



REPUBLIC OF NAURU

2011-12 BUDGET

BUDGET PAPER 2

**CIRCULATED BY
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FOR THE INFORMATION OF HONOURABLE MEMBERS
ON THE OCCASION OF THE BUDGET 2011-12**

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PART 1 THE ECONOMIC OUTLOOK

A number of the world economies continue to struggle with huge economic issues such as high unemployment, deflation, overburdening debt levels and the lingering effects of the recent global financial crisis. Whilst Nauru's economy remains fragile and exposed to many of the same challenges, her economy remains in a relatively stable condition. Conditions in Nauru are expected to remain fairly constant for the 2011-12 budget year despite the plight of some of the much larger economies such as the US and Europe and probably reflects the speedier recovery and stronger growth being seen in the Asia-Pacific region.

The effects on the world economy of those who are still in difficult economic situations are, to a degree offset by the ever increasing number of emerging economies such as China and India that are taking their place on the world economic stage. These economies are having an increasingly positive impact globally. This however may in fact be contributing to the troubles being experienced by countries like the US.

Pacific economies continued to benefit from the recovery in the world economy over 2010. Economic growth for the year as a whole was, however, low in most cases. In the Pacific islands, growth was estimated by the Asian Development Bank (ADB) to be 0.8% overall in 2010.

The resource-rich economies including Nauru are projected to perform well according to the ADB Pacific Economic Monitor. Moderate growth is expected with higher export prices achieved for phosphate products. The level of exports for 2011-12 is not expected to vary much from the projections for 2010-11. World prices for phosphate remain the determining factor for continued growth.

Economic outlooks for the two largest economies in Oceania (Australia/New Zealand) play a significant role in underpinning economic growth of the Pacific island economies. Increased tourism and remittance flows are two sectors expected to benefit from the positive growth registered in Australia and New Zealand.

According to the ADB projections, growth for the Pacific island economies is projected to be 1.7% in 2011. Growth in 2012 is expected to remain close to these levels.

In the year ended 30 June 2010, GDP growth for Nauru was likely flat, largely because weak phosphate demand and damage to port infrastructure restricted export activity. Repairs to the mooring facilities have now been undertaken and, coupled with the recovery in world demand for phosphate, ADB has projected GDP growth for Nauru to be 4% in 2011.

Increases in commodity prices are expected to result in better economic performance in resource-rich countries, particularly in areas like petroleum, minerals, and exports of agricultural products. As a mineral exporting nation Nauru is expected to be among the beneficiaries, although the prospects of inflation due to imports may limit to some extent overall economic benefits achieved. Currently, Nauru has been experiencing a period of lower prices or deflation despite the economy bouncing back with more positive economic growth outlook.

Nauru's limited and volatile revenues from non-donor sources like fisheries licence revenue and phosphate related payments continue to be difficult to forecast with accuracy, and are both subject to factors and influences that are beyond the control of the Government. The Government continues to aim to broaden Nauru's economic base, which will insulate against the volatile and limited nature of current revenue streams. The export of pinnacle rock for use as aggregate in neighbouring countries is increasing with predictions for 2011-12 at \$818,500 compared to the 2010-11 budget of \$144,500. The new proposed project of exporting pinnacle rock for decorative purposes is also set to receive funding for further development evaluation in 2011-12.

The introduction of the WiMax system, the replacement for the Digimodem system, during 2010-11 has proven to be a benefit to Nauru already with projected receipts from telecom taxes and dividend expected to be higher than budget for 2010-11 and to continue at similar levels for 2011-12. The previous volatile nature of phosphate revenue appears to be abating with indications of steadily increasing prices becoming evident. This has the flow on effect of making increased dividends and royalty payments a more realistic possibility. This will be in contrast to the disappointing level of dividends and royalties that have been achieved in recent years.

NAURU TRUST FUND

With the technical assistance provided by the ADB the Government of Nauru is well on the way to establishing the Nauru Trust Fund to accumulate, preserve, grow and mobilise capital for development. The Government plans to put aside and invest a proportion of Government phosphate royalties to the new long term Trust Fund. There is a provision in the 2011-12 Budget to invest \$200,000 into the fund as an initial contribution. This will be an ongoing contribution based initially on \$1.00 per tonne of phosphate exported. There are also donors keen to contribute much larger sums to the Trust, also on an ongoing basis. The Trust will be similar to those in Tuvalu and Kiribati, and will use best practice governance arrangements.

Nauru will progress discussions with key partner governments in order to achieve a truly international agreement on the Trust Fund whereby no single party or Government can unilaterally withdraw monies from the Fund or change the Articles of the Fund. The Government has allocated \$2 million under the Asian Development Fund (ADF) grant of the ADB as an additional cash injection to the Trust Fund. Legislative work will be undertaken that will see the Fund fully operational this year.

PRIVATE SECTOR

One of the primary goals of the National Sustainable Development Strategy (NSDS) is to develop an economy based on multiple sources of revenue including through development of the private sector. The NSDS emphasises the importance of the promotion and development of small and micro enterprise (SME) businesses and to ensure a growing and vibrant private sector through strengthening the general business and investment environment.

In 2011-12, the Government is committed to develop a more favourable business environment on Nauru, which includes the commencement of the Mobile Money service. The concept of

Mobile Money is being introduced in partnership with Digicel who is actively promoting the venture in Nauru. This will effectively allow cashless transactions to take place in Nauru without vendors providing credit to customers. It will work using mobile phones that can carry electronic funds which can be used in local stores to make purchases. The customer will pay using the credit held in the Mobile Money account on the phone; this credit is transferred electronically to the credit of the vendor. There is a potential for the facility to be extended to businesses for offshore transactions and to Government for transactions such as payroll. All of which will have a significant positive impact on the cost of transactions in Nauru. The benefits will flow to Government, local businesses and consumers in terms of efficiency, convenience, security and maybe even lower prices for goods. The Mobile Money initiative will provide strong links to banking partners in the region and lay the foundation for attracting a proper commercial bank to set up operation in Nauru.

The Government has also shown commitment to provide more reliable communications infrastructure by agreeing to fund two more WiMax towers to cover the existing “black spots” around Nauru. This will mean that everybody will have equal access to the Digicel phone and internet systems currently available.

Through 2011-12 the Government will work to develop an Implementation Strategy for the Private Sector which sets out the path in which the private sector, development partners in particular AusAID, and the Government need to take to achieve its goals.

An infrastructure roadmap has been formulated with the assistance of the Asian Development Bank (ADB). This roadmap will be used by the Government to present to development partners to give them a clear guidance of the areas where they can assist in. Any infrastructure development will have a trickle-down effect on the private sector.

UNDP and Australia have contributed significantly to the Small Business Development project with Australia providing financial assistance and UNDP providing the technical assistance needed for the project. Progress has been made with the implementation of the Nauru Entrepreneurship Development Centre (NEDC) project which assists in the development of small and micro enterprises. This is supported by several development partners ranging from ROC (Taiwan), AusAID and UNDP. To date, 3 ICDF micro-finance loans have been provided to businesses dealing with agriculture.

The Government is also committed to improving shipping services with the aim to reduce shipping costs for everyone including the private sector by providing an alternate shipping vessel with alternate routes. In this regard, the company Reef Shipping has commenced a new container shipping service to Nauru. This has allowed private businesses to buy and sell cheaper products and offer a more variety of goods.

In the past the Government of Nauru has provided a wide range of services, including cleaning, security and provision of meals that could be provided by the private sector. The Government is gradually privatising some of its services. During 2010-11 both Health and Utilities successfully trialled the privatisation of security services for their establishments. Consequently it has now been decided to privatise almost all of the security services previously provided by Government. These services are currently in the process of being tendered out to invite private

companies to take up these services. The exceptions are the Government offices at Yaren and the overseas mission compounds. These will be patrolled by additional police officers currently being recruited to fill these positions.

The Government will also explore other ways to build a vigorous business and investment environment through major developments and improvements in the infrastructure sector.

