. For example, there is no interest cost as Sunco capital has been funded by Government which is an indirect subsidy

In financial year 2022-23 NAC is forecasting a 38% drop in business related to RPC, with freighter charter being the window that will be severely affected as contracts on new arrangements beyond December 2022 under negotiations.

The provision of CSOs 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 financial year 2022-23, 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.
- Rebranding of the airline, this will include refreshed livery on all aircraft and rebranding of stationary, signage and all other marketing material of the airline
- 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.
- Purchase of Hangar, this will reduce operating leases for hangar and office premises in Brisbane. Establishing its own hangar facility is an economical and worthwhile investment, potentially might increase 3rd party revenue for leasing out the hangar for 3rd parties to conduct maintenance and allow for future growth
- Freighter conversion - NAC is looking at building and expanding its freighter business capabilities with the conversion of the VX-XNU into Freighter.

- Identification and purchase of the 2nd Aircraft that will be financed from the approved loan from the Exim bank of Taiwan. This will support the airline to be more competitive with reduced maintenance and fuel costs, and potentially open up more routes and service opportunities.

TABLE 3.1: NAC REVENUE AND EXPENSES

NAC	2020-21	2021-22	2022-23
	Actual	Estimate	Budget
	\$	\$	\$
Revenue	48,549	63,221	53,925
Expense	43,770	57,900	64,432
Operating profit before tax	4,778	5,300	(10,507)

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 the future. Water provided by NUC 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 Public 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 2021-22 financial year period to date has reflected a favourable outcome resulting in a positive financial trend from July 2021 to December 2021. NUC's financial status for Year-to-Date to December 2021 shows earnings before tax of \$267,358. A positive financial trend for NUC which demonstrated that the Company was just able to cover its operating expenses including depreciation to date.

This situation has been helped by the government CSO, where the 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 2021 period.

Operation and maintenance activities on the 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 cross arm 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 financial year 2022-23 is uncertain due to various factors such as fuel hike and COVID-19, NUC's tariffs is sufficient to cover the expenses for operating and maintenance in order to provide electricity and water services at the current levels.

NUC's projected revenue leaves no contingency for increases in fuel prices or other unanticipated expenses outside the projected forecast.

NUC is therefore required to delay capital projects and expenditure or reduce other potentially necessary expenses and continues to make decisions based on limited revenue for its day-to-day operations. 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, and
- Residential post-pay tariff will be reduced from 50c to 48c.

All other tariffs will remain the same from 2021-22; Government Tariff at 0.74 kwh and Commercial at 0.71 kwh.

NUC will also explore opportunities to support households improve energy efficiency. Overall, NUC is expecting to at least break even in financial year 2022-23. 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 \$26.2 million, with total expenses (excluding depreciation and tax) of \$23.3 million.

TABLE 3.2: NUC REVENUE AND EXPENSES

NUC	2020-21	2021-22	2022-23
	Actual	Forecast	Budget
	\$	\$	\$
Total Income	18,866,276	24,228,849	26,416,399
Total Expense	18,808,902	21,243,359	23,266,124
EBITDA	57,374	2,985,490	3,150,274

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 financial year 2021-22 consolidated budget expected the group to earn \$22.9 million in revenue and \$19.1 million in expenses resulting in an operating profit before income tax of \$3.8 million. Actual performance to January 2022 showed operating revenue of \$14.3 million and expenses of \$10 million and an operating profit before income tax of \$4.3 million. The key expenditure items were personnel costs and cost of sales. ECH expects to earn a full year profit in financial year 2021-22 and contribute a \$0.2 million 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 financial year 2022-23. Total revenue is expected to be \$23 million, and total expenses of \$19.8 million, with an operating profit before income tax of \$3.2 million. It expects to provide a \$1 million dividend to government. The Menen Hotel and Eigigu Transport are the best performers in the group, and are highly dependent on patronage from ongoing RPC operations

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

TABLE 3.3: EHC CONSOLIDATED OPERATING PROFIT BEFORE TAX TO JANUARY 2021

	2020-21	2021-22	2022-23
	Forecast	Budget	Budget
	\$	\$	\$
Menen Hotel	2,116,086	2,924,050	3,049,167
EIGUGU Supermarket	465,785	519,921	145,640
EIGUGU Civic Centre	21,145	115,402	67,892
Enigin	128,934	83,481	95,033
Eigigu Enterprise	91,414	91,035	105,909
Eigigu Transport	681,839	575,332	699,886
Eastern Gateway Hotel	6,232	3,554	339
Other	47,225	(780,495)	(898,483)
Consolidated	3,558,660	3,532,271	3,265,384

NAURU POST OFFICE

Nauru Post is providing essential services to the people of Nauru. Post has expanded its scope of operation well beyond traditional postal services to become a logistics business and retailer of stationery. The expansion into logistics has been a response to pressures from COVID-19. This has resulted in significant growth and rapid adaptation.

