

NAURU – EUROPEAN COMMUNITY

**Country Strategy Paper
and National Indicative Programme
for the period 2001-2007**

TABLE OF CONTENTS

Part A: Country Support Strategy

EXECUTIVE SUMMARY

Chapter 1: EC COOPERATION OBJECTIVES

Chapter 2: NAURU POLICY FRAMEWORK

- 2.1 National Policy Objectives
- 2.2 Nauru National Policy Agenda
- 2.3 Meeting Policy Objectives
- 2.4 Regional Policy Objectives

Chapter 3: ANALYSIS OF POLITICAL, ECONOMIC AND SOCIAL SITUATION

- 3.1 Political situation
- 3.2 Economic situation
- 3.3 Socio-economic and Environmental Situation

Chapter 4 OVERVIEW OF PAST AND ONGOING COOPERATION

- 4.1 Nauru-EC Cooperation
- 4.2 Multilateral Assistance
- 4.3 Bilateral Assistance

Chapter 5 THE EC RESPONSE STRATEGY

- 5.1 Principles and Objectives
- 5.2 Priorities of Cooperation
- 5.3 Coherence and Complementarity

Part B: National Indicative Programme

Chapter 6 THE INDICATIVE PROGRAMME

- 6.1 Introduction
- 6.2 Focal Sector
- 6.3 Other Programmes

Annexes

Map of Nauru

GENERAL PROVISIONS

- (1) The Government of Nauru (represented by *<name and title>*), and the European Commission, (represented by *<name and title>*), hereinafter referred to as the Parties, held discussions in Nauru from 13th November to 17th November with a view to determining the general orientations for co-operation for the period 2001–2007.
- (2) During these discussions, the Country strategy paper including an indicative programme of Community Aid in favour of Nauru were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in Nauru.
- (3) The present Country Strategy paper contains the following elements:

Executive summary

 1. EC co-operation objectives
 2. The national policy objective
 3. An analysis of the political, economic and social situation
 4. An assessment of past and on-going co-operation
 5. The response strategy
 6. Presentation of the Indicative programme

It also contains *<...>* annexes.
- (4) As regards the indicative programmable financial resources which the Community envisages to make available to Nauru for the period 2001-2007, an amount of **€1.8 million** is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of **€0.5 million** for the allocation referred to in Article 3.2 (b) (B allocation). These allocations are not entitlements and may be revised by the Community, following the completion of the mid-term and end-of term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (5) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The indicative programme under chapter VI concerns the resources of the A-allocation as well as uncommitted balances of former EDF's, for which no projects and programmes have been identified under the

respective National Indicative Programmes. It also takes into consideration financing from which Nauru benefits or could benefit under other community resources. It does not pre-empt financing decisions by the Commission.

- (6) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings < *optional for Sysmin countries: With the exception of an amount ofmillion Euro which is destined to finance the development programme identified following a request for aid under the Sysmin programme of the Lome Convention but for which no financing decision could be taken before 31 December 2000, the B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet make part of the indicative programme. <For the time being, only the programme to be financed under the Sysmin-allocation is included in the Work Programme.>*
- (7) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership and within the framework of the present Country Strategy paper, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Nauru, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth EDF and accounted as a supplement to the eighth EDF National Indicative Programme. At the time of entry into force of the Financial Protocol, the remainder of the A- and B-allocations shall be accounted under the 9th EDF.
- (8) The European Investment Bank may contribute to the implementation of the present Country strategy paper by operations financed from the Investment Facility and/or its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement <(see Paragraph...for further details)>.
- (9) The National Authorising Officer and the Head of Delegation shall proceed annually to an operational review of the Indicative programme. This review shall consist of a joint assessment of the implementation of the programme and take into account the results of relevant activities of monitoring and evaluation. In accordance with Article 5(4) of Annex IV to the ACP-EC Partnership Agreement, it shall in particular cover an assessment of:-
 - (1) The results achieved in the focal sector(s) measured against the identified targets and impact indicators and sectoral policy commitments;
 - (2) Projects and programmes outside the focal sector(s) and/or in the framework of multi-annual programmes;

- (3) The use of resources set aside for non-State actors;
- (4) The effectiveness in implementation of current operations and the extent to which the timetable for commitments and payments have been respected;
- (5) An extension of the programming perspective for the following years.

The National Authorising Officer and the Head of Delegation shall submit the report on the conclusions of the annual review (joint annual report) to the Development Finance Cooperation Committee, within 30 days of the completion of the review.

- (10) Within respectively two and four years from the date of signature of the Country strategy paper, the National Authorising Officer and the Head of Delegation shall undertake a mid-term and end-of-term review of the strategy and the indicative programme. At these occasions, the Country strategy paper may be adapted. Following the completion of mid-term and end-of-term reviews, the Community may revise the resource allocation in the light of current needs and performance (Article 5(7) of Annex IV to the ACP-EC Partnership Agreement). Needs and performance shall be evaluated according to the criteria used for annual reviews as well as those mentioned in Article 3 of Annex IV to the ACP-EC Partnership Agreement.
- (11) The agreement of the two parties on this Country strategy paper, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

Signatures

For the Government of.....

For the Commission

EXECUTIVE SUMMARY

The Country Support Strategy (CSS) provides a framework for Nauru-EU cooperation under the Cotonou Partnership Agreement. The framework contained in Chapters 1-3 of the CSS, is based on the global objectives of ACP-EC cooperation, the development objectives and strategic priorities of the Nauruan Government, and a situational analysis of the political and economic circumstances of the country. Nauru is one of six new ACP Member States in the Pacific and as such has only recently become involved in the European Development Fund (EDF) under the Cotonou Agreement. The country has no past co-operation programmes of the EC. A review of other donor activity is provided in Chapter 4. The CSS concludes with Nauru's response strategy and Indicative Programme for the 9th EDF. The CSS was prepared in close consultation between Government and Non-state Actors (see Appendix 1).

Nauru faces immediate and potentially long-term development challenges - the most pressing being the restoration of macroeconomic and financial stability to the country. In the short to medium term, the imminent exhaustion of the phosphates resource and the decline in revenue from phosphate mining will have serious consequences for the country and its people. Diversification of the economic base, with specific focus on private sector development to achieve economic growth is a key objective of the Government. Providing an enabling environment for the productive sector to flourish is crucial to the future prosperity of Nauru.

Consistent with these objectives, the Government of Nauru is targeting both the Energy and Fisheries sectors as focal sectors under the Cotonou Agreement (80% of the A-envelope). The Government also recognizes and supports the work of NSA's active in the areas of identifying and pursuing employment and income generating opportunities at the 'grassroots' or subsistence level, and their role in ensuring that all members of the community have an equal opportunity to participate in society. An allocation of some 20 percent of the A-envelope is made to the NSA's to continue their work in these areas.

The Government of Nauru looks forward to a close and collaborative relationship with the EC during the 9th EDF and beyond.

1. EC-COOPERATION OBJECTIVES

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and Nauru shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of the development strategies by the countries and populations concerned – and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organizations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

2. THE NATIONAL POLICY AGENDA

2.1. NAURU 2001

Nauru is a country in post-phosphate transition. After years of high economic growth fuelled by booming but unsustainable phosphate exports (and looming resource exhaustion), the economy of Nauru has, over the past decade, experienced an unprecedented economic downturn. The downturn has been characterized by mounting domestic and external debt service payments, falling revenues, high and unsustainable government expenditure, and a liquidity crisis in the financial sector (including the near collapse of the Bank of Nauru), that threatens the economic and financial stability of the country. The country and the citizens of Nauru (pop. 11,845), are currently experiencing a steep decline in GDP per capita, falling employment opportunities, a concomitant decline in income earning opportunities, and emerging hardship and social problems. Moreover, at the time of writing, unsatisfactory growth prospects pose a serious and palpable risk for sustainable human development.

An overview of the fiscal and financial management problems facing the Government of Nauru is provided in Appendix 2.

