



REPUBLIC OF NAURU

BUDGET SPEECH

2012-13

DELIVERED ON 12TH JULY 2012

BY

THE HONOURABLE ROLAND KUN, MP

MINISTER FOR FINANCE

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DELIVERED ON 12th JULY 2012 ON THE SECOND READING OF THE
APPROPRIATION BILL 2012-13
BY
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MINISTER FOR FINANCE OF THE REPUBLIC OF NAURU

INTRODUCTION

Mr Speaker and Honourable Members, it is with great pleasure that I present on behalf of the Government the 2012-13 Budget.

This Government aims to support and improve economic performance whilst also maintaining a balanced budget. The 2012-13 Budget will further build on the achievements attained in the past years. The Government will maintain delivery of an ever improving level of services for our people, improved efficiency and value for money government systems, whilst progressively addressing debts and at the same time investing in our infrastructure and for a better future.

Accordingly, Mr Speaker, I have pleasure in announcing that:

- the Budget will remain in surplus in 2012-13;
- the Budget prioritises its expenditures to the highest priority areas consistent with the NSDS, particularly in health and education and infrastructure;
- the Budget will continue to make inroads in reducing the mountains of debt which we have inherited; and
- the Budget will consolidate the gains achieved through further economic reforms.

Mr Speaker, before turning to the details of the Budget, I would first like to outline the background of the major economic and social developments in Nauru against which this budget was prepared.

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 2012-13 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 continues to benefit from the recovery in the world economy since 2010. Economic growth for the year as a whole was, however, low in most cases. 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.

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. Projections of revenue from sales of phosphate is about \$57.5 million – an increase of some 10%. World prices for phosphate, however, 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.

In the year ended 30 June 2010, GDP growth for Nauru was flat, largely because weak phosphate demand and damage to port infrastructure restricted export activity. Repairs to the mooring facilities combined with the repairs to the cantilever 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 2012.

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 license 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. However, in 2011-12, revenue from both phosphate and fisheries licenses showed remarkable increases. To April 2012, phosphate revenue amounted to \$50.7 million. Fisheries licenses are expected to bring in \$12.8 million to the end of June 2012 – a result of the change to the new fishing license scheme (Vessel Day Scheme). 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 2012-13 at \$330,000.

The "Isle stone" industry, the export of coral rock, Aquarium fish exports, tourism and revitalizing the commercial farming of milkfish are just some industries that are in the pipeline and Nauru is undertaking the necessary ground work to develop these industries.

As a result of the improving economic performance for Nauru, the GoN has been able to meet its commitments towards the Nauruan people through the repayment of large sums of monies. These payments relate to pending salaries, Ronwan, land rentals and phosphate royalties, and increases in welfare benefit payments to the aged and disabled.

Continuous power supply has been maintained as well as water supply has been made available to the public.

Outsourcing of fuel supply and management is being progressed by Government as part of its financial management reform program.

Significant reforms of SOEs are continuing which started off with the corporatization of Utilities in June 2011 and introduction of performance management approaches and governance and management restructuring in Utilities, Ronphos and Rehab. These reforms are aimed at improving efficiency in the operations and management of these SOEs which ultimately should lead to better performance and improved service delivery.

In the areas of public financial management, the Nauru Revenue Office has been established and operational, which has resulted in proactive management of government revenue and increasing effectiveness of revenue collection

Installation of the new Financial Management Information System (FMIS) will provide the Government of Nauru a system that has the capability to meet its financial management and accounting.

More recently the GoN has embarked on a number of initiatives, including:

1. adoption of the procurement policy framework scoping study prepared with the assistance of AusAID. Implementation of this new procurement approach will be expected to result in a more cost effective and timely procurement of goods and services and thereby achieving better value for money
2. assessing options for re-establishing banking services on the island. This initiative is expected to take up to 6-8 months. GoN is keen to establish a bank especially when a large payout in connection with the landowners' trust fund investments is expected later in 2012.
3. Government has also initiated talks with an Australia based bank to assess opportunity for a bank to take Nauruan clients whilst Government seeks the re-establishment of banking service on the island. The objective is to give Nauruan depositors access to banking services and enable people to manage their finances better.

Phosphate market

Ronphos is expected to deliver a dividend of \$3.93 million for the 2012-13 year.