As a State-owned Enterprise, Post has the primary objective of being profitable. This has been achieved. Rapid growth created financial strains with the need to fund working capital and fixed assets, resulting in under-capitalization. Post has been able to achieve profitability and improved its financial stability during FY 2020-21. Of particular note is that \$1 million has been set aside to cover the potential liability for past fees due to the Universal Postal Union (UPU).

Postal paid a \$100,000 dividend in the 2021-22 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 financial year 2021-22.

TABLE 3.4: POST OFFICE REVENUE AND EXPENSES

Post Office	2020-21	2021-22	2022-23
	Provisional	Budget	Budget
	\$	\$	\$
Revenue	4,322,000	8,350,000	10,790,000
Expense	4,062,911	7,081,233	10,026,695
Operating profit after tax & Dividend	259,089	1,268,767	410,644

NAURU PORT AND MARITIME AUTHORITY

The Port Authority of Nauru became an SOE in financial year 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.

Since the Public Enterprises Act only took effect in late 2019, public enterprises are still adapting to the new requirements. In particular, the formal strategy document, the Statement of Corporate Intent (SCI), was not prepared for the 2020-21 financial year, so there is no formal set of performance measures against which to compare actual results. There are SCIs for both NMPA and NSL for financial years 2021-22 to 2023-24.

It is also acknowledged that the 2020-21 financial year has been significantly affected by the COVID-19 pandemic, which has inevitably affected operations and progress towards achievements. The new CSO payment will support NPMA to earn sufficient revenue to fully cover its costs

NMPA'S OBJECTIVES AND FUNCTIONS

The objectives of NMPA are to promote, encourage and assist in the development of a safe, secure, efficient and commercially viable port of Nauru. They required to establish, improve, maintain, operate and manage port services and facilities in connection with the operation of the port.

Operational data for the year, compared with the previous year shows a significant increase in activity:

NAURU PORT OPERATIONS				
	Ship Visits		Mooring Days	
	2020	2021	2020	2021
Cargo Ships	8	18	49	75
Fuel Ships	6	6	17	17
Phosphate Ships	2	9	13	35

Operations have been constrained by problems with damage to mooring buoys. This has meant that loading and unloading of larger vessels has required chartering of tugs to hold ships in place. There has been significant additional cost for this totalling some \$2.9 million. This has been paid directly by the Government of Nauru and is not included in This has been paid directly by the Government of Nauru and is not included in the NMPA financial statements.

The **Nauru Shipping Line** was established as a subsidiary and commenced operation in August 2020 using chartered vessels. NSL's main goal is to provide a monthly shipping service to Nauru with affordable sea freight that will ensure food security for the island and its people.

Operational data for the first year of operations shows that the aim of monthly voyages was achieved:

NSL 2021 Operations	
Number of Voyages	11
Containers Discharged	1,049
Containers back-loaded	725
Days at Port	42

NEW PORT PROJECT

A major focus of NMPA is construction of a new port that will enable smaller vessels to berth alongside a dock rather than require mooring at the buoys with trans-shipment. This will have significant benefits, including reducing the time for loading and unloading with reduction in cost.

This is a multi-year project with most funding from donors (Asian Development Bank and Australia) and financial support from the Government of Nauru. COVID-19 has caused significant delay to the project so that initial use of the new port is now anticipated to be mid-2022.

The value of Work in Progress at June 2021 totalled \$48.7 million, with \$11.4 million spent in the 2020-21 financial year.

TABLE 3.5: NMPA REVENUE AND EXPENSES

	2020-21	2021-22	2022-23
NMPA	Budget	Actual	Budget
	\$	\$	\$
Revenue from operations	2,259,162	3,607,651	4,909,297
CSO revenue	1,183,500	1,393,000	1,932,000
Expense	3,277,777	3,557,003	4,660,823
Operating profit before tax	164,885	1,443,648	248,474

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.

NRC's revenue is generated from service it provides to Government, community and internal operations. Revenue is sourced largely through contracts for crushing rocks and creating aggregate for construction. Their operations provide RONPHOS with phosphate from rock crushing. They also export some rocks to other Pacific countries. Much of the funding is project-based or through contracts with government, such as waste management and road maintenance. Their ability to undertake rehabilitation of the previously mined areas is thus dependent upon being funded for this work. NRC also undertook road maintenance for the RPC.

For financial year 2022-23, NRC is supporting Government in the following projects:

- Port construction
- Land development for Portion 230, 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.

