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REPUBLIC OF NAURU
DEVELOPMENT FUND
HALF YEAR REPORT FY 21-22
1 JULY TO 31 DECEMBER 2021

CIRCULATED BY

HIS EXCELLENCY THE HONOURABLE DAVID ADEANG, MP

PRESIDENT AND MINISTER FOR FINANCE OF THE REPUBLIC OF NAURU

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Conventions used in this Document:

- o Data is retrieved from the Nauru Financial Management Information System.
- o All amounts are expressed in Australian dollars unless otherwise stated.
- o Due to rounding small discrepancies may occur in the totals shown in columns in tables.

LIST OF KEY ACRONYMS

| | |
|-------------|---|
| ADB | Asian Development Bank |
| Australia | Australian Department of Foreign Affairs and Trade |
| CIE | Commerce Industry and Environment |
| GEF | Global Environment Facility |
| GON | Government of Nauru |
| NORI | Nauru Ocean Resources (Inc) |
| New Zealand | New Zealand Ministry of Foreign Affairs and Trade |
| RFMO | South Pacific Regional Fisheries Management Organisation |
| SPC | The Pacific Community |
| SPREP | Secretariat of the Pacific Regional Environmental Programme |
| UN | United Nations |
| UNDP | United National Development Program |
| UNEP | United Nations Environment Program |
| WHO | World Health Organisation |

PART I: EXECUTIVE SUMMARY

In the first six months of FY 21-22, Nauru received donor revenue of \$2.2m and expended \$3.3m. Despite being only half-way through the financial year, actual revenue received has almost reached the annual projected amount of \$2.5. Actual expenditure surpassed the annual projection of \$2.5m, which is largely a result of line departments spending previous years' revenue this period.

65% of all spending went toward the Social and Community sectors, with \$0.7m spent on education and \$1.3m on health. The Infrastructure Sector accounted for 28% of expenditure (\$1.3m) and Economic sector for 6% (\$0.2m), leaving the Cross-Cutting sectors with only 1% of all development fund expenditure.

There is room for improvement in the accuracy of projections, highlighted by the fact that 57% of the deposits made in this period were to be Aid-In-Kind projects, however, cash was paid instead. Going forward, it is vital that donors correctly classify projects so that Development Fund projections are accurate and line departments can plan their activities accordingly.

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PART II: DEVELOPMENT FUND ANALYSIS

INTRODUCTION

This Half-Year Development Fund Report for financial year 2021-2022 is prepared in compliance with the *Development Fund Act 2011*.

Part II of this report presents an analysis of revenue and expenditure from the Development Fund, and Part III outlines project-by-project revenue and expenditure for the period 1 July to 31 December 2021.

Data presented here are sourced directly from the Government of Nauru Financial Management Information System.

Projects are categorised into their relevant National Sustainable Development Strategy (NSDS) goal - where projects are deemed to span multiple NSDS goals, they are categorised based on whichever goal the majority of funds support.

PURPOSE OF THE DEVELOPMENT FUND

The Development Fund was established in accordance with the aforementioned legislation, with the purpose of receiving and disbursing grant funds from development partners. At present, the Development Fund is restricted to one bank account covering all donor funds except those provided by Australia and New Zealand, which are banked separately. All three bank accounts are, however, reflected in this report.

In practice, development funds are earmarked for particular purposes according to the signed grant agreements and then used to reimburse Treasury for eligible expenditures. The Planning and Aid Division of Department of Finance undertakes oversight and management of the fund, whereas line departments have responsibility for raising payment vouchers and spending the funds.

The Development Fund is routinely subject to external audit by accounting firms or directly by development partners themselves. Reconciliations of funds are also provided regularly to donors, in accordance with grant agreement requirements.