PART 2 ECONOMIC STATISTICS

The Government, through the Nauru Bureau of Statistics is scheduled for a busy fiscal year (2011-12) with the National Population and Housing Census to be carried out in the second half of 2011 (30th October) and Household Income and Expenditure Survey in mid-2012. These two surveys will provide the new baselines and benchmarks for social and economic statistics.

The Government is committed to achieving the statistical-related NSDS short-term goals by improving the baseline coverage of economic statistics by 2015. Between 2009-11, development partners have provided expert assistance in the areas of National Accounts and Balance of Payments.

NATIONAL ACCOUNTS

National Accounts was last compiled in 2009, followed by a revision in 2010. The Bureau was unable to revise previously compiled National Accounts from 2007 to 2009 which are awaiting audit. Figures for years from 2007 to 2009 need to be further revised to incorporate budgetary changes in expense or revenue that have occurred since the first compilation. The collection framework will be carried out simultaneously with Balance of Payments activities.

BALANCE OF PAYMENTS

Nauru Bureau of Statistics (NBS) has been working in partnership with technical experts from the International Monetary Fund's Pacific Financial Technical Assistance Centre (PFTAC) on revising and updating statistics last updated in 2010. The objective is to improve the quality of the balance of payments statistics, and to begin to update the statistics to 2010-11.

The NBS recently began compiling balance of payments statistics with PFTAC assistance. The estimates are compiled annually and include a partial International Investment Position statement. However, there are significant data gaps which prevent robust estimates and more development of source data is needed.

An action plan for balance of payment compilation has been updated, which cover areas such as development of international merchandise trade statistics; collection of data with the National Accounts compilers to ensure a consistent approach to respondents; and a shift towards a quarterly data collection and compilation schedule.

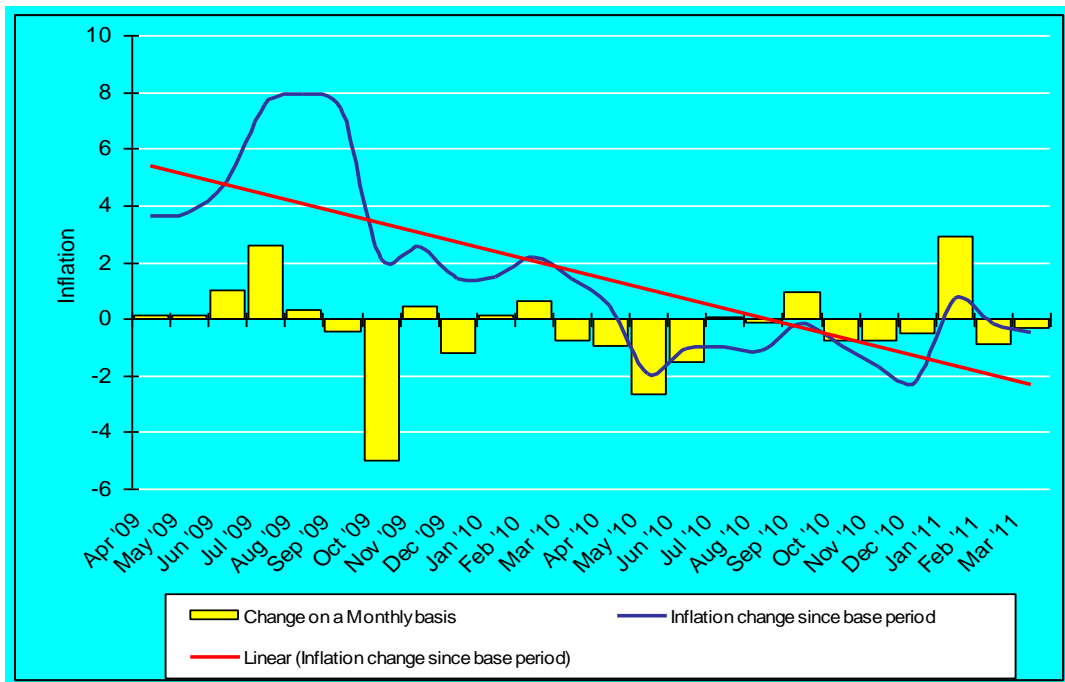
CONSUMER PRICE INDEX (CPI)

The March 2011 CPI changes since base period reflects a continual decrease of -0.51 percent after a decrease of -0.18 percent in February. The easing of CPI was in full swing in April 2010 with the moderation of the Food index which peaked in mid-year of 2009 as illustrated in Chart 1. Inflation

since has remained below base period prices for a consecutive eight months straight with a resurgence in the January of 2011 due to one off increases in the food category.

The annualised CPI for April 2011 showed a decrease of -3.03 percent mainly due to significant declines in the major groups of food, alcohol and tobacco and housing. Within these three key groups, primary commodities and services such as rice, tobacco, timber and paint contributed to the decrease. The average monthly change between these two periods was -0.25 per cent. Change from the base period showed a decrease of 3.06 per cent. The average annual change since the base period was -1.15 per cent.

Chart 1. CPI Historical Trend

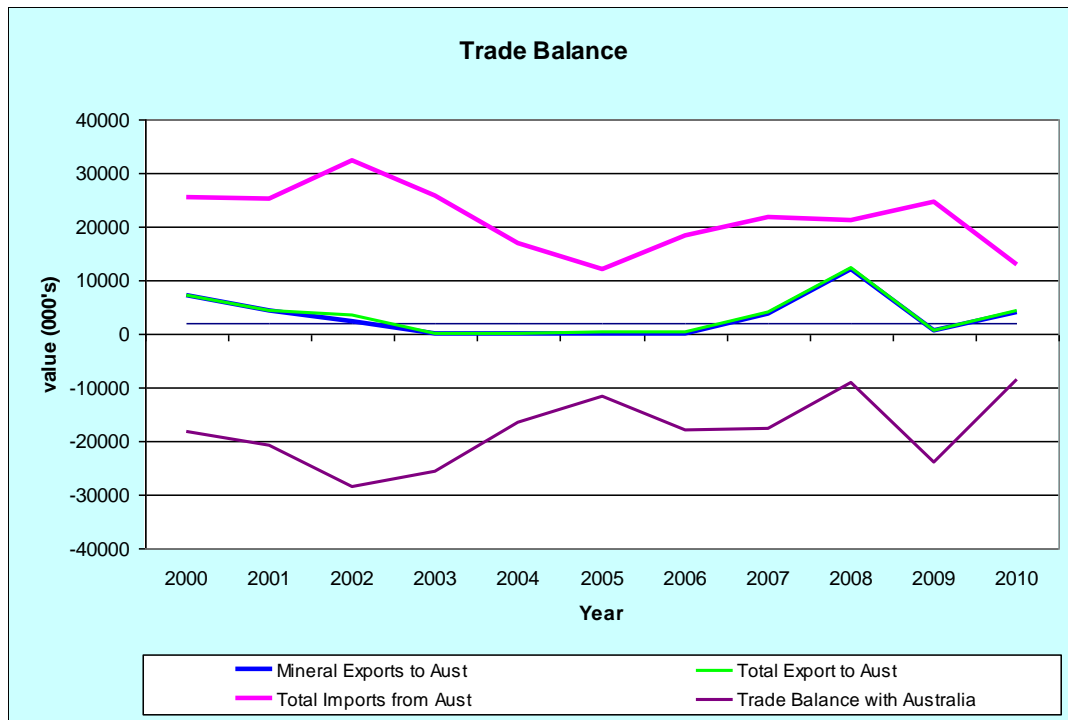


TRADE STATISTICS

Trade data is becoming more important to analyse as government seeks to increase and diversify its sources of revenue, but currently data cannot be acquired sufficiently on a timely and accurate basis. As in the previous financial year resources still need to be allocated at the data capturing stage, and software approved and adopted that can be commonly used by Customs as well as the Bureau. A key area of immediate focus would be implementing the information capturing system beginning with the newly adopted harmonised tariff classifications with immediate effect within Customs, and later introduced at the national level. Complementary legislation will need to be established to manage and maintain the integrity of the system.

The following chart depicts the trade balance between Nauru and its primary trading partners, namely Australia where import and export data were derived.