2.2 NAURU NATIONAL POLICY OBJECTIVES

The Government's National Policy Objectives and development strategies for the medium term are set out in the Nauru Development Plan (2002-2006). Unfortunately this plan – while tabled - has yet to be adopted by the present (new) Government. Problems appear to lie with the articulation of strategic objectives, the public sector investment programme, and in identifying budgets for the output. The sticking point is that the Government is currently deficient in the (cash) resources needed to undertake much of the proposed expenditure under the plan. The Government is due to table its budget in parliament in December 2001, which should clarify the situation.

In consultation with the various Ministries, and taking account of strategic priorities and objectives identified in the National and Economic Development Summit (held in February 1999) the following broad-based objectives may be considered as priorities:-

- A sustainable Government financial position with manageable debt levels.
- To increase the welfare of the people of Nauru and the economic growth of the nation in an equitable and sustainable way.
- Growing levels of employment via private sector growth and development. Alternative sources of income to be secured for the post-phosphates era.
- To provide opportunities for all Nauruans to gain knowledge and skills to contribute constructively to the economic development of Nauru.

- To provide the best quality of health care for the people of Nauru.

2.3 MEETING NATIONAL OBJECTIVES

2.3.1 Fiscal and Financial Position and Governance Issues

In 1997 and in view of the economic and financial crisis overshadowing the country, the Government of Nauru, in collaboration with the Asian Development Bank (ADB), formulated a Fiscal and Financial Reform Programme (FFRP) aimed at attaining sustainable economic growth and development, improving public sector management and ensuring good governance. The FFRP, endorsed at the National Economic Summit in February 1999, is an ongoing reform process. Its operational thrust is to achieve long-term economic and financial sustainability through policy measures that include improved fiscal management, better public sector management, public sector reforms (including downsizing of the public sector), and restructuring of the economy to reduce dependence on phosphate mining - specifically stimulating private enterprise development for employment creation.

Following the articulation of the FFRP, significant progress towards improved financial management was undertaken in 1999 - these included expenditure cuts and a downsizing (retrenchment) of the public service. However, the project is currently stalled for two reasons. First, many of the people retrenched from the public service were subsequently reemployed in public corporations. Second, the failure of the Government of Nauru and ADB to agree on a suitable bank (e.g. a branch of an established reputable bank) to replace the now defunct Bank of Nauru (BON). In the absence of a resolution to these issues, payment of the next tranche of ADB lending under the FFRP is delayed.

2.3.2 The Budget Position

Notwithstanding any earlier gains in efficiency, there is little (if anything) to suggest that the Nauruan economy is moving into a recovery phase. There remains little in the way of an updated assessment of the net worth of the financial position of the Government of Nauru, nor is there any real consensus as to the life of the remaining phosphate reserves (estimates range between 5 and 15 years), and therefore no information on which to base a forecast of future income. What is clear though, is that the Government and the people of Nauru are spending in excess of their current income and are continuing to borrow heavily against a future – but uncertain – stream of phosphate revenues. This is obvious from the current budget position of the government. (See Appendix 3).

Because of the limited role of monetary policy (due to the use of the Australian dollar as the currency) the burden of adjustment has fallen on fiscal policy. The fiscal balance has shown an improvement since 1997/98 and 1998/99 when deficits of A\$17.5 and A\$12 millions respectively were recorded. Nevertheless, the A\$10 million budget deficit recorded in FY2000 was some four times greater than budget estimates. And, in FY2000, the consolidated budget deficit was estimated at 18 percent of GDP.

Corresponding to the weak fiscal position, Government debt increased in both 1999 and 2000. External government debt is now estimated at A\$280 million while external debt

service totalled A\$13.3 million in 2000 or around 13 percent of exports of goods and services. In addition to this, Government has significant loans outstanding with government owned corporations that also have significant levels of external debt. The extent of this debt is not transparent. Accordingly, the level of external debt service is likely to be far greater than stated here.

The continuing high level of expenditure and/or 'dissaving' by the Government suggests a prolongation of the current financial crisis and a concomitant 'hemorrhaging' of the net worth of the country's assets. The persistence of political uncertainty (there have been three changes of government in the past two years), macroeconomic instability, and financial insolvency are likely to curb any attempts by Government to meet national objectives within a given and specified timetable.

2.3.3 Other Governance Issues

In the past few weeks the Government of Nauru has agreed to accommodate a number of Afghani and Iraqi asylum seekers (boat people). The asylum seekers are awaiting 'processing' for entry into Australia. In return Australia has provided a sum of A\$20 millions in bilateral development assistance to the Nauruan Government. This sum is offered "*in appreciation of the Government of Nauru's support for Australia and to assist the country to manage the additional burden of the refugees*". Some of this money has already been spent by the Nauruan Government to restore the water supply (repairs to the ageing desalination plant), reduce power cuts (purchase of fuel), and to pay a back-log on wages owing to public servants.

Initially, Nauru agreed to take approximately 300 asylum seekers, but this figure has been quickly exceeded. There are currently 795 boat people (comprising approximately 6.5% of the population of Nauru), accommodated in two enclave camps built specifically for the purpose of housing the refugees. However, it is not clear what the position of Nauru will be in the case where some (or all of) the asylum seekers fail to gain entry into Australia. Whether Nauru or Australia will bear the responsibility for repatriation of those who fail to gain access to Australia and whether Nauru as a signatory to the Human Rights Convention can (in all conscience) repatriate refugees to a war zone requires further investigation. The social and economic implications of providing long-term refuge to asylum seekers have yet to be fully articulated.

A worrying aspect of the refugee situation involves the process of the negotiation of monetary packages with Australia and the varied make-up of the package. Secrecy in the bilateral negotiations with Australia reduces the transparency of the process and makes accountability lines unclear. This runs counter to Nauru's commitment to improved governance and accountability. Reliance on such payments to prop-up budgetary shortfalls is also counter to Nauru's commitment to fiscal responsibility and transparency. Nauru has already used this 'lever' to obtain a A\$1 million emergency payment package (deductible) from the A\$107 millions Australia has pledged for the future rehabilitation of the phosphate mining areas.

2.4 THE REGIONAL POLICY AGENDA

2.4.1 Integration Into The World Economy

In accordance with Article 19 of the principles and objectives of the ACP-EU Partnership Agreement:-

Nauru was granted full membership of the Commonwealth in May 1999 and was admitted as the 187th member of the United Nations on 14th September 1999. The country became a member of the Pacific ACP group in June 2000 and is a signatory to the ACP-EU Partnership Agreement (which could form the basis for a Pacific Regional Economic Partnership Agreement). Nauru is also a member of several regional bodies including the Pacific Island Forum, Forum Fisheries Agency, SPREP, SOPAC and USP, the Asian Development Bank, ESCAP, and other specialised agencies. Other partner countries include Australia and New Zealand (both of which import phosphate), the UK and Japan. Nauru recognizes Taiwan.

2.4.2 Regional Agreements

The Nauruan Government has given the highest priority to improving integration of Nauru into the world economy via economic regional cooperation agreements and arrangements. In this context, in August 2001, Nauru hosted the conference for the signing of the Pacific Island Countries Trade Agreement (PICTA), and the Pacific Agreement on Closer Economic Cooperation (PACER), between the Forum Island countries (FICs) and Australia and New Zealand. Nauru is a signatory to both PICTA and PACER. It is anticipated that the PICTA will enter into force by the year 2002.

The following are the priorities of the Nauruan Government for economic regional cooperation:-

- Building trading relationships within and with blocks outside the region.
- Cooperative arrangements in aviation and shipping.
- Coordinated policies and approaches to the management of fisheries.

3. POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1 THE POLITICAL SITUATION

The Republic of Nauru is an island nation located in the Western Pacific Ocean some 1,200 miles north east of Papua New Guinea. (Geographic coordinates are 0 32 S, 166 55 E). The country achieved independence on 31st January 1968 from the Australia/New Zealand and UK administered UN Trusteeship. The Constitution was promulgated on 29th January 1968. The legal system comprises acts of the Nauru parliament and British common law.