PERFORMANCE DURING PERIOD 1 JULY TO 31 DECEMBER 2021

REVENUE

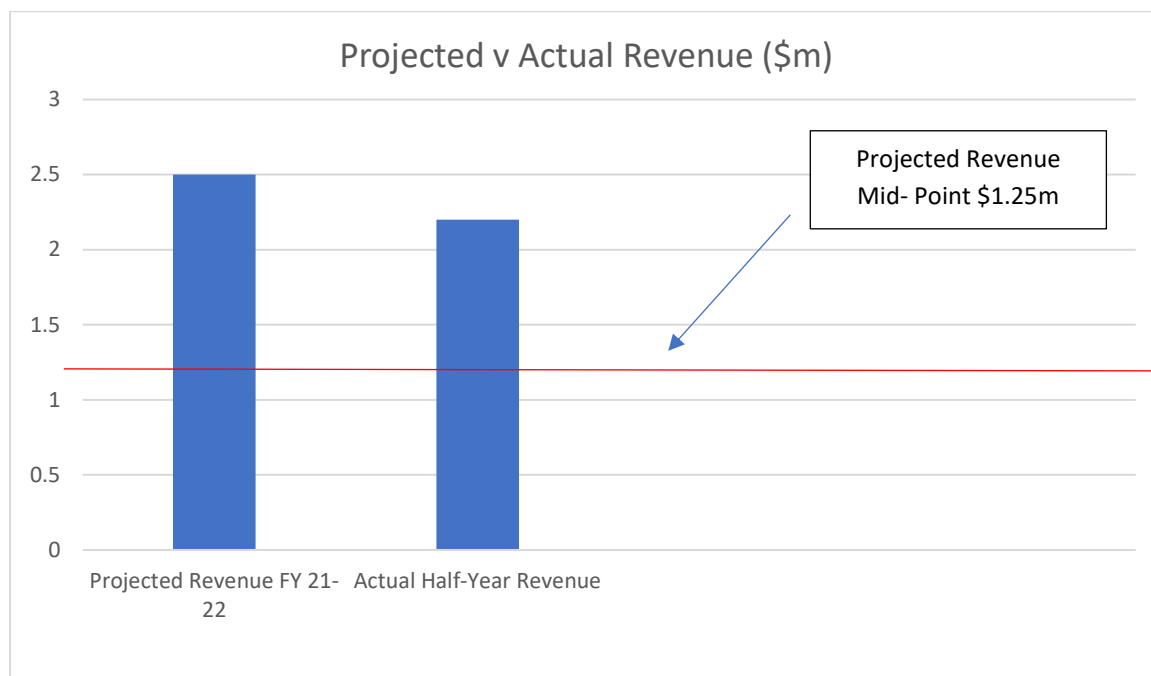


Chart 1 – Projected v Actual Revenue – 1 July to 31 December 2021

As displayed in Chart 1, projected revenue for FY 21-22 was predicted to be \$2.5m, while actual revenue received during this time totals \$2.2m. By mid-year, it would be expected that at least half of the projected revenue (\$1.25m) was received into the Development Fund, a milestone which has been surpassed. This result is a positive indication that the underspends of previous years are being addressed by line departments.

Total Revenue by NSDS Sector

| | Projected | Actual |
|---|--------------------|--------------------|
| Economic | \$0 | \$0 |
| Social | \$0 | \$1,554,582 |
| Infrastructure | \$1,042,146 | \$651,761 |
| Cross-Cutting | \$0 | \$0 |
| Total Expenditure | \$1,042,146 | \$2,206,343 |
| <i>Projected but Not Received This Period</i> | | |
| UNDP - Nauru COVID-19 Support Project | \$970,000 | |

| | | |
|---|--------------------|--|
| UNDP - Nauru Inclusive Accountable Governance Project (Support to Nauru Electoral Commission and Parliament of Nauru) | \$350,000 | |
| Japan – Grassroots Grant Program to Human Security Projects (GGP) | \$110,000 | |
| Total | \$2,472,146 | |

Projection Comparison

Three projects totalling \$1.4m were to be cash funded this financial year, but no funding has been received this period.

The UNDP Nauru COVID-19 project and the UNDP - Nauru Inclusive Accountable Governance Project (Support to Nauru Electoral Commission and Parliament of Nauru) were mistakenly listed in the FY 21-22 projection as being cash-funded when they should have been listed as Aid-In-Kind Funding. Hence the cash projection was overstated by the amount of \$1,320,000.

Nauru has supplied Japan with a number of community project proposals for Grassroots Grant Program funding, however, none have been approved by Japan. Funding may be provided later this financial year if additional projects are submitted by community groups.

Deposit analysis

A total of 8 deposits were made during the period. Nauru is yet to receive three amounts listed in the FY 21-22 projection, as noted above, totalling \$1.4m.