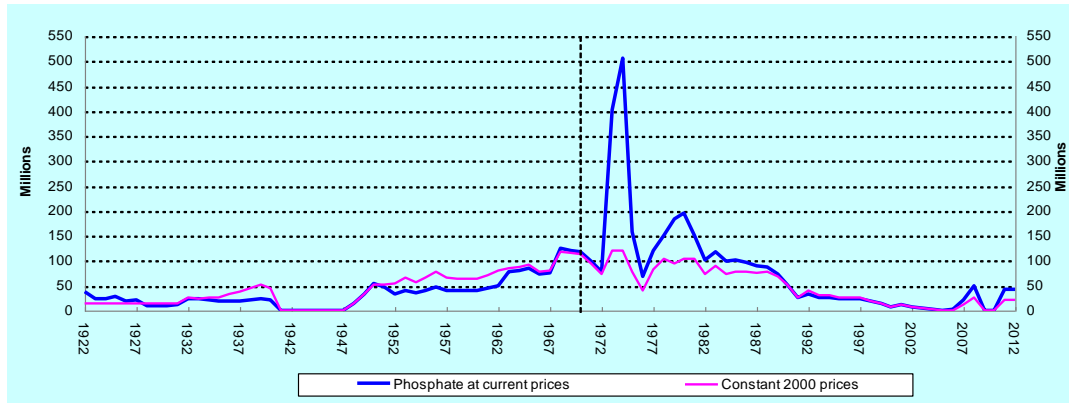
Chart 2. Historical Trade Balance



This chart indicates that Nauru continues to experience considerable trade deficits with Australia from 2000 to 2010. Exports peaked in 2008 due to high production of phosphate minerals resulting in a significant improvement in the trade deficit for the first time in a decade.

Storm and fire damage to transport and manufacturing infrastructures in 2009 caused significant declines on incomes which subsequently showed for the year. With the refurbishments undertaken on the mooring system in 2011 exports are expected to show increases. This may or may not have any significant impact on the trade deficit due to high reliance on imported commodities.

Chart 3. Historical Value of Total Phosphate Export at constant and current prices



The chart above shows the historical trends on the value of phosphate exports. Despite recent rebounds in the industry, phosphate value levels remain relatively low when compared to the 70's and 80's.

Table 1 shows imports only from Australia from 2000 to 2010. There has been strong growth in the value of imports from Australia since 2005 after recovering from the critical period of Nauru's economic crisis.

Table 1. Imports from Australia

Year	Partner	Total Imports from Aust
2000	Australia	\$ 25,494
2001	Australia	\$ 25,090
2002	Australia	\$ 32,212
2003	Australia	\$ 25,825
2004	Australia	\$ 16,729
2005	Australia	\$ 11,966
2006	Australia	\$ 18,206
2007	Australia	\$ 21,816
2008	Australia	\$ 21,266
2009	Australia	\$ 24,633
2010	Australia	\$ 12,823

Source: DFAT STARS Database; consistent with ABS Cat No 5368.0, December 2009 data; UN Comtrade database.

LABOUR FORCE

The increasing growth rate between Census 2002 and 2006 for labour force status is used to project estimation for Year 2010. There are three separate tables:

1. Proportion of Population working in formal sector:
Shows the results of those working for Government (GOVT), State owned enterprise (SOE) and other (may include private sector).
2. Labour force participation population:

Shows the results for those that are employed or unemployed.

3. Economically active/inactive population:

Shows the results for those unemployed but looking and available for work or those who do not want to work at all.

The purpose of these tables is to illustrate the possible numbers that can be expected for planning purposes. Census 2011 will provide the most updated information respectively but it is still very important to consider improvements in the maintenance and monitoring of strategic information during the interim intercensal periods.

These estimates show that 29% of the working age population in Nauru are unemployed. There is a further 21% who are not in the labour force as they are not seeking work due to home duties, being in education, due to age or simply don't want to work.

Table 2. Characteristics of National Labour force

PROPORTION OF POPULATION WORKING IN FORMAL SECTOR			
SECTOR	CENSUS		Estimates
	Y2002	Y2006	Y2010
GOVT	1,057	1,043	1,253
SOE'S	969	1,056	1,185
OTHER (Incl. Private Sector)	508	440	532
TOTAL EMPLOYED POPN (%)	2,534	2,539	2,970
Proportion GOVT (%)	41.7	41.1	42.2
Proportion SOE (%)	38.2	41.6	39.9
Proportion OTHER (%)	20.0	17.3	17.9
TOTAL EMPLOYED POPN	100.0	100.0	100.0
TOTAL POPULATION	10,065	9,086	9,720
Working age population	4,276	5,215	5,926

Sources: Nauru Census 2002

Nauru Mini-Census 2006

Status of Labour Market in Nauru: Issues and Challenges

Government Office of Human Resource

Percentage (%) increase and Annual Growth Rate

Table 3. Projected 2010 Labour Force

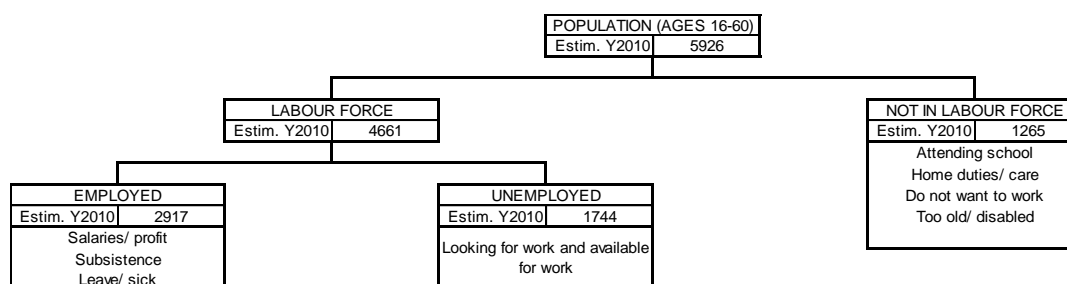
LABOUR FORCE PARTICIPATION POPN EST. Y2010

WORKING AGE (16-60)	CENSUS		Estimates
	Y2002	Y2006	Y2010
Labour Force	3,280	4,106	4,661
Unemployed	746	1,567	1,744
Employed	2,534	2,539	2,917
Not in Labour (working age)	996	1,109	1,265
Working Age Popn	4,276	5,215	5,926
Total Popn	10,065	9,086	9,720

LABOUR FORCE PARTICIPATION RATE Y2010

WORKING AGE (16-60)	CENSUS		Estimates
	Y2002	Y2006	Y2010
Labour Force	77	79	79
Unemployed	23	38	37
Employed	77	62	63
Not in Labour (working age)	23	21	21
Working Age Popn	100	100	100
Working age popn by total popn	42	57	61

Chart 4. Projected Nauruan population aged 16 years and over by Economic activity status.



PART 3 PUBLIC SECTOR REFORM

NEW ACCOUNTING SYSTEM

During the first half of 2010-11 a new computerised integrated Financial Management Information System (FMIS) was actively sought out and two potential suppliers were selected. Both companies visited Nauru and made detailed presentations of their respective system's capabilities and suitability for the Government of Nauru application. This allowed objective evaluations of both proposals to be carried out that led to a contract

being signed in April 2011 with the successful company Technology One and work began immediately on the introduction of a new computerised FMIS. The first of a number of visits by their technical people took place in mid May with detailed implementation documentation being agreed to and signed off.

The new system will facilitate much more efficient, reliable, timely and accurate processing, storage and reporting of data for all Government departments. All departments will be able to access user friendly reports relating to their own departments, be able to create electronic Purchase Orders and accurately track budget availability for each sub head in their department. Heads of Department will be able to make much better informed decisions based on robust information that will be available at their fingertips. The FMIS will also facilitate the production of auditable financial statements on a much more timely basis that has been the case since the turn of the century. There will no longer be the need to maintain huge cumbersome excel spread sheets to track receipts and payments.