Production and export targets have been set at a realistic level based on recent performance and a review of the lands in plan for mining. 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, especially in light of the 10 % projected increase in revenue from phosphate sales to \$57.5 million in 2012-13.

The continued renovations to the cantilevers and the correction to the position of A2 buoy and the increased operation of the kilns has been instrumental to increasing the amount of exports of phosphate. Mechanical and electrical repairs to various systems and the kilns at the drying plant are ongoing.

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.

Fisheries

Fisheries licenses are expected to bring in approximately \$12 million to the end of June 2012 – a result of the change to the new fishing license scheme (Vessel Day Scheme). The change in the licensing provisions to the Vessel Day Scheme will again see an estimated \$10 million generated in 2012-13.

Household Income

Economic growth has improved over the past 4 years since the resurgence of phosphate mining in 2006-2007; this was achieved through the refurbishment of the mining infrastructure as well as restructuring the administration and the governance structure of the mining corporations. Repairs to the mooring facilities combined with the repairs to the cantilever 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 2012.

This growth translates into benefits for all Nauruans.

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 2012-13 Budget to invest \$500,000 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 continue to 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 2012-13, the Government is committed to develop a more favourable business environment on Nauru, which includes the re-establishment of banking service on Nauru. This will give Nauruans depositing access to banking services and enable people to manage their finances better.

Nauru's infrastructure roadmap, Nauru Economic Infrastructure and Investment Plan (NEISIP) has been formulated with the assistance of the Asian Development Bank (ADB). 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.

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 wider range of goods.

PUBLIC SECTOR REFORM

Mr Speaker, in 2012-13 the Government will pursue a number of inter-related initiatives to continue the ongoing reform of the public sector. These reforms are in the areas of:

- new accounting system that will provide the basis for improved financial control;
- public service reforms including the appointment of a HR Advisor;
- improved financial systems in State Owned Enterprises. In 2012-13 the Government will continue to roll out the restructuring of Ronphos by completing the necessary review of the Ronphos Act, establishing key performance indicators and finalising the framework for performance monitoring. This should deliver improved accountability in Ronphos operations and create management incentives for optimal performance; and

- strengthening Government public financial management systems including the implementation of a new procurement framework with assistance from AusAID. This will ensure that the Nauru Government realise better value for its purchases.

2011-12 BUDGET CONTEXT AND STRATEGY

The fiscal strategy guiding the 2011-12 Budget has four central interrelated elements.

- **Fiscal Restraint** – the Government will maintain the budget in surplus through a focus on maximising and diversifying revenues, reducing unnecessary costs and focussing spending on the core areas of government services that meet the goals of the NSDS.
- **Sustainable Service Delivery** – the Government will ensure essential services are maintained and improved with a focus on improving efficiency and productivity.
- **Debt Management** – in the medium and longer term, the Government will continue to generate small surpluses to continue structured and achievable repayments towards outstanding debts.
- **Investing in our Future** – the Government will begin building new Trust Funds to provide a source of revenue in the future, whilst investing in infrastructure and human resource development for ongoing economic growth.

2012-13 BUDGET

Mr Speaker, I now turn to the details of the 2012-13 Budget.

Nauruans are now living a better quality of life than earlier last decade. This Budget ensures a clear focus on priorities and strives for efficiencies to ensure continued improvements and results and that the quality of life on Nauru continues to be raised.

Honourable Members will be pleased to learn that this Budget again continues to deliver more for our people, whilst maintaining a small cash surplus of \$25,842 for the financial year.

The 2012-13 Appropriation Bill provides for a total Treasury expenditure of \$57,101,604.

The expenditure is fully funded by a total Treasury revenue estimate of \$52,786,875. This includes Domestically-raised revenues of \$40.5 million and \$12.3 million in general budget support provided by donors. \$4.3 million in

cash reserves carried over from the prior year will balance the notional deficit of \$4,314,729.

However, cash flow will remain tight so Government will remain vigilant in closely monitoring our cash management throughout 2012-13.

REVENUE IN 2012-13

Mr Speaker & Honourable Members, today's budget forecasts domestic Treasury revenue to increase from the last Budget, at \$40.5 million this year compared to 2011-12 of \$31.6 million, an increase of \$8.9 million or 28 per cent.