Two out of the eight Development Fund deposits totalling \$1.3m were provided as cash, but had been listed in the Development Fund projection as Aid-in-Kind¹. This generally occurs when the donor is unsure of the form their support will take. To ensure cash Development Fund projections are as accurate as possible, the Department of Finance will continue working with donors to confirm cash-funded support. As these amounts represent 57% of the deposits made in this period, it is important that donors correctly classify projects so that Development Fund projections are accurate and line departments can plan their activities accordingly.

Five projects received deposits totalling \$0.8m which were not anticipated in the Development Fund Projection for FY 21-22. These include the:

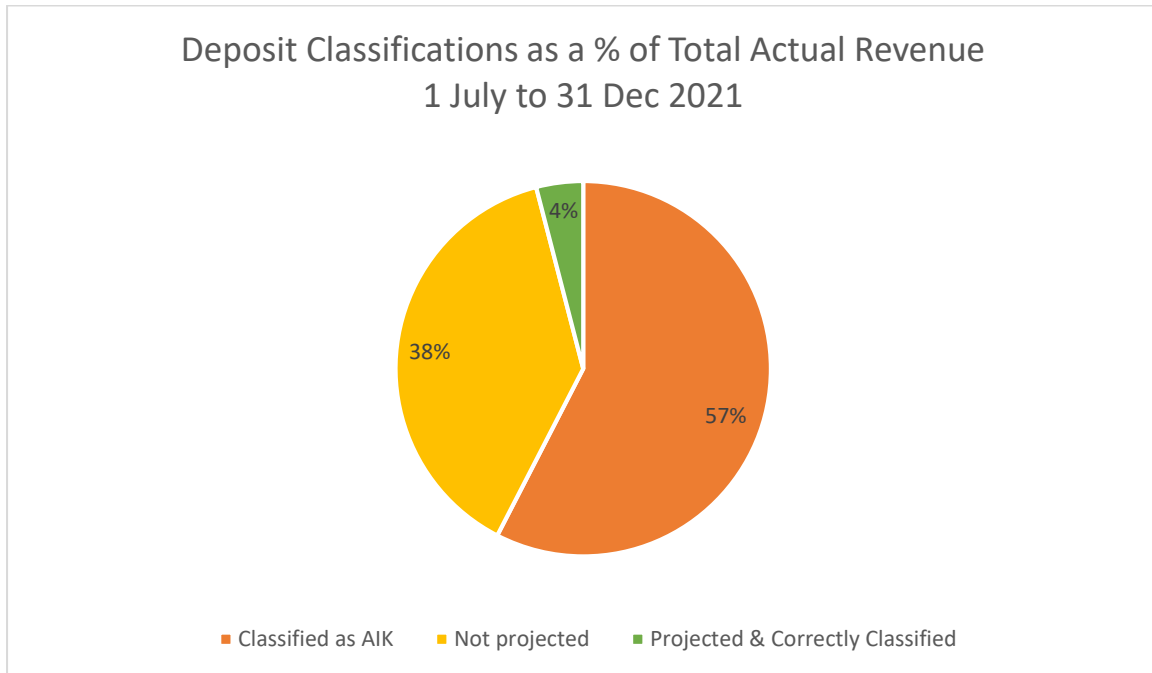
- Taiwan COVID assistance
- Fred Hollows Foundation – Trachoma research
- The Global Fund HIV/STI program

¹ New Zealand funded Nauru Renewable Energy Initiative and Australian funded Health Assistance - Acute Ward

- UN Expanded Program on Immunisations, and the
- UN Integrated Chemical and Waste Management program.

These amounts represent 38% of the total revenue received in the period 1 July to 31 December 2021. Going forward, donors are urged to ensure that their development funding plans include as much detail of proposed donations as possible, so that Development Fund projections can accurately reflect the proposed funding arrangements. Line departments must also have accurate information to budget correctly and allocate their resources to donor-funded programs.

Only the SMARTEN program received the projected funding listed in the Development Fund projection for FY 21-22.