Nauru's land area is 21 sq km on a single raised coral atoll - making it one of the smallest states in the world. The exclusive fishing zone is 200 nautical miles (nm) while the territorial sea is 12 nm. The climate is tropical/monsoonal. The island terrain is sandy beach rising to a fertile ring around raised coral reefs with a parched sea of jagged white coral pinnacles (where the phosphate has been removed) in the centre. The population of Nauru is approximately 11,845 (July 2000 estimate), comprising Nauruans (58%), other Pacific Islanders (26%), Chinese (8%), and Europeans (8%).

Over the period of the 1990's Nauru experienced an annual average population growth rate of more than 2 percent – an alarming growth rate for an island so small.

There are 14 Administrative Districts on Nauru - Aiwo, Anabar, Anetan, Anibare, Baiti, Boe, Buada, Denigomodu, Ewa, iIuw, Meneng, Nbok, Uaboe and Yaren - with Government offices being located in the Yaren district. The country has no official capital. The official language is Nauruan, although English is widely spoken and understood. The official currency is the Australian dollar.

The country is ruled by a unicameral Westminster style parliament of 18 members elected by popular vote for a term of three years. Suffrage is 20 years of age, and is universal and compulsory. Executive authority is invested in a cabinet that consists of the President of the Republic, and Ministers appointed by the President. The President is elected by Parliament. There are no significant political parties, with politics being strongly influenced by family, clan and religious links. Since the November 1995 election, the political environment has been marked by change and uncertainty. There have been nine changes in government, with seven resulting from parliamentary motions of no confidence. President Dowiyogo was elected for his sixth term on 19th April 2000 when former President Rene Harris resigned after only six days into his second term. President Rene Harris again won the presidency on 20th March 2001 following a motion of no confidence in President Dowiyogo. This month (November 2001) there are four bi-elections taking place in the districts of Baiti, Denigomodu, Nbok and Uaboe following a court ruling of vote-rigging at the previous election. Three of these involve members of the opposition while one involves the Minister of Finance.

3.1.1 Political Assessment

Nauru's recent succession of presidents indicates an absence of strong leadership at a time of adjustment and uncertainty about the future prosperity of the country. Much of the political turmoil can be attributed to growing dissatisfaction over the government's poor investment record and the recent retrenchments in the public sector – some 450 or 30 percent of the public sector workforce was retrenched from April 1999 – although most of these have subsequently been re-employed by government. The use of booming phosphate revenues to provide jobs, incomes and social service levels which are not sustainable but which are politically difficult to reduce indicates that Nauru's problems are not only economic but also political/economic in nature.

Nauruan culture and society is under strain in transition to an uncertain future. Unemployment, breakdown of family life and increasing crime rates are closely linked – crimes involving burglary, damage to property, thefts from cars and shops (the Chinese community is a target) are on the rise. Further retrenchment of the public sector in a country where there is no culture of and/or opportunity to engage in private enterprise will only lead to greater dissatisfaction and more accusations levied against leaders. Nauruans must be prepared (e.g. through information, education and training) to be effective contributors to the economic and social development of the nation – this may involve the mammoth task of reconditioning the whole of Nauruan society. If this is too ambitious, then further reductions in economic activity are likely to result in a political backlash where political turmoil may be expected to intensify.

3.2 THE ECONOMIC SITUATION

Since 1906, Nauru's economy has revolved around the phosphate industry. Sales of the rich phosphate deposits (reputedly the richest deposit in the world) have provided Nauruans with a level of income and prosperity unparalleled in the Pacific Islands. However, in 1989, phosphate production began to decline as demand fell in traditional markets (Australia and New Zealand) and as the marginal costs of extraction of phosphate minerals increased. In the 1980's phosphate exports averaged 1.58 million tonnes per annum, by the 1990's exports had fallen by over 200 percent to approximately 0.5 million tonnes. Moreover, intensive strip-mining methods have all but depleted the phosphate minerals, with life expectancy of remaining phosphate deposits being estimated at anything between five to 15 years. Past high export volumes and prices from phosphate mining provided substantial revenue for the government. Phosphates have also provided Nauruans with one of the highest per capita incomes in the Third World. With the decline in the industry, revenue from phosphates has declined sharply (at the current price of A\$84 per tonne, revenue is in the region of A\$42 millions), with a concomitant decline in income per capita. In 1998 income per capita was approximately A\$4,600, a 20% decline over the 1995 figure.

The Nauruan government now confronts considerable developmental challenges in the transition to the post-phosphate era. There are no other significant mineral resources on Nauru, and years of phosphate extraction have devastated the environment to the extent that the vast majority of the land is degraded and all of Nauru's fresh water must be imported from Australia. Due to constraints on arable land there is no significant local agricultural production – although some rehabilitation of the mined areas is expected to be undertaken. Land itself is an issue. Some 100 percent of land is privately owned - with the government leasing land from private citizens on a 99 year basis. Once these leases expire, the government may face additional challenges as the local population (particularly those landowners retrenched from the public sector) attempt to reclaim their land for subsistence purposes.

With the decline in the phosphate industry and downsizing of the public sector – the focus is now on the private sector to provide sustainable income and employment opportunities for Nauruans. The private sector, however, is thin and underdeveloped (largely comprised of Chinese immigrants – at the present time only 150 Nauruans are engaged in private sector activity) and, due to Nauru's distant location and lack of competitive advantage, it is clear that the private sector will require considerable time to develop. Where they exist, opportunities for private sector initiatives have been identified in offshore fishing, financial services and tourism.

3.3.1 Fisheries

There are substantial fish resources in the water surrounding Nauru but no commercial fishery base. Port facilities in Nauru have been supplemented by the construction of a small boat harbour in Anibare Bay with funding from the Japanese Fisheries Department. The boat harbour was officially opened in September 2000. Domestic participation in offshore fisheries began in 2000 with the purchase by the Nauru

Fisheries and Marine resource Authority of a long-line vessel and approval to buy a second vessel. Fresh tuna is now being exported to Japan – and, while volumes are low (600kg per week – approximating to 12 tuna fish), there is potential for further development of this market and industry. The opening of the Nauru Fish market in 2000 has also provided a source of employment for Nauruans. Revenue from international fishing licences sold to Japan, the USA, Taiwan and the Philippines brings in around A\$2.8 million annually. In 2000, Nauru earned A\$8.5 millions from fishing licence fees. This represented a 60 percent increase over 1999, but is largely attributed to a weakening of the Australian dollar. Aquaculture – particularly the development of milkfish ponds to serve the domestic market has potential to provide incomes at the ‘grassroots’ or subsistence level.

3.3.2 Offshore Financial Sector

The offshore financial sector offers some prospects for further development. The industry contributes approximately A\$1million per annum to government revenue. However, in recent times, Nauru’s international reputation as an offshore financial centre has suffered due to allegations of money laundering. Problems are being worked through with the OECD’s Financial Action Task Force on Money Laundering (FATF). FATF has listed Nauru as one of the world’s three most uncooperative money-laundering jurisdictions. In the past few months, Nauru has introduced new legislation to govern its offshore industry – however, this does not appear to have been sufficient to satisfy the regulatory authorities. The Government of Nauru is now considering the option of requesting technical assistance from the US to identify and implement the required legislation and prudential regulation required for the industry. If Nauru does not pass anti-money laundering legislation, it could face FATF counter measures. These factors could serve to erode Nauru’s international reputation as an offshore financial centre and undermine the economy if not satisfactorily resolved.

3.2.3 Tourism

Tourism potential is limited, with the country needing major improvements in rehabilitating its landscape and infrastructure to make it more attractive to visitors. Nauru has only two hotels and therefore limited room capacity. And, there is little in the way of visitor attractions to warrant an extended stay on the island. All visitors to Nauru arrive by air and there may be some potential to encourage visitors to transit (e.g. stay one night in Nauru) and to provide guided (educational) tours – e.g to the Nauru museum, the phosphate site, etc. Air Nauru’s Boeing 737-400 has scheduled flights to Manila, Guam, Pohnpei, Tarawa, Nadi, Brisbane, Melbourne and Sydney. The airline also operates a charter service between Sydney Norfolk Island. Air Nauru is currently following provisions set out by the Australian Civil Aviation Safety Authority in February 2001. Assurances from Air Nauru on improvements to facilities at Nauru airport have been sought.