While we are predicting increased revenue in many areas (including customs duties and fisheries revenue), there are reductions in projected revenue in a few other areas compared to last year's budget. Most notable of these are Ronphos dividends and fuel sales.

Expanding Nauru's very narrow revenue base is an ongoing priority for the Government. Not only is this fair by spreading the burden across a wide portion of the community, but it also provides a more reliable source of revenue by which to fund ongoing Government programs.

The significant revenue measures in the 2012-13 Budget include:

- Significantly improved assessment and collections of duties, particularly on fuel import duties applied on Ronphos and NRC in 2011-12, will be consolidated in 2012-13. Ronphos and NRC have previously been exempt from fuel duty, explaining the significant increase in customs revenue in 2012-13 compared to 2011-12. Additionally, a 5% increase in the rates of duties in respect of cigarettes, other tobaccos, spirits, wines and beers commenced from 1 July 2011 and will continue to increase annually thereafter. A further 5% increase will therefore apply from 1 July 2012 and is expected to increase the duties revenue from importation of those products by approximately \$110,000 in 2012-13.
- The income from fisheries fees has increased in 2011-12 by \$2.3 million from an approved budget of \$5.2 million to \$7.5 million. However the actual revenue collected in fisheries license fees has totalled \$12 million, which is a doubling of the original approved budget. This improved performance in fisheries revenue is the culmination of several years' work, particularly the implementation of the Vessel Day Scheme (VDS), the improvements in tuna fisheries monitoring, control and surveillance management, and effective negotiations with stakeholder groups such as the PNA, FFA, SPC and WCPFC for the improvements in the application of a common set of regional fisheries management standards.

- In 2012-13, the Government expects to receive US\$4 million from its investments in Philphos, a phosphate company in the Philippines;
- A dividend of \$3.93 million is expected to be received from RonPhos for the 2012-13 year. Production and export targets have been set at a realistic level based on recent performance and expected improvements;
- The Government Warehouse sales are expected to increase from \$1.53 million budgeted in 2011-12 to \$1.944 in 2012-13. In 2012-13 financial year, there will be a new procurement approach whereby all procurement above \$5,000 will be outsourced to a third party procurement agent to be appointed. This budget allocation will then be used to pay the procurement agent a fee and for the cost of the goods and the procurement agent in turn will procure and deliver to Nauru all its procurement.
- Based on an expected total production of 450,000 tons of phosphate for 2012-13, the royalty payments due to the Government will amount to \$1,102,500. The Government also expects to recover an additional \$407,936 in outstanding royalties revenue from previous years but which will be paid by Ronphos to the Government in 2012-13.
- Port Fees will increase to \$731,000 in 2012-13. The number of ship arrivals remains steady in each of the categories of phosphate, cargo (including the Reef vessel) and tanker vessels. With the recent transfer of invoicing of Port Fees to the Nauru Revenue Office resulting in more proactive debt management practices and better quality information flows from the Nauru Port Authority, the revenue stream is expected to be improved
- Communications usage continues to be strong and is therefore delivering a reliable source of revenue for Treasury. Government's investment and 20% shareholding in Digicel (Nauru) has returned dividends to Nauru since in its first year of operation and has continued to produce improved outcomes with the dividend for 2011-12 expected to be approximately \$273,000. Additionally, communications usage is also expected to raise telecommunications tax by an additional \$325,000 in 2012-13 financial year.
- Increased Bingo prize levels and improved enforcement are contributing to improved revenue collection despite reduced hours and lowering of Bingo license fees from 20% to 15%. Gaming revenue is now supplemented with the recent licensing and enforcement of fees for other gaming activities, including sports betting and gaming machine operation.

- It is expected that fuel procurement will be outsourced at the start of 2013. The new operator will be required to pay to the government an asset charge for use of the tank farm facilities. This asset charge has been set at 3 cents per litres to be charge in the market through the price template and paid to the government. A total of \$255,000 is expect to be received. This fee is based on an independent valuation of the tankfarm and an assessment of benchmarks charged by other suppliers in the region to ensure that charges for any new or additional business opportunities (bunkering fishing fleet, resupply to other islands) are at competitive levels.
- To address the issue of overcrowding in many Nauruan homes, the Government will be providing loan agreements for successful applications for the construction of twenty eight new houses on the island. Part of the loan agreement will be repayment through off-setting of pending salaries of the successful applicants for the first 50% of the loan, while the remaining 50% is to be repaid to the Government fortnightly at zero interest rate for over 15 years. It would cost \$50 a fortnight for over 15 years to fully repay the loan. The first lot of 28 loans to be issued in 2012-13 will be required to be repaid partially by successful applicants in the second half of 2012-13, therefore an allocation of \$14,300 has been provided.