STATE OWNED ENTERPRISES

Progress has been made with the implementation of MYOB in the SOEs, but there is a need for continuing support. To assist in financial and business planning, accounting support will need to focus on balance sheet items, including the issue of asset valuation. These efforts will facilitate preparation of a complete set of accounts which can be submitted for audit. Due to lack of suitably skilled Nauruan there are now expatriate accountants employed at three of the five SOE's. Although SOEs can currently produce profit and loss statements, production of balance sheets will not be possible until assets and liabilities are reflected in the accounts. The expatriate accountants are working towards achieving this goal.

Proper recording and tracking of company assets is an essential aspect of effective company management. Asset management is required to satisfy financial reporting requirements, and to safeguard company assets. This responsibility includes protecting assets from misappropriation, misuse, damage and deterioration. Proper management of company assets also allows for maintenance scheduling and renewal and assists in making replacement decisions.

GOVERNMENT OF NAURU ACCOUNTS

In preparation for a broader roll-out of MYOB into the Government of Nauru, the MYOB Trainer/Consultant conducted presentations to senior Finance Department officials. It was recognised by those attending and the presenter that the MYOB accounting system was not capable of handling the complexity of reporting required of it to satisfy the detailed reporting commitments of Finance to both Government departments and donor countries on the use of donor funds in Nauru. The new FMIS will satisfy these reporting requirements.

In consultation with the warehouse manager, the transfer of warehouse stock control system to MYOB was almost completed. The warehouse will continue to be supported by MYOB and at some point is expected to be integrated into the proposed new FMIS. Until this integration takes place it will remain a stand-alone system.

PUBLIC SERVICE REFORM

The departmental reorganisations continued into 2010-11. These included the Justice Department and the Department of Commerce, Industry and Environment (CIE). In the early part of 2010-11 further restructuring occurred in Treasury and Planning in the Department of Finance, as well as the Directorate of Audit. These reorganisations ensure that the Public Service is structured in the most effective way to meet emerging needs.

During 2009-10 the move to centralise purchasing through the Government Warehouse began. In 2010-11 this work continued with all Government departmental purchases being required to be processed through the Warehouse. The new procurement procedures being developed include a new measure being introduced to reduce the incidence and opportunity for fraud. The aim is to establish credit accounts on Nauru with local suppliers, thereby reducing the need for handling of cash by either Government employees or local business staff.

PUBLIC SECTOR FINANCIAL MANAGEMENT AND BUDGET REFORM

The Government continues to operate the Corporate Online banking package, which enables daily access to bank account balances and allows Treasury to make online payments to overseas suppliers without the need to seek assistance from Westpac staff.

Through 2010-11, the Department of Finance continued to improve financial practices, including reformed procedures for the payments processes that allow for better tracking of expenditures and more effective cash management. Now that the implementation of the new FMIS has commenced Finance's attention will be focused on improving and aligning the existing processes with the new technology being introduced.

The AusAID funded consultant who visited Nauru in May 2011 to conduct an interim audit of the AusAID cashbook and Financial Reports reported that the Operational Imprest Account Procedures (OIA) Procedures Manual would need to be modified as necessary with the implementation of the new FMIS as some procedures will change when the new system is implemented. The OIA Procedures Manual provides the guidelines, rules, protocols and procedures to be used in the operation and governance of the OIA to ensure that financial management processes are clear, practical, efficient, transparent, accountable and enforceable. All parties associated with the funding and operation of the Imprest Account, in particular, the Department of Finance staff that have management and financial responsibilities, AusAID officials, and other relevant Nauruan officials are expected to closely abide by the procedures provided in this manual.

PART 4: STATE OWNED ENTERPRISES

The Government continues to look to the SOE's to be even more self-sufficient in their operations. More emphasis is being put on the SOE's requirements to provide adequate financial reporting in the interests of transparency and accountability. The people of Nauru are entitled to have financial information on corporations that serve and benefit the community and the Government is entitled to expect a return on the investments already made in their SOEs.

This section provides a brief overview of the objectives and financial expectations for 2011-12 of the SOEs.

RONPHOS

Ronphos has set itself a number of objectives in 2011-12, while at the same time striving to contribute to the national economy through dividend and royalty payments, and through salaries and debt repayment.

The Ronphos objectives in the coming year include:

- continue to improve the output of the phosphate production plant and other associated infrastructure through cost effective maintenance and capital works;
- continue structural maintenance work on both cantilevers and continue repairs to the phosphate storage sheds;
- address the dust problem in Aiwo district by reducing the dust coming out of the production plant;
- continue the repayment of debts to employees and former employees of NPC and to other creditors,
- ensure a safe and healthy working environment for the employees by providing safety gear.

Ronphos is expected to deliver a dividend of \$6.4 million for the 2011-12 year. Production and export targets have been set at a realistic level based on recent performance and expected improvements. Buyer demand for Nauru phosphate is very strong and continuing trends in the phosphate market globally are translating into higher and more stable world prices for phosphate ore. Through a combination of well-targeted capital expenditure, efficient operations, ensuring no new liabilities and a re-organisation of debt repayments by Ronphos, Government expects this dividend projection to be at the low end of what may be realised by Ronphos in the coming year, but is itself a substantial improvement on the expected outcome for dividends for 2010-11, currently estimated to be \$1.5 million.

The renovations to the South Arm on No. 2 cantilever will be completed in the early part of the new budget year. The delay has been caused by the dry-docking of the cargo ship that will be bringing the parts to Nauru. The correction to the position of A2 buoy has been completed. Replacement reef chains are yet to be fitted but this work is expected to be completed shortly. Mechanical and electrical repairs to various systems and the kilns at the drying plant are ongoing. Management is preparing to engage several expatriates to run the maintenance programs throughout the production line. The 1,500 KVA gen-set delivered in May this year should be installed and fully operational by the end of July. This means there will be two kilns in operation with the third kiln on standby. The additional drying capacity will enable higher daily production targets to be achieved.

The actual income that will be earned, and therefore the dividend paid, is very sensitive to price, foreign exchange rate between the US and Australian currencies and volume of sales. However, it is expected that selling price rather than production volumes will be the most significant determinant of Ronphos revenues.

NAURU REHABILITATION CORPORATION

The Nauru Rehabilitation Corporation is predicting revenue of \$16.9 million and expenditure of \$14.3 million giving a surplus of \$2.6 million for the year. It should be noted that these projections are based on accrual accounting rather than cash accounting meaning that actual cash balance will be less than the surplus estimated because there are always unpaid invoices at the end of every year.

The major contributors to revenue are the Rehabilitation and Development Cooperation Agreement (RADCA) annual payment of \$3.9 million, contract mining charges \$6.6 million, receivables \$4.87 million, Fund 4 Royalties \$1.2 million and plant hire \$0.5 million.

Major Objectives for 2011-12:

- a) Supply of phosphate to RonPhos
- b) Rehabilitate 7.8 hectares as part of the national cemetery
- c) Complete rehabilitation of pit #6 and plant with trees
- d) Improve productivity and continue staff training
- e) Further improve data collection and analysis
- f) Institute sampling of secondary phosphate
- g) Have the green house operational early in the budget year
- h) Further improve the procurement process

EIGIGU HOLDINGS CORPORATION

For the new financial year 2011-12, Eigigu continues to shift its direction and outlook from its traditional low-cost community-targeted services, to streamlined and profitable operations which are aimed at ensuring the viability of Eigigu as a full commercial enterprise. In order to present a balanced 2011-12 budget, Eigigu Headquarters and the Subsidiary Companies continue to downsize, with activities including; staff reductions, eliminating non-essential expenses, outsourcing of unprofitable businesses, and other cost reductions. As part of this process it was decided to wind up the Supermarket operations because it has proven to be uneconomical to maintain. There will also be a rightsizing in Eigigu's construction arm as it will shift from general construction to a refocusing on more viable activities. These activities include production of roofing sheets using an automated machine, and a new venture into the supply of ready mixed concrete using a batching process.

For 2011-12 Eigigu will operate three primary commercial activities:

1. Eigigu Enterprises – Roofing and Concreting;

2. Eigu Civic Centre, which concentrates on landlord services at the Civic Centre; and
3. The Menen Hotel, which provides short and long term accommodation and conference and function facilities. The catering facilities have been leased out to the private sector.