3.2.4 Economic Prospects

At the present time, there is very little in the way of immediate opportunities to diversify the Nauruan economy. With the downsizing of the public sector and limited opportunities in all other sectors then it is unlikely that the government will be able to provide sufficient jobs in the short-term to make up for those that are being lost in mining and in the public sector. This means that many families will lose their current

source of employment and income. Subsistence production and small-scale income-generating activities may offer the best short-term solutions to the problem. Although, the prospect of a life of 'subsistence affluence' may alarm the very many Nauruans who have no experience of this type of work or lifestyle. In the longer term, the prospect of further activity by Australia to rehabilitate the mined phosphate area is likely to provide improved access to land for agricultural development – Nauru won substantial damages from Australia for degradation of land in the mid 1990's, this provides approximately A\$107 millions for rehabilitation. Feasibility studies for mining of secondary and residual phosphate deposits could extend mining activities for an additional 10-15 years.

One final "long-shot" is that a report prepared by overseas consultants and presented to the Government of Nauru has suggested that the coral pinnacles left over after the removal of phosphates may themselves have an 'enormous' economic value – described as 'being in excess of the value of phosphates itself'. The value appears to lie with the use of crushed coral in tiling and/or in concrete production. Further advice requires to be taken to determine whether this is a genuine opportunity.

3.3 SOCIO-ECONOMIC AND ENVIRONMENTAL SITUATION

3.3.1 Human Development

With the fall in GDP per capita, Nauru's Human Development Index ranking has fallen to 0.7. One of the principle problems facing Nauru is the extremely high rate of youth unemployment (estimated at 30 percent for males and 55 percent for females). Nauru also has a relatively high rate of growth of population - 2.4 percent in 2000, resulting in increasing pressures on social services – specifically education and health services. Life expectancy for males has fallen from 62 years in 1980 to 55 years in 1998 with noncommunicable 'lifestyle' diseases on the increase. A summary of social indicators for Nauru is provided in Appendix 4.

3.3.2 Poverty

At the present time poverty is not a major issue in Nauru. Nauru has a relatively low Human Poverty Index of 12.1. However, the dislocation costs of the downsizing of the public sector and the decline in phosphate mining operations will have a considerable impact on the population of Nauru. These activities account for approximately 95 percent of all employment in the country. The government recognizes and supports policies designed to mitigate any adverse impacts of the transition process on the poorest and most disadvantaged sections of the population. To this end, the Government, in collaboration with the ADB - and with wide consultation with civil society - is considering a proposal for a Poverty Partnership Agreement (PPA). If adopted, the PPA will provide the basis for government socio-economic development policy. Its aim will be to enhance employment opportunities – specifically by encouraging private sector development initiatives - and to support human and social development.

3.3.3 Gender

Nauru is a signatory to the Convention for the Elimination of all Forms of Discrimination against Women (CEDAW). The government therefore acknowledges

the strategic objectives contained within CEDAW relating to the elimination of gender discrimination against girls and women. These include, ensuring equal access to education, eradicating illiteracy among women, improving women's access to vocational training, science and technology and continuing education, developing non-discriminatory education and training. In recent years, increasing numbers of girls are enrolling in school and the retention rates of girls now exceeds that of boys. Equal rights and opportunities for women are established by law. Notwithstanding this, women are underrepresented at the higher levels of Government service and in the Nauru Phosphate Corporation – the two largest employers on the island. This trend is likely to continue while the social system remains dominated by traditional leaders led by a Council of Chiefs. More effort is required to raise the profile of women in employment.

3.3.4 Education

Nauru ratified the Convention on the Rights of the Child (CRC) on 27th June 1993 making a commitment to the child's right to education. In 1994 a 10 year plan for education in Nauru was initiated by a public forum "Education for Nauru, Now and Beyond 2000". This was followed by a review by public forum in 1997 "Nauru Education for the 21st Century" and subsequently by the National Economic Development Summit held in February 1999. Goals and strategies have been put in place for 5 years. Government and education departments, NGOs, the public and private sector, media, parents and students all have input into the reporting process.

In line with community aspirations and national objectives and needs, the National Education policy is, *"To provide opportunities for all Nauruans to gain knowledge and skills to contribute constructively to the community and economic development of Nauru, to contribute to the preservation of Nauruan society, identity and pride based on a foundation of obedience to God, respect for each other; loyalty to the State, its President and traditional leaders"*.

The Government is the major provider of education and training. It is committed to a vision for the education sector which is *"literacy for all Nauruans in Nauruan and English and computer literate in an age of technology. Schools are properly equipped and maintained. Parents and teachers collaborate effectively towards education for all. Vocational education and USP equips young Nauruans for worthwhile employment and enterprise. Locally acquired qualifications are recognized locally and abroad. Computer literacy is widespread"*.

At present the reality is somewhat different from the ideal. The education system in Nauru is failing to produce Nauruans competent to deal with the future. There is a lack of continuity, relevance and off a culturally appropriate curriculum – which, combined contribute to academic failure, loss of identity and sense of purpose. Schools and training facilities are dilapidated and poorly equipped, and there is over-crowding in classrooms. Significant numbers of Nauruans are illiterate in English and have a poor command of Nauruan. Collaboration between teachers and parents is intermittent. Some relief to the overcrowding situation has been provided in the form of a new primary school (Nauru college) opened in 2000. This project was financed through the Nauru Rehabilitation Fund (managed by the Nauru Rehabilitation Corporation).

In 2001, the government committed approximately 10.4 percent of its budget to education with some 33 percent being directed to overseas scholarship students. For 2002-2005 the government proposes to make an allocation of 7.9 percent of budget to education and training. Notwithstanding the decline in the education budget, in most years, actual expenditure has differed markedly from committed expenditure and, due to problems encountered in securing funds, is often considerably less than budgeted for. Recently there has been a notable increase in the involvement of other agencies and organizations with the government receiving assistance from various countries and agencies, including NZODA, UNESCO, AusAID, JICA, and NGO's. There is very little involvement of the private sector in education provision.

3.3.5 Health

The high revenues earned from the phosphate industry have provided the Nauruan people with an adequate health service delivery mechanism. However, high incomes have also resulted in an increase in the incidence of life-style related noncommunicable diseases. Despite the country's position in 1995 in the top third of regional countries in terms of GDP per capita, its life expectancy at birth (58 years) puts it in the bottom third. At the present time, approximately 12.7 percent of the national budget (authorised estimate for 2000-2001) is allocated to health.

The epidemiological picture in Nauru is dominated by noncommunicable diseases such as cardiovascular and hypertensive diseases, obesity, diabetes, and cancer. Some 42% of the female population suffer from diabetes while some 59 percent of females on Nauru are smokers. Many Nauruans suffering from diabetes are referred to Australian hospitals each year, placing a drain on the health budget. In fact, overseas referrals account for over half the health budget. The high incidence of the disease is the main reason for Nauru's low life expectancy.

Collaboration with the World Health Organisation (WHO) includes programmes in epidemiology, statistics, trend assessment and the health information system. Programmes directed towards health promotion and non-communicable disease control, have been initiated. A "Healthy Islands" approach – focusing on three main themes of New Horizons in Health was implemented in 1997. This programme is ongoing.

3.3.6 Environmental and Energy Issues

There are several resource and environmental issues affecting sustainable development in Nauru. These include an array of issues from climate and sea-level variability, environmental degradation and pollution, to resource management. More specific challenges to development include coastal erosion, water quality, water availability and sanitation. Sustainable management of resources such as terrestrial minerals and renewable energy are other issues under consideration. WHO is currently assessing the water supply system in Nauru. A major concern is that Nauru's water is provided by a single (ageing) water desalination plant. If this plant malfunctions, the water supply in Nauru would be non-existent within two to three days.