EXPENDITURE IN 2012-13

Mr Speaker, I would now like to turn to the expenditure side of the budget.

Total domestic Treasury expenditure for 2012-13 is expected to be \$57.1 million compared to \$32.48 million estimated in the 2011-12 Budget, which represents an increase of almost \$24.62 million or 75 per cent. This increase is due mainly to a number of new initiatives as well as existing projects that have been carried forward to the new year.

As noted earlier, even though total spending is projected to increase, the Government continues to review all of its expenditures and shift spending to high priority areas, to ensure it is meeting key objectives in the NSDS, while at the same time maintaining a balanced budget.

While details of all new spending items are contained in the Budget Papers, I would like to highlight the following important areas of domestic Government spending in 2012-13 which are directed at key economic reforms and NSDS priorities:

- \$12.2 million on salaries, including expatriates and local;

- \$4.04 million on health, which equates to 7% of the domestic expenditure;
- \$3.99 million on education and training representing 7% of domestic expenditure;
- \$2.6 million on land leases, house and offices rentals;
- \$2 million on pending salaries for public servants;
- \$649,000 to cover Nauru's membership of a long list of regional and international organisations, including the ADB, the Pacific Islands Forum and CROP agencies, USP, the United Nations and a range of its entities such as UNESCO, WHO, the International Criminal Court, the Commonwealth Secretariat, Commonwealth Parliamentary Association, and many more relating to audit, public administration, tourism, the private sector, fisheries, aviation and telecommunications;
- \$492,000 on scholarships;
- \$800,000 on overseas medical referrals, an increase of \$84,000 from last year;
- \$1,944,000 inventory items to be procured under the new procurement arrangements;
- \$1.32 million for welfare payments to Nauruans, which is an increase of \$417,000 or 46% from the 2011-12 budget;
- \$734,00 for Government to pay Utilities for electricity bills;
- \$1.2 million on new plant & equipment;
- \$6 million to repay public debt (which excludes payment of salary arrears);

Government is progressing new arrangements for the outsourced management and operation of the fuel tankfarm. The new arrangement is expected to start in 2013. It is expected that this will provide security of fuel supplies for Nauru and will also relieve Government of this burden. A key element of this change will be that all government entities will purchase fuel as required directly from the new tankfarm operator. This will include Utilities who are currently provided diesel free of charge for the generation of electricity, thereby providing an indirect subsidy.

Rather than Government continuing to pay for the diesel Utilities uses, Government will shift to a direct electricity tariff subsidy paid for actual

electricity usage. This will promote efficiency and operational savings within Utilities, whilst ensuring that Utilities will be able to deliver its services. An electricity tariff subsidy will also clarify the amount of support Government provides households, business and other users of electricity to ensure that power is affordable.

The amount of \$2,708,488 has been set aside as the projected cost of the electricity subsidy that will need to be paid in cash to Utilities for the second half of the year on the expectation that the outsourcing arrangement will commence by the end of December 2012.

The Government is committing approximately \$8 million to debt repayment. This will enable the Government to pay out priority debts, including partly for pending salaries, support liquidation payout of the former Bank of Nauru, and to former members of the Provident Fund and Superannuation Fund.

A number of debts have been fully paid in 2011-12, including Nauru's membership with World Health Organisation and the outstanding debts with Airways NZ. There were in total 6 expatriate staff pending salaries that have been settled in full.

NEW SPENDING

Government has agreed to a New House Scheme which is aimed to create more houses for Nauruans to address overcrowding in many Nauruan homes. At an estimate cost of \$40,000 for each new house, a total provision of \$1.12 million has been provided to support financing of twenty eight (28) new houses. The New House Scheme will be provided in the form of a loan and will be repayable back to Government at zero interest cost over 15 years. This aims to minimise the impact on those successful applicant's effort to repay the loan.