TABLE 3.6: NRC REVENUE AND EXPENSES

NRC	2020-21	2021-22	2022-23
	Provisional	Budget	Budget
	\$	\$	\$
Revenue	16,125,899	15,206,187	8,938,692
Expense	8,820,724	9,713,740	8,523,124
Operating profit before tax	7,305,175	5,492,447	415,568

PART IV: 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 revision activities were completed and Cabinet approved the NSDS 2019-2030.

In February 2022, Cabinet approved 133 Key Performance Indicators (KPIs) for the NSDS 2019-30 goals. The KPIs set specific activities and targets that the key stakeholders for the NSDS goals want to achieve by 2030. These stakeholders also set the annual targets for each KPI to ensure progress is made towards achieving the end targets in 2030. A full report on KPI progress will be provided in the second half of 2022.

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

ECON-GOAL 1: A STABLE MACROECONOMIC ENVIRONMENT CONDUCIVE TO PRIVATE INVESTMENT ESTABLISHED

In late 2021, the Department of Finance established a PEMU in Treasury. This unit strengthens the compliance to the PEA by the SOEs, which will ensure effective and efficient management principles are upheld. It is challenging to collect reliable financial data from some of the SOEs due to their staff capacity constraints. With the support of technical advisers funded by ADB, the PEMU will continue to work with the SOEs in improving their financial reporting processes as well as improving the quality of the data provided.

Nauru Revenue Office (NRO) is strengthening its process in the collection of government revenues such as tax and duties. NRO, together with other revenue earning departments of the government, uses a targeted approach to issuing assessments and invoices. This is followed by reminder to the customers to clear the invoices before the deadline. A final reminder will be given before legal action is taken if the invoices are still not paid to ensure that NRO collects all government earned revenue in a timely manner. The main challenge is setting up the required processes to ensure a successful outcome in the

correct assessment and invoicing of government revenue. NRO will work together with revenue earning departments to ensure a “do it once – do it right” approach.

The Nauru Chamber of Commerce has drafted a private sector development roadmap which is awaiting Cabinet approval. The Commerce Division of CIE will be responsible for liaising with the Chamber of Commerce and ensuring any action items for the government are progressed. The main challenge for Commerce is a lack of sufficient experience in supporting such work, therefore, technical assistance will be needed to ensure its success.

ECON-GOAL 2: INCREASED LEVEL OF DOMESTIC AGRICULTURAL PRODUCTION AIMED AT ADDRESSING FOOD SECURITY AND HEALTHY LIVELIHOODS

Meneng Farm project is on track to be completed by CIE - Agriculture Division. The land will be used to farm mainly breadfruit trees and other root crops to increase the supply of local staple food. The products from this farm will be given to the public for free to increase consumption of healthy, locally produced products. Agriculture Division continues to work with the Taiwan Technical Mission (TTM) farms to provide training and supplies to local farmers. The main challenge for Agriculture is staff turnover. Agriculture needs to strengthen its processes in recording and monitoring of farmers data and training.

ECON-GOAL 3: ENHANCE DEVELOPMENT AND SUSTAINABLE MANAGEMENT OF MARINE AND FISHERIES RESOURCES TO PROVIDE SUSTAINABLE ECONOMIC RETURNS

NFMRA provides support to milkfish farmers for their livelihood and strengthening food security. NFMRA would provide milkfish fry and training to farmers to improve their milkfish farms. The challenge for NFMRA in milkfish farming has been COVID-19 travel which prevented the importation of fry. Now that COVID-19 travel restrictions have eased, importation can recommence. Developing a milkfish hatchery will take six to seven years, therefore NFMRA will continue importation of milkfish fry for the foreseeable future.

NFMRA’s role in managing the coastal fisheries and aquaculture resources in Nauru has been strengthened with the *Coastal Fisheries and Aquaculture Act 2020*. Through this Act, coastal reef areas are identified to be managed by the respective communities. NFMRA will work with these communities in identifying suitable area to protect or declare as a national marine reserve area. The main challenges that NFMRA faces include the lack of legal expertise to draft coastal fisheries regulation and low community commitment to management of the coastal areas. NFMRA will seek donor support for technical assistance to draft fisheries regulations and assist communities to manage their coastal areas.

ECON-GOAL 4: EFFICIENT AND EFFECTIVE USE OF MINING AND QUARRYING RESOURCES FOR ECONOMIC AND REHABILITATION PURPOSES

RONPHOS continues to improve its production and selling of phosphate. However, due to the increase in production, some of its operational costs (primarily labour) have increased, thereby increasing the total cost per tonne of phosphate produced. Australia has funded a project to review the mooring system and provide recommendations on the best way forward. This project will help RONPHOS with its issue with the mooring system and reduce its operational cost per tonne of phosphate reduced.

