

BUFF/20/3

January 17, 2020

**Statement by the Staff Representative on Republic of Nauru  
Executive Board Meeting  
January 22, 2020**

This statement contains information that has become available since the staff report was circulated to the Executive Board. This information does not alter the thrust of the staff appraisal.

**1. A fourth supplementary budget for FY2019/20 was issued on 20 December 2019, to appropriate A\$17.6 million (10 percent of GDP) in additional revenue.** The revenue was mainly due to Refugee Processing Centre (RPC) operations and included A\$5.3 million in additional RPC hosting fees and a A\$10.2 million payment for reimbursable RPC costs. The government also received a dividend paid by a telecom company (A\$1.5 million). The supplementary budget is expected to have a negligible impact on GDP growth and other key variables as fiscal multipliers are low given Nauru's openness.

- **Most of the additional revenue has been appropriated as new spending,** including A\$10.9 million for operational costs at the Department of Multicultural Affairs (which has responsibility for the RPC). A further A\$4.2 million was paid in SOE subsidies and a windfall payment to government workers. The supplementary budget included a Nauru Trust Fund contribution of A\$ 0.6 million, and the remaining A\$2.0 million was spent on other areas.
- **Staff has treated the revenue increase as windfall revenue, in the absence of further information.** However, the revenue gain over the four supplementary budgets has been significant, increasing revenue in FY2019/20 by 60 percent above the initial Approved Budget. The supplementary budgets have included total appropriations of A\$86 million (50.5 percent of GDP) for FY2019/20, comprised of new spending (A\$7.6 million) and appropriations to the Nauru Trust Fund and Fiscal Cash Buffer (A\$12.4million).
- **While the revenue gains are positive, supplementary budget appropriation in FY2019/20 has included little spending on core areas of education and health.** Of the newly appropriated expenditure in FY 2019/20, 2 percent of GDP (A\$3.6 million) was spent on health and less than 1 percent of GDP (A\$0.4 million) was spent on education. Staff reiterates the advice to set aside windfall revenues for appropriation in the normal budget cycle rather than through a supplementary budget process. Windfall revenues should be used to boost resources for carefully planned spending.

**2. The authorities are making progress on public financial management reforms.** Following the Article IV discussions, the authorities have communicated that the financial statements for FY2016/17 have been submitted for audit and published on the official

website. They are continuing efforts to improve bank reconciliation and have engaged a consultant to map the financial management information system (FMIS) to support GFS reporting. Other work is continuing to improve internal audit, establish a Finance and Audit Risk Committee, and recruit new staff to oversee reconciliation and SOE performance.