OUR AIRLINE

Nauru Air Corporation, trading as Our Airline, operates two Boeing 737-300 aircraft. The operation of regular public transport to Nauru (from Australia and Fiji) combined with the Norfolk Air and HeavyLift contracts and achievable ad-hoc charter business is budgeted to produce a modest profit of \$528,000. A smaller profit is forecast for 2011-12 of \$423,000, mainly through increased charter work and cost cutting measures. This is a significant improvement over previous years and is the result of a number of changes in the revenue and expense mix.

2011-12 will present challenges in the form of increased maintenance costs, a continually changing regulatory framework, continuing uncertainty due to global issues such as the extreme unrest in a number of Middle Eastern countries, the relationship between the Australian dollar and the U.S. dollar and a very competitive market place. Uncertainty also exists surrounding the Norfolk Air charter agreement due to economic challenges facing the Government of Norfolk Island.

PALCO & YALCO

Pacific Aircraft Leasing Holding Corporation (PALCO) and Yaren Aircraft Leasing Holding Corporation (YALCO) are the entities which own the two Boeing 737-300 aircraft, VH-INU and VH-NLK respectively, which are leased to and operated by Our Airline.

PALCO's aircraft, VH-INU, was originally financed through a commercial loan with NPRT which has since been repaid in full with interest, by refinancing with the Exim Bank of Taiwan. Ongoing payments of the Exim Bank loan are financed through an annual grant from the Republic of China (Taiwan) and are due to be fully repaid by May 2012. From May 2012, this aircraft will be fully owned by Nauru without any debts.

YALCO obtained a commercial loan from Getax Pacific Finance Company Ltd (Samoa) in 2008 and this loan was fully repaid in May 2011. All charges have been released and this aircraft is now fully owned by Nauru without any debts or encumbrances.

UTILITIES

Utilities continues to focus on strengthening and improving essential services to meet the energy and water needs of Nauru. It intends to address infrastructural issues and capacity constraints that often effect corporate performance. The primary objective for the coming year is to ensure business growth and that reductions in business losses are achieved through ongoing investment in existing but dilapidated infrastructure. The intention is to ensure services are not disrupted and that minimum health and safety standards including human resource requirements are fulfilled.

Based on the findings of a working group supported by a consultant engaged by ADB in early 2011, the Government has agreed for the NUA to be corporatized and for the adoption of performance contracts.

It is expected that the Nauru Utilities Corporation Act will come into effect early in the budget year. The new legislation will define the legal status and business obligations of Utilities, as a standalone corporate entity, and the relationship between the Government and Corporation.

Demand side management programs are ongoing and funding support has been provided by the E.U. The energy efficient light bulbs to be donated to the community by the Taiwan government are expected to have a significant impact in reducing demand by as much as 1 MWhr which will result in savings for both the community power bills and NUA through reduced fuel consumption in power production.

The financial management systems and processes continued to be strengthened through ongoing reviewing of and reporting on performance.

A number of power poles around the districts of Anabar, Anetan and Anibare were replaced during the current year after the appropriate equipment was received and put into service and further power distribution work will continue during the year.

Key projects planned for the 2011-12 year include:

- a) Ongoing maintenance on existing generation units
- b) Improvements in engine performance and fuel efficiency
- c) Improved emergency response to infrastructure failure
- d) Continued work on reducing line losses

PART 5 DEBT MANAGEMENT

Over many years, previous Nauruan administrations spent recklessly and borrowed excessively. They spent large amounts in areas that provided no long-term benefits to the Nauruan people.

Nauru today faces an enormous burden of debt. Beginning in November 2006, the Government has worked with AusAID funded consultants to develop a debt management strategy, and is now addressing this considerable debt burden.

NAURU'S DEBT SITUATION

Nauru's debts are divided into debts owed overseas; debts owed within Nauru to individuals and other organisations outside of government; and inter-entity debts owed between entities within the public sector in Nauru.

STRATEGIES FOR REDUCING DEBT

Nauru can only pay its debts by generating budget surpluses. For the foreseeable future, Nauru's budget surpluses will remain very modest. It is clear that Nauru's future cash flows will not be sufficient to repay more than a small fraction of the value of the debts that are currently outstanding.

Nauru's current level of debt is overwhelmingly large, leaving Nauru with no choice but to continue to ask creditors to agree to a substantial reduction in the total value of

outstanding debts.

The Government of Nauru will continue to prioritise and organise debt repayments, with a view to further reducing the overall level of debt owed. As in 2010-11 a schedule of debt repayments has been produced showing the timing of repayments and amounts to be repaid to creditors. Provided revenue is received in line with budget estimates, the repayment schedule will be adhered to with creditors being paid accordingly.

The proposed approach for 2011-12 is that:

\$1 million of Taiwan funds will be allocated to further payments of pending salaries owed to Nauruan Public Servants. The public debt budget is projected to increase from \$1.43 million in 2010-11 to \$2.31 million for the 2011-12 budget year. Pending land lease payments will remain at the same level as last year at \$775,000 while pending expatriate salary payment will fall from \$200,000 to \$114,000 for 2011-12. Repayments for the ADB loan remain constant at \$315,000. A number of debts have been fully paid, including Nauru outstanding membership arrears with the Commonwealth Secretariat, USP, INTOSAI and ICC. There were in total 11 expatriate staff pending salaries that have been settled in full.

PART 6 FINANCIAL SECTOR REFORM

Nauru has made considerable progress in financial sector reform since 2004. In 2001, Nauru was included on the OECD Financial Action Task Force list of Non Complying Countries and Territories, which saw a number of banking related sanctions applied against Nauru as the result of its offshore banking industry.

In October 2005, Nauru was removed from the OECD list of Non Complying Countries and Territories, following the cessation of offshore banking in Nauru and the passage of legislation designed to prevent money laundering and associated practices such as the financing of terrorism.

In April 2008, the US Treasury withdrew its previous Advisory 21 and Advisory 21A, which warned banks and other financial institutions of the need for enhanced scrutiny of transactions involving Nauru. This was further recognition and evidence of the success of Nauru's financial sector reform program.

Last year Nauru received technical assistance funded by IMF to formulate a set of Financial Instructions. In September 2010 the Financial Instructions were produced. A number of items in the Financial Instructions will be modified when the new FMIS system is implemented early in the new budget year as some of the processes will change to suit the new system.

During September 2010 the Nauru Government's financial systems were subjected to a Public Expenditure and Financial Accountability (PEFA) assessment. This was a thorough review carried out by a consultant funded by the ADB. The reported results showed that even though Nauru has obvious weaknesses in the financial sector, it was not as bad as some other neighbouring countries in some of the areas evaluated by the assessment. A number of shortfalls reported have already been addressed and others are continually being worked on. With the implementation of the FMIS other weaknesses will also be addressed.

A suite of public financial management (PFM) related activities are expected to be implemented and rolled out in the next few years following the PEFA assessment conducted in late 2010. The PFM reform strategic objectives cover improvements in accounting and financial reporting; enhanced revenue management systems and revenue flows; improved financial performance and oversight of SOEs; and enhanced PFM regulatory framework. The total cost of the PFM reform program is estimated at almost \$2 million for the 4 year period and involves mainly technical assistance and systems installations. For the 2011-12 budget, \$100,000 has been set aside using rollover funds under AusAID.

PART 7: National Sustainable Development Strategy

The National Sustainable Development Strategy (NSDS) articulates the high level development goals of the Government of Nauru and outlines the strategies and activities that will be required to achieve those goals. The NSDS remains very relevant and central to Governments development agenda. It also places emphasis on future intentions and required actions that the Government would need to undertake in order to achieve the NSDS objectives.

The Government of Nauru (GoN) has begun to introduce Sector Wide Approach (SWAP), in-order to improve overall planning and management of the NSDS activities.

The GoN with support of the Pacific Infrastructure Advisory Centre (PIAC) has formulated the Nauru Infrastructure Strategy and Investment Plan (NISIP) that outlines priority infrastructure investments, and sets out recommendations for addressing the country's infrastructure requirements necessary for growth and economic development.