In terms of energy, the Nauru Phosphate Company (NPC) is the sole provider of power (although it was established primarily for mining). Nauru uses approximately 40,000

litres of diesel per day to produce approximately 6-6.5 MW of energy. The cost to the NPC of importing diesel for power generation (0.7 cents per litre) is in the region of A\$10 millions per annum - with some 75 percent of total usage being domestic/commercial consumption. The two refugee camps have added a half megawatt (more than 6%) to the average load on the system. There is now a very real concern that the high load coupled with lack of maintenance may lead to increasing breakdowns and outages. It is also worth noting that the refugee camp demand is pre-the- switching-on of almost 100 single air-conditioning units which have been installed in portacabin accommodation provided at one of the camps.

In the early days of electricity generation power was provided free to the population. This has led to high usage of air-conditioners, electric water heaters, electric water pumps and electrical appliances. And, although electricity is no longer free, Nauruans continue to consume power to such an extent that domestic electricity bills average between A\$200-\$300 per month. These bills would more than double if the NPC attempted full cost recovery on supply (electricity is heavily subsidized at only 9 cents per unit). NPC currently has more than A\$1 million in unpaid accounts – but recovery and/or disconnection is both socially and politically difficult to enforce.

With electricity being abundantly available other energy sources have not been extensively exploited. The utilization of indigenous sources of energy such as solar (photovoltaic or solar hot water systems) and ocean thermal (wind energy), and the use of alternative fuels such as LPG (for refrigerators and cooking stoves), would help to conserve energy, reduce household consumption expenditure and reduce government expenditure on diesel imports. Particularly important is that the current diesel generators are old and the system requires a substantial and expensive upgrade - including an increase in the number of diesel generators (discussions with AusAID on replacement generators is in progress). Replacing expensive diesel powered electricity with indigenous energy sources or cheaper – e.g. LPG - fuel would have a minimum impact on access to and consumption of energy, while the economy would benefit from lower expenditure on diesel fuel and on expensive diesel equipment – which currently the government cannot afford. Switching to new and/or renewable sources of energy is in accordance with Nauru's energy policy (yet to be ratified) which is *“to minimize dependence on petroleum products by actively encouraging fuel conservation and efficient end use, and by utilizing cost-effective alternatives”*.

4. ASSESSMENT OF PAST AND ON-GOING CO-OPERATION

4.1 NAURU – EU COOPERATION

Nauru joined the ACP-EU group in June 2000. It is one of six new ACP Member States in the Pacific and as such has only recently become involved in the European Development Fund (EDF) under the Cotonou Partnership Agreement. The Government of Nauru looks forward to a close and collaborative relationship during the 9th EDF and beyond.

4.1.1 Other Donor Cooperation

Up to the 1990's Nauru was a relatively prosperous country with a high level of GDP per capita. For this reason there has previously been very little donor activity in the country. The decline in Nauru's economy over the period of the 1990's has seen the need for more collaboration with, and assistance from donor agencies. Recently Nauru has been given full membership in the Commonwealth. The country receives benefits under regional assistance projects of the Asian Development Bank (ADB), the Pacific Forum, and the South Pacific Commission, and advisory services from the Pacific Financial and Technical Assistance Centre (PIFTAC). Nauru has recently obtained full membership in the United Nations and is likely to benefit from UN programmes. Nauru is not a member of the World Bank or the IMF.

4.2 MULTILATERAL ASSISTANCE

4.2.1 The Asian Development Bank

The Asian Development Bank is the only multilateral donor active in Nauru. In 1998, the ADB, in collaboration with the Government of Nauru implemented a Financial and Fiscal Reform Programme (FFRP) to attempt to restore macroeconomic and financial stability to the country. Specific areas of focus of the FFRP are, (i) retrenchment of public and private expenditure and the fiscal deficit to sustainable levels after phosphate mining; (ii) public financial management of government owned corporations; (iii) the implementation of banking sector reforms; (iv) reforms of the tax regime to improve the revenue base of the country; (v) improvements in the management of the Nauru Phosphate Royalties Trust (NPRT) assets; and, (vi) the collection and analysis of core economic data.

Nauru has received one programme loan of \$5 million for the FFRP and four technical assistance grants totalling \$844,000. No programme loans were approved in 2000 and the first three-year assistance package ended on 30th June 2001.

ADB's Country Assistance Plan (2001-2003) highlights ADB medium-term assistance in the following areas:-

- (i) Continued assistance in implementing the reform programme and related capacity building.
- (ii) Support for promoting entrepreneurship and small business development.
- (iii) Assistance for promoting entrepreneurship and small business development.
- (iv) Support for the education sectors with emphasis on skills/vocational training in support of small business development.
- (v) Support for the health sector to improve in-country health service delivery, primary health care, health education, and water and sanitation.

Appendix 5 provides a detailed breakdown of the ADB Lending and Technical Assistance Programme to Nauru. The FFRP programme is currently on hold (see Chapter 2). And all of the above projects are now 'pending' based on the Nauru Government meeting ADB conditionality on loan releases.

4.3 BILATERAL ASSISTANCE

4.3.1 Japan

In 1999 Japanese grant aid assistance was provided for the building of the Anibare Small Boat harbour. This project involved the widening of the Anibare channel to 20 metres and the deepening of the channel to 4.5 metres as well as the construction of a concrete platform as a wharf for loading and unloading cargo. The cost of the project was approximately A\$5.5 millions. The objectives of the project were to ease constraints on shipping, to service the fisheries sector, and to stimulate small private enterprise.

4.3.2 Republic of China (Taiwan)

The Republic of China (ROC) has recently become involved in the provision of both technical assistance and grant aid to Nauru. ROC have provided technical assistance in the areas of capacity building in traditional food production and preservation techniques, poultry and egg production and aquaculture. In 2000-2001 ROC provided approximately US\$10 millions to build a recreation centre and a multi-purpose stadium – including the building of 150 self-contained units to house competitors for the World Weight-Lifting Championships (2001). Unfortunately, due to problems with landowners the games were moved to Guam. The units are currently unoccupied. A public housing project in cooperation with ROC and Nauru to ease housing shortages is on-going (A\$3.7 millions). Grant aid funding has been provided for the building of a new gymnasium (currently in progress), and there is also a programme worth approximately US\$580,000 to purchase computers for schools. This fund is currently being drawn down by the Department of Education. Last year ROC provided US\$500,000 for the purchase of kidney dialysis machines to be installed at the hospital. And in 2000, the Taiwanese government funded the installation of two diesel generators at the NPC (A\$7 millions). The generators were installed in June 2000.

4.3.3 Australia

In 2001 the Government of Nauru entered into a bilateral understanding with Australia to accommodate Afghani and Iraqi asylum seekers. Under the agreement Nauru received a ‘package’ worth A\$20 millions. This comprises a lump sum payment for infrastructure development and a package of benefits including an increase in AusAID scholarship awards (amount not clear), A\$2 millions attached to the medical referral scheme, and the immediate delivery of 7 months fuel supply (diesel) for NPC generators. As part of the overall package there are negotiations between the Government and AusAID to supply two (or three) diesel generators as replacements for ageing NPC generators.

4.3.4 Nauru Government - World Health Organisation

Collaboration with the World Health Organisation (WHO) began in 1996. WHO collaboration is in the areas of health promotion, human resource development and assessment of environmental health hazards – specifically, water and sanitation in human settlements. In 2000, WHO undertook an overview of environmental health issues in Nauru – with specific focus on water related health issues and the water

supply situation in Nauru. A summary of WHO activity, including proposed resources is provided in Appendix 6.

4.3.5 Nauru Government - UNESCO

UNESCO provides technical assistance to Nauru in education and curriculum development. AusAID, NZODA, JICA currently assist in capacity building in education and in the provision of small amounts of direct aid in the form of overseas scholarships.

5. THE RESPONSE STRATEGY

With due consideration to the analysis of the political, economic and social situation in the country, its future potential, constraints and policy agenda, and bearing in mind the objectives of the ACP-EU Partnership Cooperation Agreement under Cotonou, Two focal sectors – **energy and fisheries** - have been identified for assistance under the 9th EDF. This response strategy to Nauru's requirements is based on the following elements.