EXPENDITURE

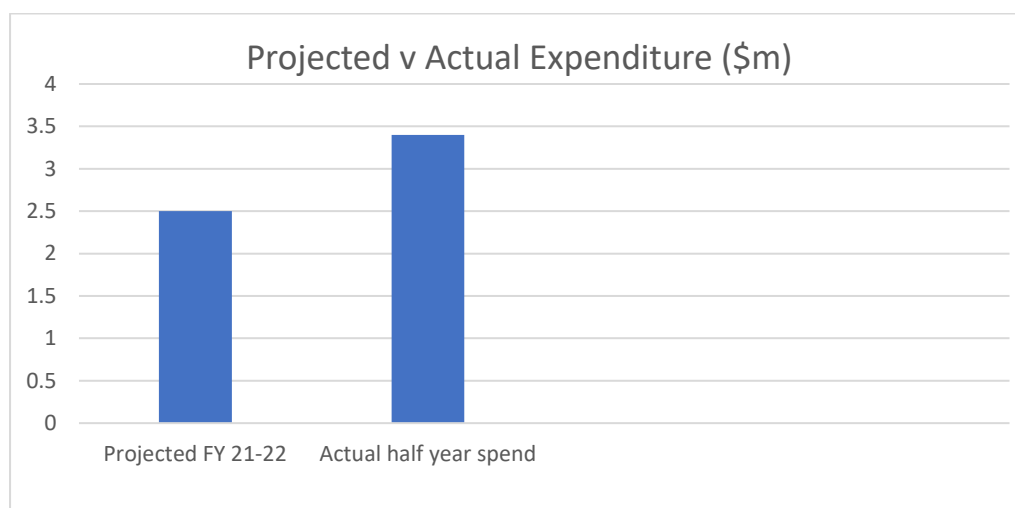


Chart 2 – Actual Expenditure Comparison – 1 July to 31 December 2021

Total Expenditure by NSDS Sector

| | Projected | Actual |
|---|--------------------|--------------------|
| Economic | \$0 | \$184,924 |
| Social | \$0 | \$2,171,847 |
| Infrastructure | \$1,042,146 | \$931,935 |
| Cross-Cutting | \$0 | \$35,528 |
| Total Expenditure | \$1,042,146 | \$3,324,234 |
| <i>Projected but Not Received This Period</i> | | |
| UNDP - Nauru COVID-19 Support Project | \$970,000 | \$0 |
| UNDP - Nauru Inclusive Accountable Governance Project (Support to Nauru Electoral Commission and Parliament of Nauru) | \$350,000 | \$) |
| Japan – Grassroots Grant Program to Human Security Projects (GGP) | \$110,000 | |
| Total | \$2,472,146 | |

Actual expenditure for the six-month period from 1 July to 31 December 2021 is \$3.3m, surpassing the annual projection of \$2.5m. This is largely a result of line departments spending previous years'

revenue during this half-year period to utilise underspends from previous financial years, particularly in the:

- Economic sector and Cross Cutting sectors
- Social sector - Australian-funded Health and Education and Census programs, New Zealand funded education program and UN WHO programs
- Infrastructure sector – New Zealand renewable energy and training program, Canadian waste project, tug boat aid fund, Australian-funded digital project and Taiwanese Fiber optics connectivity project.

The FY 20-21 Annual Development Fund report noted the significant impact of the COVID-19 pandemic on securing technical assistance and resources. This was particularly the case for the Australian funded education program and 2021 Digital project. It is expected that the arrival of technical assistance during 2022 and the implementation of a new Education program design will result in greater spending progress of Education funding in the future.

Resourcing challenges in Government organisations have also hindered spending progress in previous years. As we negotiate new programs of work with donors, the capacity of Nauruan organisations to support activities must be considered, to ensure development funds can be fully expended.

NSDS Sector Expenditure

Chart 3 illustrates that in the first six months of the FY 21-22, spending in the Social and Community sectors accounted for 65% of all development fund expenditure. 28% was expended in the Infrastructure sector, 6% in the Economic sector and only 1% in the Cross-Cutting Sectors. This reflects a trend shown over the past two financial years, where the Social and Infrastructure sectors have dominated Development fund expenditure.