To strengthen the planning and management of each of the sector strategy and milestone of the NSDS goals, the Aid Management Unit and the Development Planning & Policy Division have now been consolidated into a single Planning & Aid Division (PAD). There are now four sector planners managing these key areas of the NSDS.

The first review of the NSDS was undertaken in September 2009 and the next review is schedule to take place in late 2011.

Social sector:

Significant progress has been made in the Education sector with the most pivotal ones being the successful extensions of school hours from 1.00pm to 3.00pm, approval of the Education Bill, and finalization of the Education Implementation Strategy under AusAID's Partnership Agreement. Considerable progress has also been made in the Health sector with modest progress made in the Sports and Home Affairs Departments.

Cross-Cutting sector:

There have been some significant improvements within cross-cutting sector with several of the short-term milestones having been achieved. Most of the developments

within this sector are on track and are contributing towards the overall progress in attaining the goals set out in the NSDS.

Economic sector:

Phosphate mining has continued and rehabilitation work has been slowly progressing. Both agriculture and fishing production have also increased moderately. Some improvements have been made in the areas of public financial management, public administration and governance including reformed budget processes, statistics, State owned enterprise reform, financial sector reform, debt policy and complementary constitutional and other legal reforms.

Infrastructure sector:

Notable gains in this sector include the improvement in the supply of electricity and there is more initiative in renewable energy production, namely solar street lights and solar water pumps.

Despite some problems experienced in the first half of 2011, in the water sector, namely in the production, storage and distribution, there has been some progress made. Sewage removal has improved. The services by land, air and sea transport have been maintained.

Progress on the National Sustainable Development Strategy

Social Sector

Education

The Education sector has seen considerable progress this year with the successful introduction of standardized school hours, drafting of the Education Bill and approval of the Education Implementation Strategy that is under the Partnership Agreement with the Government of Australia and the Government of Nauru.

The Department has also signed an MOU with an Australian Registered Training Organization for the delivery of a range of services, including the accreditation of certificate courses in a range of trade areas at the Nauru Secondary School (NSS). The NSS is also providing the facilities for the Continuing Education Programme after the normal school hours which will ensure the full utilization of the facility. Work has already commenced on a range of different reform initiatives including redevelopment of core curriculum, principal leadership training program and national quality school standards framework, literacy benchmarking, behaviour management policy and programs in schools, facilities management plan, asset management plan, language policy development, and development of an education management information system.

Education Department continues to face a wide range of challenges and issues and it has therefore embarked on a strategic plan of educational reform to address these issues. A key challenge will be the re-entry of youth who have left the system. Due to the enactment of the Education Act and the subsequent increase to compulsory education (18 years) these groups of youth will have to return into the system and will thus require a great deal of support to ease transition. Attendance is another issue that continues to haunt Education, however, there is evidence that attendance has improved from 2007 (averaging 65% across the sector) to early 2011 (approaching 80% average across the sector). This trend is nearing the NSDS target of 85% attendance for all year levels by 2015.

Health

Considerable developments have also been made through a number of activities in the health sector. Some of the major highlights include the visit of the Taiwan mobile medical team, RACS renal/vascular and cardiology team, ophthalmologist and mental health specialists where locals were given the opportunity to be reviewed or treated in country.

Another successful story concerns the training and upgrading of local health staff where two midwifery graduates have returned and a further two medical students have been sent and also the return of three nursing graduates. Five medical students have also been selected and were sent on the Cuban scholarship and additional health trainees have been recruited.

In addition, there is also the recruitment of key health personnel such as the health educator, surgeon, two general medical officers, dietician, radiographer and midwives. The establishment of certain committees should also be worth noting as these working groups make crucial and strategic decisions on the management and administration of health services. These include the weekly senior management team meetings, department and section meetings, death review committee, safe mother hood committee, Health Practitioners Board and the National H1 Committee.

It should also be emphasized that Nauru is the only country in the Pacific to have 100% coverage of the H1N1 vaccination. Other improvements made in 2010-11 include job descriptions being updated, succession planning for Nursing Services introduced, performance appraisal introduced, Overseas Referral Policy reviewed, drafted the Terms of Reference for the Redevelopment of the RON Hospital, Public Health Bill finalized, 5 year Strategic Plan, development of the Draft Hospital Disaster Plan, drafted the Implementation Strategy, OPD Triage system plan developed, Drafted the Hospital Infection Control manual and the Annual Operational Plan.

The Department of Health will focus on the following activities in the next financial year; progress master planning exercise for the new multi-purpose health facility, recruitment of specialist doctors and midwives, implement and monitor Nauru Department of Health Strategic and Operational Plan 2010-15, strengthen District Primary Health Care Worker programme through infrastructure, supervision and

logistical support, strengthen hospital stores and pharmaceutical stock inventory, consolidate patient referrals to India, progress patient referrals to Taiwan. Visiting medical specialist, routine maintenance and repair of plant and equipment, finalize PPD Implementation Strategy, implement staff training both local and abroad, undertake detailed Workforce and Succession Planning for all key positions, Progress Leadership Programme, Implement critical hospital refurbishments, and manage visiting medical specialist teams.

Cross Cutting Sector

Environment

Environmental issues and climate change have been at the forefront of Government's cross-cutting sector developments. Under the Environment sector some of the short-term milestones have already been achieved namely the Second National Communication was established in 2009 and will cease in September 2011. The National Adaptation Program of Action (NAPA) was produced in January 2009, which focuses on the short and medium term adaptation needs.

Furthermore to help achieve the Environmental sector strategy of having environmental issues integrated into national and sector policies, both the Sustainable Land Management (SLM) project and the development of the Environment policy are progressing moderately.

The Department of CIE through its donor funded projects has conducted numerous community and public awareness programs covering a range of issues, but especially focusing on the effects of climate change (PACC/IWRM/SNC - ongoing consultations with communities to help re-evaluate priorities given the effects of climate change; addressing concerns of drought and other water related issues). Moreover, the establishment of the Climate Change Unit within the Department of CIE will only enhance the overall strategy to improve resilience to climate change impacts. In terms of enhancing development and management of biodiversity and ecosystem services, the Government is in collaboration with the Global Environmental Facility (GEF) which will provide support through the South Pacific Biodiversity Conservation Program. In summary, most of the short-term milestones planned to be achieved by 2012 have been completed and are awaiting the next phases in their development.

Governance Institutions

A constitutional review was conducted in 2010 and some changes were thoroughly discussed, ascertaining Parliament's progression in achieving its goals.

The Parliamentary Strengthening Project will also help enhance the capacity of Parliament. This project has three components: strengthening the Parliament Secretariat, building the capacity of Members of Parliament, and engaging with the public. The Consolidation of Legislation Project (LIAP) is complete. The LIAP project focuses on three main goals; strengthening human right and good/transparent

governance, strengthening the capacity of Nauru's legal and judicial system, and improving access to Nauruan legal information. These projects all contribute towards further enhancing Parliament's role in achieving the cross-cutting sector NSDS goals.

Governance Institutions is also a sector that has seen some progress in terms of maintaining its strategic approach and achieving its milestones. Plans are in progress to develop a 'Parliamentary/Cabinet Handbook' which will update and amend existing practices and procedures

Four key positions in the Justice and Judiciary sector have been filled by expatriates. The four in line positions consist of the Secretary for Justice, Director for Public Prosecutions, Solicitor-General and Resident Magistrate. The short term milestone relating to effective law and order with adequate workforce and responsive system in place has been achieved largely through the work accomplished by these positions.

Public administration

The Public Administration sector has progressed well and improvements within the Chief Secretary department are evident. The Chief Secretary Department deployed a much needed modern payroll system in the MYOB program to improve the efficiency in processing employee salaries, accumulating leave credits, and maintaining general employee data. A Human Resources Adviser is being recruited to help roll out the Department's Corporate Plan and train/bridge capacity issues with the current staff.