Nauru Rehabilitation Corporation (NRC) continues to provide aggregates to all the construction projects in Nauru. NRC also clears land and provides back filling. These activities are critical inputs for building projects on the island. Due to the increase in construction projects, NRC needs to increase its production and services to meet the current demands. However, a shortage of labour force and the breakdown of critical machines continue to pose challenges for NRC. NRC needs to recruit more staff to fill in the current gaps as well as set up a scheduled maintenance plan for its critical equipment to provide a reliable supply of aggregates to local projects.

ECON-GOAL 5: PROMOTE DEVELOPMENT OF SMALL AND MICRO-ENTERPRISES, FOREIGN INVESTMENT AND ECONOMIC INTEGRATION INTO THE GLOBAL ECONOMY

The Department of Justice has drafted foreign investment legislation, which has been submitted to cabinet for approval. This bill will help improve the regulations around foreign investments with the aim of incentivising foreign companies to invest in Nauru. Attracting foreign investors will require a cross-governmental effort to establish an attractive investor framework. The scope of this work reaches beyond the Department of Justice, therefore further discussions are required to develop an agreed approach to encouraging foreign investment.

NRO continues to be vigilant in its review of its procedures and the legislative frameworks to keep Nauru compliant with global standards (such as OECD). Keeping up-to-date with changes to international standards and complying with reporting requirements continue to pose a challenge. NRO will focus on maintaining solid working relationships with the Departments of Finance and Justice to ensure that all compliance administrative requirements are satisfactorily achieved.

ECON-GOAL 6: PROMOTE DEVELOPMENT OF SMALL-SCALE SUSTAINABLE TOURISM

Nauru Tourism Commission (NTC) continues to strive towards developing a small-scale, eco-friendly and sustainable tourism for Nauru. Strategic planning for the future of tourism in Nauru remains a priority. Technical support for this work is one area donors may be able to assist the Commission.

The BiNit Campaign is established and recycling initiatives are in place. These campaigns and initiatives are in place to address the careless dumping of rubbish in Nauru to make the island more attractive to foreign visitors. Further staff are required to continue these activities and progress planned programs.

ECON-GOAL 7: AN EFFECTIVE, COMPETITIVE AND STABLE FINANCIAL SYSTEM THAT WILL ENHANCE ECONOMIC GROWTH AND DEVELOPMENT

Discussions are underway to seek suitable insurance coverage for Nauru. Nauru's small population and lack of a claims history limit the attractiveness of Nauru as an insurance client, however, the Department of Finance is actively investigating all possibilities. The availability of insurance will be crucial for attracting foreign investment to Nauru, and encouraging the establishment of local business.

ADB is also providing technical assistance to review the suitability of Nauru's current financial services as well as support continuing financial literacy in the community. Access to credit services is currently not possible on Nauru, which limits the ability of Nauruans to establish businesses and build homes. Credit cards are not available on Nauru either, which limits access to certain services and makes activities such as paying for international visas challenging. Bringing the full remit of financial services to Nauru is essential for Nauru's economic and social progress.

SOCIAL SECTOR

SOC-GOAL 1: IMPROVE THE QUALITY AND BROADEN THE SCOPE AND REACH OF EDUCATION

The Department of Education has been progressively increasing the number of teachers with a qualification (diploma/certificate). More than 62% of teachers now have a certificate, diploma or a bachelor's degree in education. Staff training options within the government system are limited, and further donor support will be required going forward to help ensure teachers have suitable qualifications. This coming financial year, local teachers who have been employed for two years will receive a bonus similar, to level the field with expatriate teachers. This will improve teacher retention rates and encourage more teachers to commit to ongoing training.

School attendance rate has improved for the schools thanks to the collaborative efforts of the Department of Education, Sports, Nauru Police Force and the financial support from the Social Welfare Services. The average attendance rate for the year was 52% across the school cohort, with domestic issues remaining the main challenge to improving school attendance. Education continues to work on promoting and raising awareness on the value of education, particularly through district Community Liaison Officers. Programs such as the NEAT scheme, where students are provided financial bonuses linked to attendance and school ration programs will be actively monitored and assessed to ensure the right measures are in place to optimise attendance levels.

Teachers currently undertake health checks of students using a check list. This could be upgraded with some technical training to identify students with learning disabilities. The Department of Education contacted an expert to train up teachers with the check list but COVID-19 travel restrictions prevented the expert travelling to Nauru. With travel restrictions now easing, the Department can progress this activity.