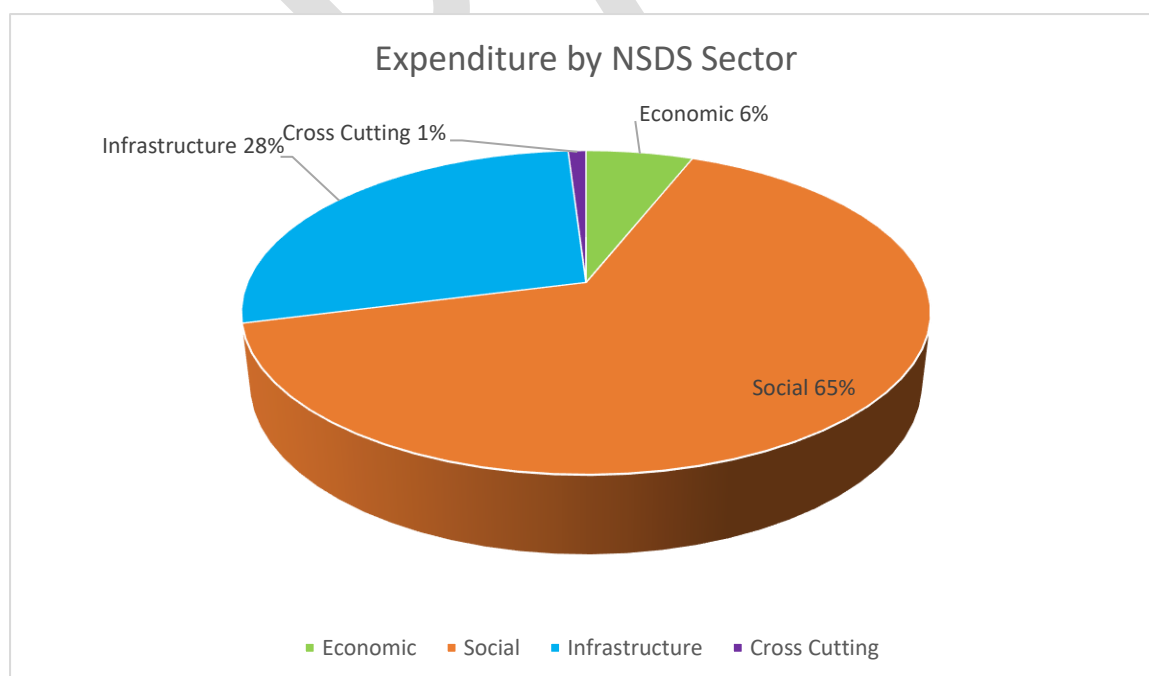


Chart 3: 1 July to 31 December 2021 - Expenditure by NSDS sector

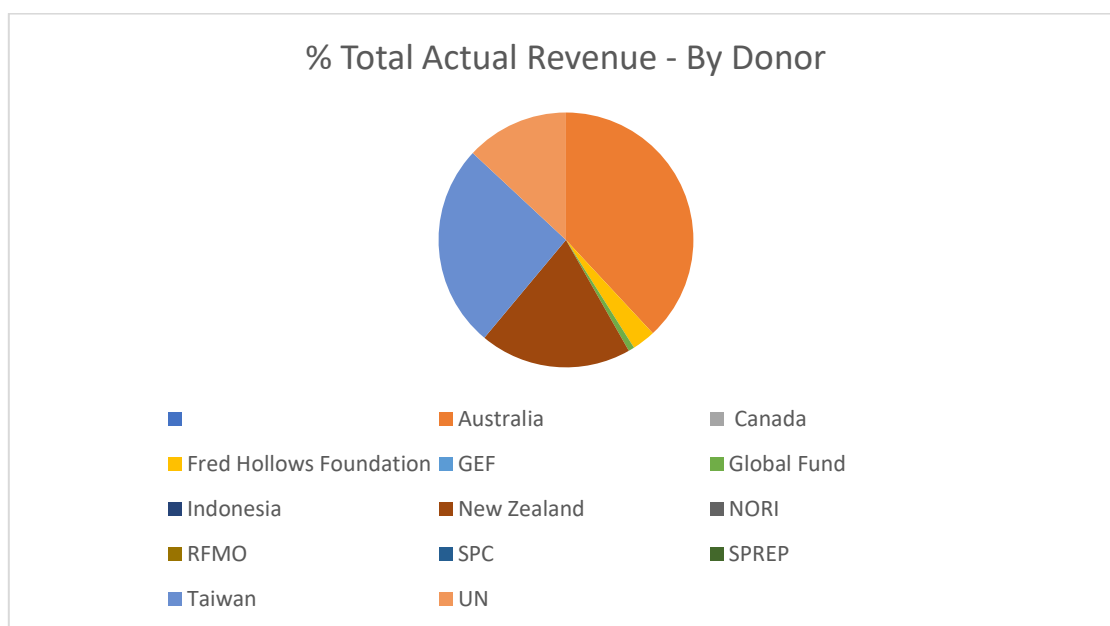


Chart 4: % Total Actual Revenue – By Donor – 1 July to 31 December 2021

Donor Analysis

Australia provided the most revenue during this period, followed by the Taiwan, New Zealand and the UN. A further breakdown is provided in the table below.