At the start of 2013 Academic year, a lunch project for all schools costing \$700,000 will commence. The program will support lunch for all school students every school day. Objective of project is to improve the nutritional intake for Nauruan children. The program also expects to have a positive impact on school attendance.

In 2012-13, the Government has agreed to build district playgrounds for Children in each district around the island. The program is expected to cost at total of \$420,000, with an estimate value of \$30,000 per playground to be built. This new initiative is aimed at encouraging outdoor physical activities and entertainment of Nauruan children.

A new multi-purpose sports complex will be constructed in 2012-13 financial year. The new multi-purpose sports complex will facilitate and advance the popular power sports on Nauru such as weightlifting, powerlifting, boxing as

well as judo. This recognises and aims at harnessing our youth's growing interest and recent outstanding performance in these indoor sports.

In 2012-13, Sports Federations will be able to access grants to support games at the national level, including for procurement of sports equipment, prize sponsorships, sports travel costs for athletes and other requirements. Federal Sports organisations in Nauru will be required to demonstrate how the grants will develop their particular sport on Nauru to be eligible for grant funding.

The Government has agreed to fund a consultant to undertake a feasibility study on setting up a multi-purpose sports oval. The topside area has been identified as a possible location for the proposed new multi-purpose sports oval.

In recognition of the role of Church groups in helping community, the Government in 2011-12 provided cash donations to all 25 church groups of \$500 each on the occasions of celebrating Christmas in December 2011 and Easter in April 2012. The cash donation will be maintained therefore a further \$25,000 in funding will be made available for upcoming 2012 Christmas and 2013 Easter occasions.

Government has agreed to provide one-off \$50 voucher to 1,200 house owners, to support the purchase of gas regulators and bottles that will complement distribution of donated gas stoves. The total cost of this new initiative is \$60,000. This program aims to encourage Nauruan homes convert from electricity cooking to the more economical gas cooking. This measure will also reduce demand on the subsidized grid power.

Now that the Nauru Trust Fund Act 2012 has been enacted, the Government will continue the work to establish the Nauru Trust Fund in order to prepare Nauru for the future when the remaining phosphate reserves have been depleted. The Asian Development Bank (ADB) will be providing \$2 million as a General Budget Support. In turn, the Nauru Government will set aside \$2 million as Nauru's own contribution to the Nauru Trust Fund (NTF), which is equivalent to the ADB grant funding that would have been paid into the NTF had the NTF already been established. Additionally, the Government will add another \$500,000 as its contribution that is based on a \$1 per tonne of exported phosphate per year. Based on about 500,000 tonnes of phosphate exports per year, the Government has allocated \$500,000 for an additional contribution towards the Trust Fund. So in total the Government will contribute \$2.5 million to the NTF. High level discussions are ongoing with key partner governments on becoming parties to the Trust Fund, particularly Australia and New Zealand, who have been supportive of this initiative. Success of this initiative will have long lasting benefits for all Nauruans well into the future.

Last fiscal year, funds were allocated for the air conditioning for the Yaren Government office complex but did not eventuate. The Government

complex is currently being provided by numerous individual air conditioning units located in many offices throughout the buildings. These units represent out-dated technology, are very inefficient in terms of output and electricity consumption and require constant maintenance to avoid breakdowns. The proposed new system costing \$360,000 will be centralised with ducting work distributing cool air to all corners of the complex. This will mean much less electricity will be consumed which means not only reduced electricity bills for Government but also reduced electricity production costs due to the reduced load.

The Government has agreed to continue the Nauru Clean & Green Program in the 2012-13 financial year maintaining continued efforts to clean the island and encourage planting of new trees and shrubs for a clean and green surrounding. As it is intended, the labour force is being sourced from unemployed youth living in or near the area that have been designated to maintain. This program will continue to provide over 100 part time jobs for the currently unemployed youth. In 2012-13, the Clean & Green Program is further adding three new cleaning community sites, including the Location compound, top part of NPC settlement area, as well as the Government settlement area in Meneng. The Government has also agreed to increase the salaries for the labour force by 10%. To further encourage the Clean & Green program to household level, the Government has further agreed to an additional \$15,000 for Angam Day prize and awards for districts, as well as to households.