5.1 PRINCIPLES AND OBJECTIVES

Based upon the global objectives defined in the Cotonou Agreement between the ACP countries and the European Union, and taking into account the priority objectives of the National Economic Development objectives of the Government of Nauru, the future cooperation programme will contribute to the sustainable development of Nauru's economic and social environment through, (a) the alleviation of poverty by (i) encouraging conservation and efficiency in the use of energy and, where possible the substitution of expensive imported diesel fuels with cheaper and/or indigenous, renewable sources of energy and (ii) by promoting fisheries for employment creation; (b) impact positively on the environment; and, (c) contribute to institutional capacity building and sustainable development in the energy and fisheries sectors.

5.2 PRIORITIES OF CO-OPERATION

The priorities for Nauru-EU cooperation have been identified in such a way that:-

- (i) The EDF funded interventions will have a positive impact on the economy of Nauru. Energy conservation and efficiency measures, and the use of indigenous resources, provide the lowest cost and immediate means of satisfying energy demand and reducing expenditure on energy. While the development of the fisheries industry will lead to sustainable employment and income generating opportunities for Nauruan's.
- (ii) The proposed project(s) will make a significant contribution to; (a) meeting Nauru's long-term energy demand and will deliver benefits on a long-term and sustainable basis to energy users; and, (b) capacity building and institutional strengthening in the energy and fisheries sector to increase productivity and output.
- (iii) The interventions proposed do not duplicate the work of other donor agencies currently operating in Nauru.

5.2.1 The First Focal Sector - Energy

The people and the Government of Nauru are mindful of the need to provide sustainable lifestyles in the future. The growth of the Nauru economy is largely determined by how efficiently its resources are used. Consistent with the promotion of economic and social development and development of the productive sector, the Government of Nauru in consultation with civil society is targetting the energy sector, - specifically the use of new and renewable sources of energy - as the first focal sector for 9th EDF funding under the Cotonou Partnership Agreement.

The Government recognizes that new and renewable sources of energy (NRSE) have the potential to make a significant contribution towards meeting long-term energy demand. Evaluating the appropriateness of such resources is therefore a crucial first step in developing an awareness of Nauru's NRSEs. Of equal importance is the readiness to utilize new and renewable energy technologies as they present themselves, provided that they:-

- lead to an improvement in the social and economic well-being of the country,
- are economically and environmentally sustainable;
- are technically and environmentally sustainable;
- are the least-cost solution to meeting the demand requirement;
- the technical capability exists to operate and manage the technology.

5.2.2 The Second Focal Sector - Fisheries

The major opportunity for diversification of the Nauruan economy lies with the fisheries sector. Fisheries offers opportunities to diversify the income of Nauru and provide new and sustainable employment and income generating activities for the people of Nauru. The Nauru Fisheries Corporation (NFC) was established in 1999 with the main objective of harvesting the tuna resources in Nauru's 200 mile EEZ. This was accomplished with a single long-line vessel – which also acts as a training vessel for Nauruan crews as well as to gather data on fish catches. So far the operation of the 18m aluminum catamaran vessel has proven that the Nauruan waters are potentially productive grounds for longlining. Most of the catches are exported to Japan as high quality sashimi grade tuna with low-grade tunas and by-catches sold locally

The government recognizes the potential of fisheries to make a significant contribution to the Nauruan economy. The proposed project is for the purchase of a second longline vessel. The purchase of a second vessel is consistent with the strategic priorities of the Government's 5 year development plan for the Marine fisheries Authority.

The approximate cost of the vessel will be in the region of A\$500,000 - \$700,000.

5.2.3 Non-focal Sector

The National Economic Objectives stresses the need to identify alternative sources of employment for Nauruans in the light of declining employment in the phosphates industry and the future (proposed) retrenchment of workers in the public sector. From the situation analysis of Nauru, it is clear that much of this employment will originate at

the ‘grassroots’ or subsistence level, and will involve micro-level assistance or the provision of ‘start-up capital. The analysis also highlighted the high rate of youth unemployment in the country. Much work is being undertaken in both of these areas by the Nauru Island Association of Non-governmental Organisations (NIANGO) – an ‘umbrella’ organization covering all NGOs in Nauru. NIANGO have proposed three specific projects in the area of income generation and employment.

1. The Bauda Lagoon Rehabilitation for Milkfish Farming
2. Women in Development
3. Youth Empowerment through Youth Development and Training

5.2.4 Bauda Lagoon Rehabilitation for Milkfish Farming

Aquaculture has traditionally been a way of life for Nauruans – particularly the culture of milkfish for domestic consumption. However, the introduction of tilapia fish to the milkfish ponds in the mid-1960’s resulted in the almost complete disappearance of milkfish from the ponds. Milkfish is now imported from Kiribati, Guam, Philippines and Taiwan in order to meet high local demand. The Bauda Lagoon Rehabilitation Project is a community project of the Bauda Lagoon Pond Owners Association (BLOA), which is a non-government organization formed to facilitate the development of the Bauda lagoon. The main objectives of BLOA are to meet domestic demand for milkfish, to meet the nutritional needs and food security of the people and to provide sustainable employment and income generating opportunities for Nauruans. The estimated cost of the project is A\$280,000

5.2.5 Women in Development

The aim of this project is to establish an agricultural nursery for women. The objectives are, (a) an awareness of and improvement in the nutritional value of the foods consumed by Nauruan’s; (b) to provide an affordable source of food for Nauruan households; and, (c) to provide a means of employment and income generation for those employed in the venture. The capital needed in the venture would provide fees for the workers, the buying of soil, buying of tools and equipment, seedlings, and water supply. An approximate figure of A\$15,000 is requested.

5.2.6 The Nauru Youth Affairs Centre

The Nauru Youth Affairs Centre (NYA) recruits approximately 20 youths to a six month (rolling programme) Youth Training Scheme. After an initial induction programme the youth are then deployed in both government departments and the private sector to gain some work experience and to attempt to raise their profile in the workplace. The Government supports this scheme by providing a sum of \$50 per youth per fortnight. However, in recent times, the demand for places on this scheme has increased significantly. NYA would like to increase their youth intake by some 30 students per semester. The total cost of this would be in the region of A\$8,000 per annum.

5.2.7 The Able and Disabled Association

A final project has been proposed by the Able and Disabled Association of Nauru (under NIANGO). This project is a request for technical assistance for the assessment and ascertainment of children’s disabilities. This would involve sourcing technical

expertise in e.g. occupational therapy, speech therapists, and in the areas of language for the deaf and teaching of Braille. This project is proposed with the objective of enhancing and providing equal opportunities for all in the community. The total cost of this programme would be in the region of A\$100,000 over a five year period.

These projects form specific proposals for the use of 9th EDF funding. In total an amount of approximately **20 percent** of the total NIP resources will be allocated to the non-focal sector (for these and similar projects), with the understanding that an evaluation of these projects (mid-term and ex-post) will be carried out prior to the preparation of a new EDF intervention in this field.

5.3 COHERENCE AND COMPLEMENTARITY

There are obvious linkages between the proposed response strategy for Nauru and development policies advocated by the Community. The strategy is consistent with Article 177 of the EU Treaty. Two of its principle objectives are poverty reduction and sustainable development.

- Targetting the energy sector will minimize Nauru's energy demand without adversely affecting Nauru's economic, social and environmental well-being. At the same time it will maximise the efficiency with which energy is used.
- Targetting the fisheries sector will lead to sustainable income and employment opportunities for Nauruan's. Fisheries have the potential to contribute positively to the income of Nauru.

6. THE INDICATIVE PROGRAMME

6.1 INTRODUCTION

Within the general framework of the present Country strategy paper, and according to the provisions of Article 4, Annex IV of the Cotonou Agreement, the Parties have agreed on the main priorities for their co-operation (see chapter 5) and on the sectors on which the support of the Community will be concentrated. A detailed Indicative Programme including a set of tables on commitment and disbursement forecasts as well as a preliminary chronogramme of the different activities is presented hereunder.