SOC-GOAL 2: A HEALTHY AND PRODUCTIVE POPULATION

The Department of Health continues its commitment to safe birthing facilities and practices on Nauru. Free ante-natal sessions are provided to all expectant mothers, and at-risk pregnancies closely monitored. Upskilling of maternity ward staff is ongoing to ensure all babies are delivered by skilled birth attendants. The main challenge faced in reducing the number of maternal deaths is ensuring mothers attend ante-natal clinics on schedule. The Department of Health will continue its health promotions targeting pregnancies and to encourage the involvement of the male partners in the clinics. Upgrades are also planned for the maternity ward, to provide sufficient facilities to cater for demand.

There is an increase in the prevalence rate of communicable diseases such as TB in Nauru. This increase is due to improved detection and ongoing capacity building support from donors such as the WHO., The combination of mass screening, containment and appropriate treatment will enable the treatments to start much earlier and foster better health outcomes for patients. The main challenge for the Department of Health is the competing priorities for limited resources, particularly given Nauru's rates of non-communicable diseases. Dialysis equipment and nurses are the most pressing current need, with three functional dialysis units on island and two full-time dialysis nurses. The Department will work towards hiring more dialysis nurses and securing up to 12 additional dialysis units, improving supply chains for dialysis equipment and increasing the functionality of current dialysis equipment. This coming financial year, the Department will also secure a mammogram machine to improve early

detection rates for breast cancer. The Department will continue to balance its resource allocations to ensure that all medical fronts are able to provide the health services needed. Donor support from Australia, the UN, Taiwan, Japan plays a crucial role in the development of Nauru's health facilities and services.

While the Department of Health is able to recruit sufficient number of doctors to the island, COVID-19 travel restrictions have greatly impacted the recruitment of expatriate nurses from Fiji. The Department is proactively working to secure sufficient staff, however, the long-term, Health will focus on increasing the number of Nauruans working in the health sector, and continuous upskilling of current staff.

SOC-GOAL 3: ENHANCED QUALITY OF LIFE THROUGH SPORTS FOR ALL

The Department of Sports has increased its programs as a rehabilitation tool for inmates and vulnerable youth. The Department has engaged with a number of key stakeholders such as the Department of Health, Nauru Police Force, Department of Youth Affairs and WASDA to develop inclusive and accessible sports programs. This coming financial year, the Department will invest in ongoing maintenance of sporting facilities and trial a steel-trussed roof over the basketball court at Aiwo to improve accessibility. An Anti-Doping Unit will also be established to meet Nauru's commitments to under the International Convention against Doping. Donor support remains critical for the future of Sport in Nauru, and the Department will continue to work with key donors such as Australia to secure expertise and funding.

SOC-GOAL 4: A CULTURAL, SOCIO-INCLUSIVE, COHESIVE AND SELF-RELIANT COMMUNITY WITH SUSTAINABLE LIVELIHOODS

Preserving Nauru's language and heritage remains a pressing need for Nauru. A plan to improve students' learning of the language and culture has been submitted to Cabinet for approval. The main challenge for improving familiarity with the Nauruan language is the spelling and updating of the language, given the current dictionary is based only on words from the Bible. This coming financial year, funding has been provided to undergo rapid-word collection by working with district elders and complete a language survey to standardise spelling. An innovative idea to improve fluency in Nauruan among the youth is the printing of bible verses in Nauruan and English. This project will be funded in the coming financial year.

In financial year 2022-23, the Department will continue to highlight Nauruan heritage through Aroeni day celebrations and holding an inaugural festival on May 21, World Cultural Diversity Day. The festival will include stalls of local handicrafts and Nauruan art, demonstrations of and competitions for handicrafts and contemporary arts, and entertainment from traditional dancers. Additionally, a celebration for the 100-year anniversary of the birthday of the first Nauruan president, Sir Hammer de Roburt, will be funded this coming financial year. This newly established public holiday serves to mark the achievements of the inspirational statesman who secured Nauru's independence.

The identification and preservation of historical sites remains under-resourced. Multiple world-war two sites of international interest are steadily deteriorating through exposure to the elements and lack of a comprehensive maintenance plan. While links have been made with the Fiji Museum, technical expertise is needed on-island to help develop an approach to preserving these sites for posterity. Making the sites easily accessible will also expand tourism opportunities and enable school excursions to the sites.

SOC-GOAL 5: A JUST SOCIETY THAT RECOGNISES AND RESPECTS THE RIGHTS OF WOMEN AND CHILDREN, THAT PROMOTES EQUAL OPPORTUNITIES

WASDA has completed all 2014 gender mainstreaming stocktake recommendations and developed three new gender policies. General understanding of gender issues remains a challenge for WASDA, and the Department will continue to raise awareness through support from the government and donors.