Actual Revenue by Donor – 1 July to 31 December 2021

| Donor | Actual Revenue | % of Total Actual Revenue |
|-------------------------|--------------------|---------------------------|
| Australia | \$840,000 | 38% |
| Canada | \$0 | 0% |
| Fred Hollows Foundation | \$65,416 | 3% |
| GEF | \$0 | 0% |
| Global Fund | \$16,703 | 1% |
| Indonesia | \$0 | 0% |
| New Zealand | \$425,202 | 19% |
| NORI | \$0 | 0% |
| RFMO | \$0 | 0% |
| SPC | \$0 | 0% |
| SPREP | \$0 | 0% |
| Taiwan | \$570,963 | 26% |
| UN | \$288,059 | 13% |
| Total | \$2,206,343 | 100% |

However, it must be emphasised that revenue does not include aid-in-kind or budget support, and thus does not reflect total support from donors. Some donors, such as the Asian Development Bank, contribute significantly to Nauru through in-kind infrastructure support, or through technical assistance, as is the case for Australia, which is not included in these figures.

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PART III: DEVELOPMENT FUND PROJECT PERFORMANCE

In accordance with the requirements of the *Development Fund Act 2011*, actual revenue and expenditure information is listed for each project and Donor. Variances from actual revenue and expenditure are also provided. To gauge spending progress, a percentage of revenue spent figure is also shown².

ECONOMIC SECTOR

| Project Code | Project Name | Source of Revenue | Projected Revenue FY 21/22 | Actual Revenue YTD | Variance | Projected Expenditure FY 21/22 | Actual Expenditure YTD | Variance | % of Actual Revenue Spent |
|--|---|-------------------|----------------------------|--------------------|----------|--------------------------------|------------------------|-----------|---------------------------|
| Econ Goal 3- Enhance development and sustainable management of marine and fisheries resources to provide sustainable economic returns | | | | | | | | | |
| 38006 | Boarding and Inspection Training | RFMO | \$0 | \$0 | \$0 | \$0 | \$16,024 | \$16,024 | - |
| Econ Goal 4- Efficient and effective use of mining and quarrying resources for economic and rehabilitation purpose economy | | | | | | | | | |
| 43000 | NORI Funds - Annual Administration Payments | NORI | \$0 | \$0 | \$0 | \$0 | \$129,989 | \$129,989 | - |
| Econ Goal 5- Promote development of small and micro enterprises, foreign investment and economic integration into the global economy | | | | | | | | | |
| 02903 | TA - Nauru Post Office | Australia | \$0 | \$0 | \$0 | \$0 | \$38,911 | \$38,911 | - |
| TOTAL, ECONOMIC SECTOR | | | | \$0 | | | \$184,924 | | |

² This column will not show a figure if either the Actual Revenue or Actual Expenditure fields have a \$0 balance.