Economic

Stabilising Nauru's finances remains a key priority for the Government. In the areas of Government finances, transparency has been improved with the publication of more detailed budget documents as well as final budget outcome documents. Nauru has completed its first PEFA which aimed to assess the condition of Nauru's public expenditure, procurement and financial accountability systems. While the PEFA shows that the current Nauru PFM system does not meet the requirements of a "well-functioning, basic PFM system" (as recommended in the PFM roadmap for Forum Island Countries), it observes that the country has been gradually moving into a new era of PFM since the election of a reformist government in 2004. Unsatisfactory PFM practices have been put aside and a period of fiscal restraint has been initiated. Nauru with the support of its development partners will implement a practical sequence of reform and capacity building actions to address these shortfalls and implement a road map to improve its PFM systems.

Moreover, the procurement, and implementation of a new financial accounting package for the Ministry of Finance will strengthen Nauru's public financial management system. The roll out of this is currently on-going with the selection of Technology One, an FMIS system that is also used in other Pacific island countries. It is envisioned that this system will go 'on-line' by the end of 2011 with all departments being trained in its use.

In 2004 the Government of Nauru established a medium-term fiscal strategy based on three elements, and since that time has been able to meet these:

- Sustainable Service Delivery – With the assistance of donors Nauru has been able to focus its scarce resources into high priority areas such as improving outcomes for health and education as well as improvements to law and order and policing.
- In the absence of a commercial bank, the Government is working with Digicel with regard to Mobile Money enabling some banking services. Work is scheduled for the undertaking to oversee regulations conducive to a safe environment for this new operation.

Progress has been made with the implementation of the Nauru Entrepreneurship Development Centre (NEDC) project which assists in the development of small and micro enterprises. This is supported by several development partners ranging from ROC (Taiwan), AusAID and UNDP. To date, 3 ICDF micro-finance loans have been provided to businesses dealing with agriculture. The NEDC has conducted 3 entrepreneurship training courses with a good success rate – a total of 47 graduating candidates of which 37 are women. To promote entrepreneurship, the central market has continued to grow and expand.

A number of Government run services could be outsourced, and various assets sold to the private sector, and the Government will continue to investigate possible options for the privatisation or outsourcing of Government services or assets. One such example of progress in this area is the privatisation of the security services (PGU).

Rehabilitation for livelihood / domestic food production is being progressed. The Government stakeholders are coordinating efforts to provide for the area to establish a national nursery for domestic food trial and production.

There continues to be progress made in food security and rehabilitation of Nauru's mined-out areas.

Secondary mining has commenced as well as the first phase of trial rehabilitation work for a new cemetery. This rehabilitation work involves removing the pinnacles from the mined-out areas and mining the access road.

There are a number of initiatives which have been successfully implemented in Nauru with the assistance of donors, particularly the FAO, SPC and the Republic of China, Taiwan. These include the growing of fruit trees (e.g. bananas) and root-crops (e.g. sweet potato), kitchen gardens at schools and individual households, and boosting of livestock production (piggery and poultry).

Infrastructure

Nauru Utilities Authority (NUA) has improved the power supply by improving the conditions of a dilapidated distribution / transmission infrastructure which involves changing of power poles, transformers and other vital assets. Much effort has been

done on the generation capacity and security which will prevail until the full generation capacity is achieved.

Significant repair and maintenance works were undertaken to the generators at the power station to ensure that power outage is minimised.

Tank farm is looking into developing an emergency response system for the fuel storage tanks. NUA will recruit a project Engineer and contractor to manage the smooth refurbishment of the fire fighting system before new tank farm operator takes over in late 2011.

There has been a major refurbishment to the 6 main storage concrete water catchment, which includes reconstructing the building shed and repairing the leakages on the concrete water tanks. This project was funded by the EU, it also includes the construction of water catchment for the 45 communal water tanks.

The Government of Japan has provided ten solar water pump systems as well as 6,000 litres Poly water tanks to the communities. This will enable the communities to access the underground water as an alternate source to portable water.

The Republic of China (Taiwan) has donated 155 Solar street lights which have been installed around the island.

Land Transport has received an additional 10 new vehicles to add onto their car fleet.

Communication services have greatly improved with the introduction of new mobile applications. The number of mobile users has increased with the improved mobile coverage on the island. More importantly, Digicel is offering both dial up and broad band WiFi internet to end users.

In order to maintain regular air services the Department of Civil Aviation will be replacing all the T-VASIS with the PAPI system which would meet minimum international requirements.

PART 8 NAURU'S DEVELOPMENT PARTNERS

AUSTRALIA (AusAID)

The five priority areas under the PPD Australia program include strengthening the public sector management, increase private sector growth, and improving health and education services and power, water and infrastructure. The PPD will further build local capacity and employment opportunities through infrastructure and broad based growth, and facilitate common approaches and partnerships among donors under Nauru's coordination and leadership.

The bilateral allocation to Nauru for 2011-2012 will be \$18.0 million of which \$14.65 million is for programmable funding while \$3.5 million will be for climate change and education projects and Performance Linked Aid (PLA) and a new funding initiative for improved health.

The Nauru-Australia Pacific Partnership for Development Annual High Level Consultation was held in March 2011 on Nauru. The key outcomes from the HLC's were the following: approval of the Education Implementation Strategy, forward program for completion of remaining Implementation strategies in 2011 established, signing of the new Memorandum of Understanding, additional funding and agreement with respect to the Performance Linked Aid funding triggers, shift to outcome and sector reporting based on Implementation Strategies and away from input focus, and lastly agreement to explore the option of delegated cooperation with other donor partners in which a lead donor in a sector is identified to manage donor funds towards that sector.

REPUBLIC OF CHINA, TAIWAN

The Republic of China (Taiwan) is the second largest bilateral donor to Nauru. ROC will provide cash grants amounting to \$4.3 million in financial support to GON in 2011-12 which includes general budget support, assistance to Nauru's foreign missions, pending salaries and grassroots projects.

The General Budget Support grant of \$2.2 million is spread across a wide range of sectors, including the delivery of health services, better education services, membership of key international and regional bodies of mutual importance, further development of Parliament as well as the Public service and other key infrastructure projects including maintenance of infrastructure and equipment to ensure service delivery to the people of Nauru.

Financial assistance provided to Nauru's Foreign Missions will contribute to supporting the maintenance and operations of both Nauru's missions at the United Nations and in Taipei. These Missions provide support to key areas of Nauru's bilateral relations.

Annually, ROC has provided \$1 million for the payment of pending salaries owed to Nauruan public servants in support of Government's commitment to repaying salaries owed to its past and present workers.

Under the MOU there is a commitment from Taiwan through their agency the ICDF to provide Nauru with US\$500,000 grant funding, of which US\$200,000 being allocated to the microfinance scheme for small business development and US\$300,000 for the Mobile Money project, both projects aimed at improving the business environment in Nauru.

Taiwan's Technical Mission will continue to focus on improved agricultural techniques with the ultimate aim of achieving sustainability in 6 different crop/livestock areas. This is the aim of the 360 Project.

The aid relationship between GON and Taiwan is characterized by cooperation and mutual understanding. Assistance in kind, its Technical Mission, as well as its numerous Mobile Medical Team deployments have contributed greatly to Nauru's gradual economic and social recovery over the past several years.

RUSSIA

There has been a significant level of renewed engagement with the Russian Federation. Critical and immediate works at the maritime port were funded by grant assistance to Nauru and this work will continue in the coming year with receipt of a new multi-purpose pilot barge and rebuilding of the Port Building.

Russia has recently offered education scholarships for the coming academic year in Russia and there is active consideration of assistance that can be provided to the health sector, including the potential provision of doctors.

Nauru's Financial Intelligence Unit will soon enter into an MOU with Russia's Federal Financial Monitoring Service on countering money laundering and financial crime. There is active consideration of ways that Russia may further assist Nauru, including the redevelopment of financial services in Nauru.

JAPAN

The Government of Japan will continue its Grassroots Grant Project Aid (GGP) focusing its support on local community development through improving water security.

Successful implementation of Solar Powered Pumps in 5 communities has improved access to brackish water whilst incorporating renewable energy technology. In 2011-12, the remaining 10 communities will also gain access to this project.