WASDA works closely with the Department of Justice – Directorate of Public Prosecution (DPP) to resolve all cases relating to women and children within 6 months. WASDA takes the lead in court cases involving domestic violence and child abuse but also assists the DPP on other cases involving women and children. There is an urgent need for more local counsellors, and WASDA is actively working with suitable candidates to complete necessary registration under domestic violence legislation to support victims of violence and abuse. WASDA also manages the safe house for domestic violence victims, for which there is an ongoing demand. Funding from donors including Australia and ADB plays a crucial role in ensuring WASDA can meet its mandate and support vulnerable women and children on Nauru. In particular, the provision of technical support by the UN and Australia has been and will continue to be essential to assist WASDA in its activities.

Support for people with disabilities is improving with the establishment of the Department for People Living with Disability. The Department works closely with the Department of Health to identify Nauruans requiring disability-related home adjustments. Australia has generously provided support this financial year, and will continue that support in FY 22-23.

SOC-GOAL 6: INVESTING IN YOUTH – A SUSTAINABLE FUTURE FOR NAURU

The Department of Youth affairs enrolls 15 youths annually for their Life Skills program, which helps prepare youth who leave school before 18 for further education or training. Students are then supported to find employment. While further students could be trained, the size of the current conference room limits the number of participants to 15.

Youth affairs plan to work together with Bureau of Statistics to develop a youth unemployment rate once the 2021 census data is available. In future, ADB also plans to provide technical support to the Social Welfare Division of the Department of Finance, which will assist the government to facilitate access to more productive employment and sources of income. Indicative activities include setting-up employment services and assistance with self-employment and entrepreneurship, which will necessitate close cooperation with the Department of Youth Affairs. The project will prioritise women and other vulnerable groups such as people with disabilities, to help them become more resilient against the economic impacts of external shocks and crises.

SOC-GOAL 7: A ROBUST, VIBRANT AND EFFECTIVE CIVIL SOCIETY FOR A JUST AND PEACEFUL NAURU

Nauru completed a full census in late 2021, with support from Australia and SPC. Australia's support enabled the use of tablets for the first time in Nauru's data collection process, which reduced the census timeframe by approximately three months. Data such as photos and geographical location were also uploaded to enhance the quality of the census. In the coming financial year, the Nauruan

Government will fund a technical adviser to help improve the capacity and planning of the statistics division.

The registry of Births, Death and Marriages (BDM) is working to develop a Civil Registration and Vital Statistics (CRVS) system suitable for Nauru. Donor assistance is required to advise the registry on suitable systems, and support the purchase and implementation of the system.

With the help of the United Nations and New Zealand, Nauru will continue to develop the capacity of the Nauru Electoral Commission and the Parliament of Nauru. Support to date has been focused on the implementation of the Parliamentary Services Act, while support to the Electoral Commission has centred on civil education, electoral legal frameworks and enhancing women's participation in inclusive electoral processes.

INFRASTRUCTURE SECTOR

INFRA-GOAL 1: PROVIDE A RELIABLE, AFFORDABLE, SECURE AND SUSTAINABLE ENERGY SUPPLY TO MEET SOCIO-ECONOMIC DEVELOPMENT NEEDS

NUC has improved its management of its energy supply by reducing the percentage of electricity losses in FY 2021-22 compared to the previous year. This is made possible by the timing and accuracy of meter readings, monitoring and reporting and continuous installation of review programs to manage non-technical losses. NUC will continue to improve its management of energy supply by strictly implementing asset management and maintenance plans.

NUC is on track to reducing the systems average interruption duration index (SAIDI) and systems average interruption frequency index (SAIFI). This is done through improved accuracy of the system control logs and hastened deployment of technical teams to normalise power supply. Incentives are also provided to achieving the target of reducing SAIDI and SAIFI. Challenges in improving the SAIDI and SAIFI includes lack of tools lack of proper tools, equipment and reports. NUC will provide training and the necessary tools to upskill its staff and improve their performance.

The Asian Development Bank's (ADB) 6.8 MW Solar Development Project is due for completion in June 2023. This project will significantly reduce Nauru's reliance on fossil fuels in the generation of its power, helping Nauru gain energy independence and enabling funds currently spend on fossil fuels to be invested elsewhere in NUC. A number of households have also installed roof top solar panels as part of the government's housing scheme to reduce utility bills.

INFRA-GOAL 2: PROVIDE A RELIABLE, SAFE, AFFORDABLE, SECURE AND SUSTAINABLE WATER SUPPLY TO MEET SOCIO-ECONOMIC DEVELOPMENT NEEDS

NUC continues to meet the demand of water from both the residential and commercial customers. The reverse osmosis plant is continuously running to meet the increasing demand of water due to low level of rainfall throughout the year. The main challenge in keeping the plant operational is the delay of materials and spare parts for the plant. NUC plans to bulk buy when possible, to have materials readily available and identify parts that need replacement earlier.