Amounts mentioned in this chapter indicate the global repartition of funds between the focal sector(s), macroeconomic support and other programmes. This repartition can be modified in the context of operational, performance or ad hoc reviews.

6.1.1 Financial Instruments

The EC Country Support Strategy for Nauru will be financed through different instruments with the following indicative allocations.

- a) **9th EDF A-Envelope (€1.8 millions)**. This amount shall serve to cover long-term development operations in the focal sectors such as the development of new and renewable sources of energy, and development of fisheries to diversify

the economy and provide employment for Nauruan's (80%), and operations in the non-focal sector (20%) within the framework of the Support Strategy.

- b) **9th EDF B-Envelope (€ 0.5 millions)**. This will be mobilized to provide additional support when (and if) this becomes necessary as a result of external factors.

6.2 FOCAL SECTORS

6.2.1 Energy

The first focal sector of the NIP has been defined as follows: The identification and promotion of new and renewable sources of energy (NRSE). The objective is to maximize the contribution of appropriate, proven and cost-effective renewable technologies utilizing new and indigenous resources to help meet Nauru's energy needs.

The following specific objectives will be pursued within this sector:-

- a reliable, economic and sustainable source of energy.
- sustainable management of indigenous resources with due respect to environmental considerations.
- capacity building and institutional strengthening in the management of Nauru's energy resources.

For indicative purposes, approximately **€0.99 millions** (or 55% of the A allocation) shall be reserved for this sector.

The major interventions foreseen are:-

- Develop and implement a national energy study or work programme for the identification and use of cost-effective and appropriate new and renewable energy sources. This to be undertaken in consultation with relevant government departments and non-state actors to identify social, economic and environmental aspects of the proposed energy projects and programmes.
- Develop and assist in implementing programmes of energy conservation and efficiency programmes for the Government, commercial sector, and households. This to include education campaigns and public awareness of new (e.g. LPG) and renewable (e.g. ocean thermal and/or solar) sources of energy.
- Undertake to provide the appropriate infrastructure for the new and renewable sources of energy. This may initially be in the form of a pilot test of the technology and its acceptance by the public at large.

6.2.2 Fisheries

The second focal sector is fisheries. The development of the fisheries sector is crucial to the diversification of the economic base of the Nauruan economy. It will provide employment and income earning opportunities for Nauruans.

For indicative purposes, approximately **€0.45 millions** (or 30% of the A-Allocation) shall be reserved for this sector. The major interventions foreseen are:-

- To continue to support the fisheries sector as a priority sector in the future development of the country
- To develop and assist in capacity building in the fisheries sector .
- To provide the appropriate infrastructure and to monitor and advise on conservation of inshore and offshore.fish stocks

The Indicative Programme does not foresee macroeconomic support. However in the light of current needs, it may be decided to reallocate funds from other headings in the Indicative programme to this type of support. Such a decision may be taken by specific agreement between the Chief Authorising Officer and the National Authorising Officer or in the context of an operational, performance or ad hoc review.

6.1 Other Programmes

An indicative amount of **€360,000** (or 20% of the A-Allocation) has been reserved for the following purposes - the projects as set out in Sections 5.2.3-5.2.7 and similar projects at the micro-level. This allocation supports non-state actors. The objective is to improve NSA's capacity to develop and maintain social and economic infrastructure by beneficiaries, communities and other stakeholders.

APPENDIX 1

List of People Consulted

Ms. Camilla Solomon	Nauru High Commissioner
Hon. Godfrey Thoma	Acting Minister of Finance and Minister of Fisheries
Hon. Dogabe Jeremiah	Chairman, Nauru Phosphate Corporation
Mr. Mathew Batsiua	Chief Secretary
Mr. Alfred Itsimaera	Acting Secretary, Foreign Affairs
Mr. Daniel Kemp	Director, UN and Commonwealth, Foreign Affairs,
Mr. Joseph Cain	Secretary Industry and Economic Development
Mr. Peter Jacob	CEO Fisheries Marine Resource Authority
Mr. Ryke Solomon	Office of Chief Secretary
Mr. Peter Goodfellow	CEO Nauru Rehabilitation Corporation
Mr. Rayong Itsameara	Secretary for Works
Mr. Nelson Tamakin	Vice President, NIANGO
Ms. Ruby Willis	Acting Secretary for Education
Ms. Luinay Vera	Director of Tourism
Mr. Michael Dekarube	Director of Media Bureau, Manager of Nauru Television
Ms. Charmaine Scotty	Secretary for Women's Affairs
Mr. John Tannang	Office of Sports
Mr. Brian Star	Office of Economic Development
Ms. Marge Deige	Senior Coastal Officer
Ms. Lyn Teleni	Community Worker
Ms. Mary Tebouwa	Community Worker

APPENDIX 2

FISCAL AND FINANCIAL POSITION OF THE GOVERNMENT OF NAURU

Nauru is a country in post-phosphate transition. After years of high economic growth fuelled by booming but unsustainable phosphate exports (and looming resource exhaustion), the economy of Nauru has, over the past decade, experienced an unprecedented economic downturn. The downturn has been characterized by mounting domestic and external debt service payments, falling revenues, high and unsustainable government expenditure, and a liquidity crisis in the financial sector that threatens the economic and financial stability of the country. The country and the citizens of Nauru (pop. 11,845), are currently experiencing a steep decline in GDP per capita, falling employment opportunities, a concomitant decline in income earning opportunities, and emerging hardship and social problems. Moreover, at the time of writing, unsatisfactory growth prospects pose a serious and palpable risk for sustainable human development.

Nauru faces constraints to development which are similar to those of other Pacific Island countries – i.e. small domestic market, remoteness from major markets, limited resource base, lack of a skilled and trained workforce, a narrow export base, heavy reliance on imports, poorly developed infrastructure and vulnerability to natural disasters. However, Nauru is also a prime example of an economy suffering from so-called ‘Dutch Disease’¹ – meaning that the high demand for labour and correspondingly high wages in the phosphates industry have contributed to a situation where almost all other productive (particularly private and/or manufacturing) activity in the economy has been crowded out. The fact that Nauru has a minimum wage of more than A\$10,000 (which currently exceeds the average wage in the private sector, as well as GDP per capita of most Pacific island countries by more than 500 percent) is a testament to the impact of phosphates on the Nauruan economy.

This situation has seen the government develop as the major influence on the economy – with the bulk of the indigenous workforce employed by the public sector. Approximately 1,600 Nauruans work directly for the government while 1,400 are employed in the government owned National Phosphate Company. (Gilbertese and Ellice islanders comprise the majority of unskilled workers in the phosphate industry). Financing of the public sector (especially wages and salaries) accounts for a substantial proportion of government expenditure and sustains high levels of private consumption of imported goods and services. In addition, the phosphates revenue has been used to support a relatively high (and now unsustainable) level of ‘public goods’ provision in the form of social services which are provided free to users. However, over-reliance on the flow of phosphates income has meant that past governments have largely neglected any opportunity to diversify the domestic revenue base from other sources – e.g. from income taxes or indirect taxes on production and/or international trade. Consequently, and faced with declining phosphate revenues successive governments have resorted to external commercial borrowing, drawing down of government cash holdings, and

¹ The term Dutch Disease was originally used to describe the negative effects of natural gas discoveries on Dutch manufacturing in the 1960’s.

increasing overdrafts with the Bank of Nauru to attempt to maintain the status quo. The upshot is that the country is now confronted with a severe financial crisis.

Key Issues: Fiscal and Financial Management

In the past, financial mismanagement and accompanying high levels of borrowing by successive governments to finance fiscal deficits have all but bankrupted government corporations and the financial system. The Nauru Phosphate Royalties Trust (NPRT), set up to provide an income for Nauruans in the post-phosphates era, has seriously under-performed expectations. A number of the Trust's portfolio investments, specifically heavy investment in property markets (Melbourne and Hawaii and including several millions invested in a London musical), have failed to produce the desired result, while most of the assets of the NPRT have been mortgaged as collateral against external bilateral commercial borrowing. A recent (optimistic) estimate of the current unencumbered balance of the NPRT stands at approximately A\$200-300 millions. At one point (in the not too distant past), this Trust was reputed to be worth more than A\$1 billion.