SOCIAL AND COMMUNITY SECTORS

| Project Code | Project Name | Source of Revenue | Projected Revenue FY 21/22 | Actual Revenue YTD | Variance | Projected Expenditure FY 21/22 | Actual Expenditure YTD | Variance | % of Actual Revenue Spent |
|---|--|--------------------|----------------------------|--------------------|-----------|--------------------------------|------------------------|-------------|---------------------------|
| Soc Goal 1: Improve the quality and broaden the scope and reach of education | | | | | | | | | |
| Education Support | | Australia | \$0 | \$0 | \$0 | \$0 | \$487,379 | \$487,379 | - |
| 02306 | Sustainable and high-quality workforce to meet future | Australia | \$0 | \$0 | \$0 | \$0 | \$370,130 | \$0 | - |
| 02309 | Create a proactive and continually improving education | Australia | \$0 | \$0 | \$0 | \$0 | \$117,249 | \$0 | - |
| Education Support | | New Zealand | \$0 | \$0 | \$0 | \$0 | \$252,430 | \$252,430 | - |
| 03306 | A sustainable and high-quality workforce to meet future need | New Zealand | \$0 | \$0 | \$0 | \$0 | \$3,240 | \$3,240 | - |
| 03307 | Improved quality and access to early years, primary and seco | New Zealand | \$0 | \$0 | \$0 | \$0 | \$1,800 | \$1,800 | - |
| 03309 | Proactive and continually improving education system | New Zealand | \$0 | \$0 | \$0 | \$0 | \$15,960 | \$15,960 | - |
| 03310 | COVID19 Education Response Items | New Zealand | \$0 | \$0 | \$0 | \$0 | \$231,430 | \$231,430 | - |
| Social Goal 2: A Healthy and Productive Population | | | | | | | | | |
| 01510 | TAIWAN COVID-19 Assistance | Taiwan | \$0 | \$570,963 | \$570,963 | \$0 | \$1,012,918 | \$1,012,918 | 177% |

| Project Code | Project Name | Source of Revenue | Projected Revenue FY 21/22 | Actual Revenue YTD | Variance | Projected Expenditure FY 21/22 | Actual Expenditure YTD | Variance | % of Actual Revenue Spent |
|--|---|--------------------------------|----------------------------|--------------------|-----------------|--------------------------------|------------------------|------------------|---------------------------|
| Health Support | | Australia | \$0 | \$840,000 | \$0 | \$0 | \$198,389 | \$198,389 | - |
| 02526 | Acute Ward Fit Out | Australia | \$0 | \$840,000 | \$0 | \$0 | \$87,646 | \$87,646 | 10% |
| 02509 | Staff Training | Australia | \$0 | \$0 | \$0 | \$0 | \$40,400 | \$40,400 | - |
| 02510 | Australia COVID-19 Assistance Fund | Australia | \$0 | \$0 | \$0 | \$0 | \$70,343 | \$70,343 | - |
| 13001 | Trachoma research project | Fred Hollows Foundation | \$0 | \$65,416 | \$65,416 | \$0 | \$66,527 | \$66,527 | 102% |
| 25002 | HIV/STI (2021-2023) | The Global Fund | \$0 | \$16,703 | \$16,703 | \$0 | \$10,701 | \$10,701 | 64% |
| WHO –Strengthening Health System and Public Health Programs Communicable Disease, NCD, and Environmental Health | | UNWHO | \$0 | \$0 | \$0 | \$0 | \$57,639 | \$57,639 | - |
| 37006 | NCD Management activities | WHO | \$0 | \$0 | \$0 | \$0 | \$2,660 | \$2,660 | - |
| 37009 | NCD Profiling | WHO | \$0 | \$0 | \$0 | \$0 | \$2,635 | \$2,635 | - |
| 37010 | NCD Multisectoral Taskforce | WHO | \$0 | \$0 | \$0 | \$0 | \$35,178 | \$35,178 | - |
| 37012 | NCD Surveillance Activities | WHO | \$0 | \$0 | \$0 | \$0 | \$17,166 | \$17,166 | - |

| Social Goal 7: A robust, vibrant and effective civil society for a just and peaceful Nauru | | | | | | | | | |
|--|-----------------------------------|-----------|--------------------|----------|----------|--------------------|----------|----------|-----|
| 02736 | 2021 Nauru Population Census | Australia | \$0 | \$0 | \$0 | \$0 | \$73,904 | \$73,904 | - |
| 33003 | Expanded Program on Immunisations | UN | \$0 | \$61,500 | \$61,500 | \$0 | \$11,960 | \$11,960 | 19% |
| TOTAL, SOCIAL AND COMMUNITY SECTORS | | | \$1,554,582 | | | \$2,171,847 | | | |