Due to the loss of the Norfolk Island Charter Contract which Our Airline maintained in previous years, the airline in 2012-13 will have many challenges ahead to maintain break-even, against rising fuel costs. Our Airline will continue to pursue ad-hoc charter contracts in Australia to generate revenue to maintain operational costs. While Our Airline maintains to cover its capital expenditure requirements, a C-Check due in 2012-13 will still cost more than Our Airline can afford. Accordingly, Government has now allocated \$2.23 million in the 2012-13 budget as subsidy to the airline.

The Bureau of Statistics will be undertaking a Household Income and Expenditure Survey (HIES) in 2012-13. The last survey was done in the year 2007. The HIES is essential and will help improve and update Nauru's key economic data on family income and spending patterns. The expected overall cost of HIES in 2012-13 is \$150,000. Donors have agreed to fund 80 per cent of the funding and Government will be required to provide 20 per cent funding for the project, equivalent to \$30,200.

NFMRA will continue to implement the Nauru National Observer Program in 2012-13 financial year. The observer program has been restructured substantially from the previous approach. Adopting a user-pay principle system the program will aim at achieving 100% observer coverage of the Nauru exclusive economic zone (EEZ). This program is valuable for the

protection of the valuable tuna resource with Nauru EEZ through the direct monitoring and reporting on fisheries activities in our waters to ensure compliance to our fishing laws. This program also provides employment opportunities for Nauruans as observers.

The Government has agreed to provide additional resources to the Department of Justice, including a new expatriate position for a Public Prosecutor, and for a significant increase in external legal fees compared to last financial year, new funds for the expansion of the Justice Secretariat offices, and other line items within the Justice Secretariat's budget.

Government has agreed to maintain student internships costing a total of \$75,000. The first component of this program involves placing senior high school students attending high schools in Nauru as well as those on Government scholarships in Fiji for a 5-6 week placement with the Government and SOEs during the Christmas break. The second component involves placing school leavers for longer term work-placements. Further, the Government recognises the need to develop public service, and has agreed to provide further funding of \$35,000 for general staff training.

Government has agreed to increase the provision for the disabled housing scheme, which provides direct support to disabled persons home modification. There is a growing demand for assistance in home modification in line with the increased disabilities, therefore an allocation of \$100,000 has been provided. The funding will assist the disabled persons in meeting the high costs of building materials as well as labour for the home modifications. A key element of this project is to meet cost of adjustments to the living quarters of Nauruans' with disabilities specifically to aide in their mobility and independence in their living space.

The Department of Finance will have a number of consultancy requirements in 2012-13 to support implementation of new Government initiatives. Technical Assistance will be required for initiatives such as public service salary structure review, land rental review, and Nauruan housing scheme review. An estimate of \$100,000 is provided to support the engagement of short-term specialist technical assistance and experts.

The Government has allocated \$93,928 for the medical scholarship program to Cuba. The allowance for the Nauruan medical students in Cuba have been increased since March 2012 to match with local health trainees and this arrangement will be maintained in the next financial year. Further, students in Cuba are provided airfares to return to Nauru every two years for reunion with families.

District Public Health workers will be provided twenty (20) new motorbikes for easier transport to support their roles in the community and attending to

elders for medical issues. At an estimate price of \$3,000 per motorbike, a total of \$60,000 in funding has been provided.

DONOR FUNDING IN 2012-13

Mr Speaker, as Honourable Members are aware, our external donors have in the past played a very important role in helping Nauru with our development objectives. It is pleasing to be able to report that this assistance will continue into 2012-13 and in some cases at an increased level.

Australia is expected to continue its support for Nauru, and in 2012-13 it is expected to provide an increase in their assistance to \$23.7 million through the Pacific Partnership for Development" (PPD).

Funding under the PPD will continue to cover the following partnership priority areas:

more efficient and accountable public sector management;

improved education outcomes;

improved health outcomes including reducing the prevalence of non-communicable diseases;

reliable and cost-effective provision of essential infrastructure and services;

broadening the economic base; and more just and effective institutions and services in the law and justice sector.

The details of agreed funded activities under the PPD are outlined in the Development Fund Annual Projections.

Mr Speaker, in addition to Australia, Nauru has a number of other valuable development partners.

The Republic of China (Taiwan) will continue to provide support to Nauru in the 2012-13 year at a similar level of over \$9 million in recurrent commitments. This assistance is very welcome and will go to a range of projects, including loan repayments and pending salaries, as well as general budgetary support.