The Bank of Nauru (BON) suffers from a persistent liquidity crisis due largely to government borrowing against budget 'blow-outs'. This crisis has reached such a scale that withdrawals from personal accounts are currently on ration and government is intermittently unable to make wage payments to workers. A recent (unconfirmed) estimate of the debt owed by Government to BON stands at A\$1,200 millions. Whether or not this figure is correct, there is little doubt that the debt is substantial and the BON is now effectively 'closed for business'.

Meanwhile, cash reserves of Government owned corporations are being systematically depleted. For example, the Nauru Phosphate Corporation (NPC) has recently been advised to make dividend payments to government on a monthly rather than annual basis. NPC now faces its own liquidity problem, making it difficult for it to undertake necessary capital expenditure. And, since the Corporation is also the main supplier of water and electricity (diesel) on the island, the relatively poor liquidity position has forced it to buy diesel to run generators on a monthly rather than quarterly basis. This has led to intermittent (sometimes week-long) disruptions of the supply of these utilities and concomitant loss of productive output of the country.

The current situation is not sustainable, and Nauru now faces an extremely difficult adjustment period over the next several years. Current levels of expenditure are too high and significant cuts in government expenditure and private consumption are unavoidable. Massive fiscal and financial adjustment, much of it front-loaded to meet current and future commitments is urgently required.

From the point of view of the people of Nauru, their contribution to turning the economy around is likely to be substantial. The Nauruan workforce is in the front-line of the transition from a mineral rich economy to one where self-reliance will be the key to survival. The revenue earned from phosphate mining and incomes arising from employment in the public sector have been used to purchase a lifestyle for Nauruans which can only be described as one of 'leisure and pleasure'. Poorly educated, in poor health, and lacking in many of the skills required for self-reliance, a large proportion of

the population are currently ill equipped to meet the economic challenges facing them. Nauru is no longer the 'playground' of the Pacific. With no money left in the coffers the government and the people of Nauru face serious and unparalleled development challenges if they are to salvage their future.

APPENDIX 3

NAURU: SUMMARY OF EXPENDITURE

DESCRIPTION	ESTIMATED FOR THE YEAR ENDED 30/6/2000	AUTHORISED ESTIMATES 2000-2001
Chief Secretary – Secretariat	7,200,200	2,460,900
I&ED – Secretariat	349,800	324,100
Finance – Secretariat	1,637,300	2,099,600
Police and Prisons	900,900	908,400
Works and Community Services	2,307,800	2,394,100
Education	4,643,100	4,305,300
Foreign Affairs - Melbourne Office	662,400	714,800
I&ED – Lands and Survey	431,700	2,017,000
Justice – Secretariat	716,500	451,500
Health	5,193,400	5,267,800
Parliament	789,700	747,500
Chief Secretary – Ministerial	517,600	566,800
NPRT	1,252,000	1,343,500
Judiciary	177,500	191,100
Civil Aviation	875,600	902,300
Foreign Affairs – Secretariat	1,022,000	904,500
Works – Nauru Housing	1,308,300	1,055,900
Audit	171,600	195,600
Telecommunications	1,771,400	1,190,400
I&ED – Nauru Media Bureau	303,500	239,400
Chief Secretary – Presidency and State House	461,600	429,100
Foreign Affairs – Suva Office	105,400	197,900
Finance – Public Debt	13,383,200	9,413,000
Foreign Affairs – Islander’s Place	452,200	453,500
Finance – Computer Bureau	311,800	511,900
Finance – Bureau of Statistics	101,800	97,500
Women’s Affairs	73,500	75,000
Finance – Posts and Philately	370,800	356,700
Home Affairs and Culture	112,900	101,000
Youth Affairs	156,600	153,600
Customs and Immigration	-	177,800
Tourism	82,900	-
I&ED – Nauru Lands Committee	152,000	196,600
UN Permanent Mission	-	587,900
Sports	-	254,300
Total	47,997,000	41,286,300

NAURU: SUMMARY OF REVENUE

	ESTIMATED FOR THE YEAR ENDED 30/6/2000	AUTHORISED ESTIMATES 2000-2001
Grants	3,849,950	2,333,000
Chief Secretary – Secretariat	138,800	135,400
Island Development and Industry – Secretariat	9,043,800	11,510,000
Finance – Secretariat	9,853,400	10,966,450
Justice – Police, Prisons, Customs and Immigration	-	5,100
Works & Community Services	24,900	25,900
Education	1,200	12,500
Island Development and Industry – Lands & Survey	11,500	7,000
Justice – Secretariat	400	400
Health	960	90,600
Judiciary	10,000	17,000
Civil Aviation	844,800	850,800
External Affairs – Secretariat	5,226,000	6,015,100
Works & Community Services – Nauru Housing	510,000	540,800
Island Development and Industry – Telecommunications	1,668,000	929,300
Nauru Media Bureau	51,100	61,100
External Affairs – Islander’s Place	90,000	792,100
Finance – Nauru Computer Bureau	114,300	293,100
Finance – Postal & Philatelic	59,000	320,500
Customs and Immigration	-	1,500,000
I&ED – Lands Committee	1,000	10,000
Total	31,499,110	36,406,150

APPENDIX 4

NAURU – ECONOMIC AND SOCIAL INDICATORS

ECONOMIC INDICATORS	1998
GDP per Capita (A\$ current)	4,600
Consumer Prices (annual average - 1999)	6.7
POPULATION AND SOCIAL INDICATORS	
Population	11,845
Population growth rate (% change)	2.4
Total Fertility Rate (births per woman)	4.5
Infant Mortality Rate (per 1,000 live births)	11
Life Expectancy at Birth	
Males	55
Females	62
Adult Literacy (%)	95
Primary School Enrollment (%)	96
Secondary School Enrollment (%)	34
Child Malnutrition (% under 5 years)	0
Population with access to safe water. (%)	100
Population with access to sanitation (%)	97
Human Development Index	0.7
Human Development Ranking	103
Human Poverty Index.	12.1

Source:- Asian Development Bank, Country Assistance Plan 2001-2003

APPENDIX 5

ASIAN DEVELOPMENT BANK: PORTFOLIO - NAURU
31ST DECEMBER 1999

PROJECT PORTFOLIO	NET LOAN AMOUNT	
	\$ MILLION	%
Agriculture and Natural Resources	0.00	0.0
Energy	0.00	0.0
Finance and Industry	5.00	100.0
Social Infrastructure	0.00	0.0
Transport and Communications	0.00	0.0
Others/Multisector	0.00	0.0
Total	5.00	100.0

ASIAN DEVELOPMENT BANK: LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAMME 2001-2002

SECTOR/PROJECT NAME	ADB	OTHERS	TOTAL
Finance and Industry		(\$ '000)	
1. Strengthening Banking and Corporation Laws.	250.0		250.0
2. Small Business Development and Microfinance	150.0		150.0
Total	400.0	0.0	400.0
Finance and Industry			
1. Privatisation Strategy and Support	300.0	0.0	300.0
Total	300.0	0.0	300.0

APPENDIX 6

WORLD HEALTH ORGANISATION: COLLABORATION

Human Resources for Health
A core of well-trained health workers
Health Promotion
National legislation and policies drafted on tobacco control and substance abuse prevention.
Health promotion awareness and healthy lifestyle activities increased.
Improved capacity for implementing health promotion programmes
Water Supply and Sanitation in Human Settlements
Policies and plans of action for the maintenance of safe water supplies and proper waste disposal methods drafted.

WORLD HEALTH ORGANISATION: PROPOSED RESOURCES

PROGRAMME	1998-1999 (US\$)	2000-2001 (US\$)
Epidemiology, statistics, trend assessment and country health information	23,000	
Human resources for health	40,000	23,000
Health Promotion	25,000	62,000
Water supply and sanitation in human settlements		16,000
Assessment of environmental health hazards	16,000	
Total	104,000	101,000