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INFRASTRUCTURE SECTOR

| Project Code | Project Name | Source of Revenue | Projected Revenue FY 21/22 | Actual Revenue YTD | Variance | Projected Expenditure FY 21/22 | Actual Expenditure YTD | Variance | % of Actual Revenue Spent |
|--|---|-------------------|----------------------------|--------------------|------------|--------------------------------|------------------------|------------|---------------------------|
| Infra Goal 1: Provide a reliable, affordable, secure and sustainable energy supply to meet socio-economic development needs | | | | | | | | | |
| 03701 | Renewable energy & Training | New Zealand | \$0 | \$0 | \$0 | \$0 | \$13,872 | \$13,872 | - |
| Nauru Renewable energy initiative | | NZ | \$0 | \$425,202 | \$425,202 | \$0 | \$53,986 | \$53,986 | 13% |
| 03703 | NEEDS Implementation Project | New Zealand | \$0 | \$65,655 | \$95,655 | \$0 | \$53,986 | \$53,986 | 56% |
| 03704 | NEEDS Loan Scheme | New Zealand | \$0 | \$329,547 | \$329,547 | \$0 | \$0 | \$0 | 0% |
| 06005 | UNDP –Supporting Mainstreamed Achievement of Roadmap Targets on Energy in Nauru (SMARTEN) | UN | \$1,042,146 | \$99,175 | -\$942,971 | \$1,042,146 | \$92,594 | -\$949,552 | - |
| Infra Goal 3: Effective management of waste and pollution that minimises negative impacts on public health and environment | | | | | | | | | |
| 34008 | Integrated Chemical and Waste Management | UN | \$0 | \$127,384 | \$127,384 | \$0 | \$15,124 | \$15,124 | 12% |
| 18002 | Improving Environmental Sustainability in Piloting a Waste | Canada | \$0 | \$0 | \$0 | \$0 | \$23,705 | \$23,705 | - |

| Project Code | Project Name | Source of Revenue | Projected Revenue FY 21/22 | Actual Revenue YTD | Variance | Projected Expenditure FY 21/22 | Actual Expenditure YTD | Variance | % of Actual Revenue Spent |
|---|---|-------------------|----------------------------|--------------------|----------|--------------------------------|------------------------|-----------|---------------------------|
| Infra Goal 4: Improve transport infrastructure and provide reliable and sustainable transport services | | | | | | | | | |
| 42001 | Tug Boat Aid Fund | Indonesia | \$0 | \$0 | \$0 | \$0 | \$681,540 | \$681,540 | - |
| Infra Goal 5: Provide universal and reliable access to internationally competitive communication services and an independent and commercially viable media | | | | | | | | | |
| 01004 | Fiber Optics Local Connectivity Project | Taiwan | \$0 | \$0 | \$0 | \$0 | \$10,112 | \$10,112 | - |
| 02737 | 2021 Digital Project | Australia | \$0 | \$0 | \$0 | \$0 | \$41,002 | \$41,002 | - |
| TOTAL , INFRASTRUCTURE SECTOR | | | | \$651,761 | | | \$931,935 | | |

CROSS-CUTTING SECTORS

| Project Code | Project Name | Source of Revenue | Projected Revenue FY 21/22 | Actual Revenue YTD | Variance | Projected Expenditure FY 21/22 | Actual Expenditure YTD | Variance | % of Actual Revenue Spent |
|---|--|-------------------|----------------------------|--------------------|----------|--------------------------------|------------------------|----------|---------------------------|
| Cross Goal 4: Sustainable use and management of the environment and natural resources for present and future generations | | | | | | | | | |
| 05010 | Inform Project | SPREP | \$0 | \$0 | \$0 | \$0 | \$3,187 | \$3,187 | - |
| 06003 | UNDP –Ridge to Reef | UN | \$0 | \$0 | \$0 | \$0 | \$8,032 | \$8,032 | - |
| 24012 | GEF 7 Restoration Project | GEF | \$0 | \$0 | \$0 | \$0 | \$5,102 | \$5,102 | - |
| 34006 | Hydrofluorocarbon Phase-down | UNEP | \$0 | \$0 | \$0 | \$0 | \$1,506 | \$1,506 | - |
| Cross Goal 5: Build up resilience to combat the effects of climate change and natural disasters | | | | | | | | | |
| 05009 | Global Climate Change Alliance Plus Scaling up Pacific Adaptation (GCCA+ SUPA) | SPC | \$0 | \$0 | \$0 | \$0 | \$17,701 | \$17,701 | - |
| TOTAL, CROSS-CUTTING SECTORS | | | | \$0 | | | \$35,528 | | |