In addition, Taiwan will continue to provide a range of assistance in kind, including its Technical Mission on island, which focuses on agriculture and livestock development, the Mobile Medical mission visits, and solar lighting projects.

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 is also providing general budget support of \$4.2 million in 2012-13.

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 will continue the construction on the Desalination Reverse Osmosis system secured under the Pacific Environment Community (PEC) Fund. This project involved the procurement and installation of a \$3.6 million Desalination Reverse Osmosis (RO) system and solar power generation system that will provide sufficient, clean, and safe fresh water continuously to Nauru in an environmentally friendly and sustainable manner. Nauru has already started accessing the funds for preparatory work and it is anticipated that the remaining \$3.6 million will be disbursed in 2012-13 for the procurement and installation of the solar powered RO system

The Government of Japan will continue its support of Nauru in 2012-13 through its Grassroots Grant Project Aid focusing on water security and accessibility within communities, as well as the Non-Project Grant Aid which has been assisting Government each year to fund the purchase of diesel for electricity generation.

Under the 10th European Development Fund Nauru can access up to 2.7 million Euros of which 2.3 million Euros is allocated to the energy sector and 0.4 million Euros 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.

Support to the Utilities Authority is therefore the largest under the current EDF. A major component of this funding will be allotted to improving and re-vamping Nauru's power distribution grid which will improve safety, deliver more stable power and reduce distribution losses of electricity, 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 In 2012-13 Nauru is able to access through its operational accounts up to approximately \$850,000 for the Renewable Energy & Energy Efficiency programme. EU will also continue the work of energy efficiency public awareness campaigns and the provision of renewable energy technologies, in particular, the replacement of current street light with energy efficient units project of \$49,600

NZAID continues to provide assistance to the Education and Justice sectors. Approximately AUD\$1.8 million (\$NZ2.3 million) is provided annually for these two programs. NZAID is providing financial support in the amount of

approximately \$734,000 in 2012-13 to fund four in-line Justice positions, namely Resident Magistrate, Secretary for Justice, Solicitor General, and Director of Public Prosecutions.. An allocation of approximately \$1,050,000 has been made to support Education in the areas of strengthening the curriculum, drafting a literacy and numeracy framework, improving infrastructure, provision of physical resources, capacity building and performance management.

As a means of improving aid effectiveness, a Delegated Cooperation Arrangement between NZAID and AusAID has been signed that allows AusAID to manage NZAID's education program for the 2012-13 FY and beyond.

Further information on all anticipated donor funded projects in 2012-13 is contained in the Development Fund Annual Projections.

The budget documents contain details of the progress Nauru has made towards NSDS objectives. However, I would like to state that while we have made major inroads in a number of development areas, there remains a long way to go. Accordingly, I would like to acknowledge the support of Nauru's major development partners in our reform endeavours and welcome their continued support into the future.

CONCLUSION

Mr Speaker,

This Budget will continue to improve the quality of life for our people. Whilst we cannot fix everything in one year, every year, Government has continued to step one foot in front of the other, taking this country forward.

We all know too well the hardship we have all gone through. We know the disastrous situation that was left to this generation. To some, the challenges appeared too great for Nauru to ever recover from. But we have. We have turned from the edge of total collapse and our future is much brighter.

We have not fixed everything.

We have many challenges and problems that we continue to work on. There is so much more to do.

Certainly, the Dabwido government is not yet satisfied that we have done all we can do.

We will continue to deliver more as we have in this Budget.

The Dabwido government has increased pending salaries.

This Government will maintain land lease payments to 100% cash while continuing to repay outstanding land lease payments from 2004.

We have increased the spending on education by \$900,000 with new initiatives to ensure a brighter future for our children.

Spending on health has also increased by \$700,000 compared to last year.

This Budget maintains a 10% salary increase to all Public Servants and a total of \$12.1 million in payments to our workers.

Government domestic expenditure has gone from around \$32 million in 2011-12 to over \$65 million in 2012-13 with our national GDP maintaining a strong 4% of positive growth.

And the list goes on.

Mr Speaker,

Today's Budget will continue this positive trend and deliver more and wider benefits across our communities.

The Dabwido Government will continue to make life better for all on Nauru.

Mr Speaker, I commend the Appropriation Bill 2012-13 to the House.

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