Delivery of water to residential and commercial customers continues to improve. This was made possible through regular maintenance of NUC's water trucks and engaging with privately owned water tanks to meet delivery demand.

INFRA-GOAL 3: EFFECTIVE MANAGEMENT OF WASTE AND POLLUTION THAT MINIMISES NEGATIVE IMPACTS ON PUBLIC HEALTH AND ENVIRONMENT

The ADB funded Urban Sustainable Development Project was approved this financial year, which aims to improve essential services of water supply, sanitation, and solid waste management and establish urban planning capacity in Nauru. Implementation is in the early stages, with the project management unit recently established and the design consultant expected to be mobilized in Q2 2022.

A new medical eco waste incinerator is currently being built at the Naoero Public Health Centre. The incinerator will ensure that medical wastes are properly disposed of, minimise spread of viruses and diseases; and minimise use of the landfill at topside.

Plans are underway to establish a lab for water testing. Water quality and standards are not regulated in Nauru and so to ensure that our water supply is clean and safe, the Public Health Division is looking into establishing a comprehensive water regulatory framework to govern water quality and standards.

Eigigu Corporation (EC) is looking to improving its sludge removal services. One of EC's goals is to expand its current sludge truck fleet to meet demand. Currently, EC has one 3000L sludge truck in operation and this is insufficient to service the whole island. Furthermore, EC is looking into various options for sewage treatment as the proper treatment of sewage and solid wastes are key priorities under this NSDS goal.

INFRA-GOAL 4: IMPROVE TRANSPORT INFRASTRUCTURE AND PROVIDE RELIABLE SUSTAINABLE TRANSPORT SERVICES

Nauru's primary transport infrastructure project, the Port development project, was due to be completed in December 2021. However, completion has been delayed until late 2023. Completion of the project remains a priority for Nauru, to ensure Nauru's food and fuel security. Future revenue generating activities remain on hold until the Port is complete.

Nauru's airstrip will soon undergo repairs, thanks to the support of the Australia Infrastructure Financing Facility for the Pacific (AIFFP). \$1 million was provided this financial year for the preliminary work, and \$3 million will be provided in financial year 2022-23. This project will also include repairs to island ring road.

In addition to ongoing road and drain maintenance, the Department of Infrastructure continues to support the development of sustainable housing for Nauruans through the SMART Housing project. In financial year 2022-23, Australia will support the Department with a technical adviser to help the Department establish key strategic documents, update the Nauru Integrated Infrastructure Strategic Plan (NIISP) and assist the Secretary implement the Departmental structure. The updated NIISP will help prioritise the infrastructure needs of Nauru and assist with budgeting and securing donor support.

The Department of Transport and Civil Aviation continues to work on developing a Land Transport Authority due to the increasing number of cars on island. The Authority will frame and implement transport policy for Nauru which is safe, sustainable and environmentally friendly. 12 months of data

have been collected and analysed to form the baseline required for the feasibility study to establish the authority. However, donor support is required to progress the study. Despite consulting multiple donor partners regarding the concept proposal, support for the feasibility study has not yet been secured.

As a small island country, the improper disposal of vehicles remains a challenge. This coming financial year, the Government of Nauru will fund a vehicle crushing machine to reduce vehicle waste.

INFRA-GOAL 5: PROVIDE UNIVERSAL AND RELIABLE ACCESS TO INTERNATIONALLY COMPETITIVE SERVICES AND AN INDEPENDENT AND COMMERCIALY VIABLE MEDIA

Nauru signed a Memorandum of Understanding with Australia, the US, Kiribati, Japan and the Federated States of Micronesia in early 2022 to progress the East Micronesia Cable project. This project will provide secure, safe and resilient telecommunications infrastructure to Nauru, and support essential activities such as telemedicine consultations and online training with overseas institutions. The Asian Development Bank will support the project with funding for e-governance activities once the cable is in place.

CENPAC is working towards improving its service and infrastructures to provide a reliable and stable internet to its customers. Back-up generators and other infrastructures are in place to reduce the internet disruptions. Customers are automatically connected through point-to-point wireless connections should there be an interruption to the fibre optic cable connection. CENPAC aims to further increase its services by also providing telecommunication services in the near future, facilitating cheaper and better-quality services to the people of Nauru.

Nauru Media has started moving from an analogue system to digital wave with the donor funding assistance from Australia High Commission. Media is also improving its revenue generation capacity by through the establishment of studio facilities for use by the general public as well as government. One implementation challenge is the recruitment of staff with skills and expertise in music production and composition. Nauru Media will upskill current staff in these areas.