Furthermore, the Non Project Grant Aid (NPGA) which commenced in 2005 is effective only for three consecutive years for each recipient country. However due to the on-going economic difficulties faced by Nauru, GoJ extended the scheme for a further two years. Nauru anticipates for the NPGA programme to be further extended in 2011. GON continues to utilize these funds for the procurement of diesel to ensure and maintain 24/7 power generation capabilities.

JICA will continue to provide up to four technical training programs per annum to further develop and enhance Nauruan capacity in acquiring and fine tuning industrial and specialized skills. In addition to the general grant aid for fisheries, Japan's Oceanic Fisheries Cooperation Foundation (OFCF) has been providing on-going assistance to Nauru's Fisheries and Marine Resources Authority (NFMRA). This assistance includes training, fisheries equipment including fishing boats and vehicles, Technical Assistance in outboard motoring etc. The identification of OFCF's support and management of their assistance rests solely with NFMRA.

Under the Pacific Environment Community (PEC) Fund Nauru will be looking to secure funds for a Desalination Reverse Osmosis system. This project aims to procure and install a \$3.6 million Desalination Reverse Osmosis (RO) system and solar power generation system that would provide sufficient, clean, and safe fresh water continuously to Nauru in an environmentally friendly and sustainable manner. It is estimated that this project will be implemented over a period of 2 years and therefore an allocation of \$1.2 million has been provided for this project in the 2010-11 year.

NEW ZEALAND (NZAID)

Two core areas that New Zealand finances under its development program to Nauru are Justice and Education. The Justice Grant Funding Arrangement (GFA) came into effect in May 2010. This involves the funding of four in line Justice positions. Current budgeted value for the four key in-line positions for 2010-11 is \$770,507.

Under the GFA the Government of New Zealand continues to provide assistance to the education sector. Continued support in the education sector will ensure Nauruan standards of education are competitive in the region and will form a path to higher educational

opportunities overseas. For 2011-12, activities which have been identified and will continue to be implemented and re-enforced will markedly improve the Department's administrative duties, provide a safe and conducive learning environment as well as improve system and human resource performance management.

In addition to the above areas, NZ will provide funding for the fisheries sector. New Zealand has agreed to fund training in the fishing sector, milk fish project and recompression chamber.

ASIAN DEVELOPMENT BANK (ADB)

ADB continues to provide Technical Assistance (TA) to Nauru namely the assistance given to the Utilities Reform Bill through the provision of a policy adviser and technical standards expert. Additional technical assistance will be provided for the implementation of legislative reform of the utilities authority as well as technical assistance to broaden the scope of reforms to other SOEs.

ADB will provide \$2 million towards the Intergenerational Trust Fund from the ADB Development Fund. The Government also anticipates to further invest in the Trust Fund by utilizing a proportion of phosphate royalties to be invested into the Trust Fund.

Nauru has been included in the regional TA activities offered by ADB. Nauru has received benefits under the Strengthening Public Financial Management in Pacific Developing Member Countries which provides support for financial reporting. More recently, ADB collaborated with AusAID, to support the preparation of the PEFA.

Moreover, an infrastructure Road map for Nauru has been prepared with the assistance of PIAC /ADB. Nauru will also be receiving further technical assistance for SOE's reform under the ADB Pacific Sector Development Initiative and improved economic management under the Pacific Economic Management TA (PEM TA). PEMTA will work together with Department of Finance to develop a donor strategy, financial ratios, and an SOE strategy.

EUROPEAN UNION (EU)

Under the 10th European Development Fund Nauru can access up to \$3.8 million of which \$3.13 million is allocated to the energy sector and \$724,156 for the Technical Cooperation Facility (TCF). EU's assistance focuses mainly on energy efficiency, energy distribution and developing and promoting the use of renewable energy technologies. The TCF provides support to the office of the National Authorizing Officer by providing two funded positions to the Planning and Aid Division to assist in the management of EU programme/activities for Nauru under the 10th EDF, provide technical assistance needed to ensure that programmes/activities are progressed and to prepare Nauru for budget support.

Support to NUA is therefore the largest activity under the current EDF. A major component of this funding will be given to improving Nauru's power distribution grid which will improve safety and energy conservation, thereby increasing energy efficiency on the supply side. There is also a small component to increase energy efficiency on the demand side through public awareness campaigns.

EU through the regional crop agency SOPAC - EDF 9, Envelop B, is providing in kind assistance amounting to \$681,000 over five years commencing 2008 for disaster risk reduction activities focusing on water security. Activities include the construction of an appropriate tank shed for

Nauru's water storage tanks at Utilities, install shelters and proper gutters for the community tanks across Nauru, provision of equipment to monitor the quality of water, refurbish the nation's water storage tanks and provide an additional water delivery truck for Utilities.

EU will also provide assistance through an MDG Initiative to accelerate and sustain the progress and attainment of the MDG goals. Nauru has submitted project proposals relating to water and sanitation areas.

UNITED NATIONS (UN)

UNDP is continuing to provide Technical Assistance and implementation support to a number of environment projects as well as developing a recently opened Nauru Entrepreneurship Development Centre. In cooperation with the Global Environment Facility (GEF), UN will focus on Second National Communications Enabling Activity, Sustainable Land Management Medium Sized Project, National Biodiversity Strategic Action Plan as well as GEF's Small Grants Programme and NAPA. The total donor in-kind contribution for these projects is expected to be \$435,250

With the recent launch of the UN Joint Presence Office (incorporating 3 leading UN agencies – UNDP, UNFPA and UNICEF) it is envisioned that cooperation between GoN and these agencies will be deepened. The UNV Coordination and Programme Management Specialist will focus on strengthening UN coordination and aid management as well as train the Country Development Manager, a position expected to be filled locally, under the UN Joint Presence Office.

GLOBAL ENVIRONMENT FACILITY (GEF)

GEF will provide an allocation of \$3,000,000 over its five year funding cycle. The following are projects funded by GEF; the Integrated Water Resource (IWRM) Management which aims to encourage better management practices and reduce groundwater contamination, Pacific Adaptation to Climate Change will focus on problems associate with alternative sources of water, and Sustainable Land Management to ensure it is mainstreamed into all levels of decision making.

Furthermore, GEF Small Grant Project (SGP) will encourage community orientated projects that relate to national environmental issues.

Under the GEF 4 framework, 3 projects will commence in 2010-11, namely Integrated Biodiversity Conservation, Persistent Organic Pollutants and the Acceleration Use of Renewable Energies.

INDIA

India will continue to provide financial assistance to renovating the Menen Hotel to be used by the expatriate workers in Nauru. This project is in its third phase. An allocation of \$150,000 is earmarked to convert suite rooms into family bedroom units and \$185,000 will be earmarked to construct a fence around Government Buildings. These two projects were not implemented last year but scheduled to be implemented in 2011/12.

OTHER DONORS

There are a number of other development partners who continue to assist Nauru on its path towards sustainable development. Assistance rendered by these development partners comes in a vast array of assistance, from provision of technical and financial assistance, capacity building or aid in-kind.

Canada – a new development partner on the scene – is expected provide \$19,232 to furnish the Women’s Safe House to better manage the services provided to domestic violence victims.

Other multilateral UN agencies such as UNICEF, UNFPA, UNESCO, UNESCAP, and UN-FAO have made substantial impacts in a number of sectors in Nauru providing support in the form of technical assistance to review the NSDS (2005-2025) and to assist Nauru in the self-assessment for the Cairns Compact, training and workshops in the Agriculture sector, and providing financial support for new equipment and upgrades in the Media sector.

The Council of Regional Organisation of the Pacific (CROP) agencies have also made significant impacts in offering their expertise in managing regional projects that Nauru has and will be involved in and building capacity through the provision of workshops and trainings in country or in other Pacific Island countries. The CROP agencies also provide technical assistance at the request of recipient countries including Nauru in key sectors including agriculture, water, energy, law and justice, education, health and environment.

Nauru has recently engaged with a number of new partner countries such as Azerbaijan, Israel, Italy, Germany and the United Arab of Emirates (UAE). The GoN aspires to continue to strengthen its relations with its existing development partners and to build new links to other non-traditional development partners.