CROSS-CUTTING SECTORS

CROSS-GOAL 1: STRENGTHEN AND DEVELOP THE INSTITUTIONAL CAPACITY OF THE NAURU PUBLIC SERVICE

The Nauru Public Service received continued support in the Health, Energy and Financial sectors through the Australian-funded Building Pacific Capability Program (BPaC). Support will also be provided to the Departments of Education and Infrastructure in the coming financial year.

The Human Resources Division (HR) of the Chief Secretary's Department continues to make progress towards digitising government processes. HR is working closely with Technology One to create a recruitment module in the Financial Management Information System (FMIS), which will help increase the efficiency of the recruitment process. Face scan machines have been installed in government departments to start transitioning from signed timesheets to face scanning for attendance. An ongoing challenge is recruiting technical staff in HR to maintain and monitor these new software programs.

CROSS-GOAL 2: STRENGTHEN PARLIAMENT, AUDIT, JUSTICE, LAW, ORDER AND BORDER CONTROL

The *Parliamentary Services Bill 2020* passed last financial year enables Parliament to manage its own financial, administrative and governance affairs. Given its autonomous status, the challenge for Parliament is to upskill its staff to be able to effectively and efficiently manage its operations (such as HR, Finance and other processes).

The Department of Audit is recruiting three expatriate auditors to meet the demand for audits across government. These additional staff will significantly increase the capacity of the Department of Audit. The new expatriate staff are expected to start in the financial year 2022-23.

Approximately 40 enrolled for the 2020-2021 legal Pleaders course program run by the Department of Justice. This course enables graduates to appear in court for certain matters, however, is not a full legal qualification. A number of staff from the Department of Justice are currently studying overseas, and will eventually contribute to an increase in the number of Nauruans qualified as legal practitioners.

CROSS-GOAL 3: A TRANSPARENT AND FAIR LAND MANAGEMENT SYSTEM THAT SUPPORTS SOCIAL, ECONOMIC AND PRIVATE SECTOR DEVELOPMENT

The Higher Ground Initiative (HGI) is an aspirational vision to transform Nauru's higher grounds into habitable, arable and productive lands. The project is an adaptation measure to survive the adverse effects of climate change and sea level rise as its key goal is to enable the possibility of the internal migration of communities and key infrastructure towards the higher grounds at topside. The HGI will also mitigate environmental and socio-economic burdens through improved water and energy infrastructure, increased arable and productive lands, green housing and environment restoration, and ultimately, will support the transformation towards a more resilient and sustainable Nauru. Approximately \$5 million in total have been invested towards the HGI project. The deliverables of the HGI include:

- Economic diversification, advanced through the cultivation of high value-added productive industries,
- Affordable green housing to alleviate overcrowding and reduce energy and water use
- Education and training to ensure all interested Nauruans have the skills to take part in the implementation of HGI
- Food security, advanced through the implementation of modern food production systems on newly available land
- Water security, advanced through the incorporation of efficiency and water harvesting technologies as part of a modern, reticulated water system
- Environment restoration, advanced through the protection and expansion of areas on Topside with high biodiversity and conservation value.

In financial year 2022-23, the Department of Lands Management will continue to reduce the amount of undetermined lands. This will be facilitated by accessing historical documents in Australia relating to land ownership during the years that Nauru was under the Australia's administration.

CROSS-GOAL 4: SUSTAINABLE USE AND MANAGEMENT OF THE ENVIRONMENT AND NATURAL RESOURCES FOR PRESENT AND FUTURE GENERATIONS

One of the biggest achievements to date arising out of the newly introduced the Environmental Management and Climate Change Act is the introduction of the Ban on Single Use Plastic Shopping Bags Regulations 2021. The majority of major retailers on island have complied to the regulation.

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.

CROSS-GOAL 5: BUILD UP RESILIENCE TO COMBAT THE EFFECTS OF CLIMATE CHANGE AND NATURAL DISASTERS

The newly established Department of Climate Change and National Resilience is already underway to building the key infrastructure to support Nauru's combat against climate change and disasters. Key priorities for the coming years include:

- Ocean Thermal Energy Conversion (OTEC). The concept for the project was recently approved for GEF funding and is valued at approximately USD \$50 million. OTEC is a technology that uses the differences in ocean temperatures at depth and at surface level to produce cleaner and greener energy.
- The HGI project is a huge undertaking that will support Nauru to relocate key infrastructure and vulnerable communities to the Topside.
- The department is also working to finalise the Green Climate Fund Country Program for Nauru. The Green Climate Fund Country Program was developed in consultation with all key stakeholders and relevant plans. Priorities include the HGI, OTEC, seawall and adaption measure, water supply and infrastructure.