REPUBLIC OF NAOERO

2026-27 BUDGET

BUDGET PAPER NO 2

CIRCULATED BY

THE HONOURABLE DAVID ADEANG MP

MINISTER FOR FINANCE

THE REPUBLIC OF NAOERO

ON THE OCCASION OF THE BUDGET 2026-27

20 JULY 2026

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PART I - ECONOMIC OUTLOOK

Global Prospects

The global outlook has become more uncertain following the outbreak of conflict in the Middle East in early 2026. Under the IMF's reference forecast, global growth is projected at 3.1 percent in 2026 and 3.2 percent in 2027, while global inflation is expected to rise to 4.4 percent in 2026 before easing to 3.7 percent in 2027. The main risks are higher energy and commodity prices, disrupted supply chains, tighter financial conditions, and increased market volatility.

Domestic Economic Outlook

For Naoero, these global pressures are transmitted primarily through higher fuel, shipping and import costs. As a small and highly import-dependent economy with limited domestic production capacity, increases in international prices are rapidly passed through to domestic electricity, transport, business operating costs, household budgets and government expenditure. Recent geopolitical tensions in the Middle East have increased volatility in global energy markets, with the effects already being felt in Naoero through higher fuel prices rather than physical supply disruptions.

TABLE 1.2: KEY ECONOMIC INDICATORS

Indicator	2023-24	2024-25	2025-26	2026-27
Real GDP (%)	1.4	2.2	2.1	2.0
Nominal GDP ($m)	247.6	266.1	282.5	296.9
Consumer Prices Index (% period average)	9.3	6.1	5.5	4.2

Source: IMF WEO April 2026, IMF Article IV Naoero 2025

Despite ongoing external uncertainty, Naoero's economy is expected to maintain a gradual recovery. Using IMF estimates as the basis for economic assessment and medium-term projections, real GDP growth is projected to increase from 1.4 percent in 2023–24 to 2.2 percent in 2024–25, before moderating slightly to around 2.0–2.1 percent over the medium term. Economic activity is expected to be supported by renewed RPC operations and related inflows, government expenditure, donor-funded programs, implementation of the TCRA, and continued expansion in transport and communication services.

Inflation remains elevated but is expected to gradually ease over the projection period, declining from 9.3 percent in 2023–24 to 6.1 percent in 2024–25 and further to 4.2 percent by 2026–27. However, the inflation outlook remains highly vulnerable to developments in global energy and commodity markets. The impact of the Middle East crisis is already being felt through rising fuel costs, with recent fuel shipments resulting in price increases of approximately 23 percent to 68 percent. As fuel prices are passed through shipment by shipment, higher costs are flowing into electricity generation, transport services, imported goods and broader business operations across the economy.

These developments are creating significant cost-of-living pressures for households and increasing operating costs for businesses and government alike. The immediate fiscal impact is estimated at between $7 million and $10 million, equivalent to around 3 percent of GDP, and could rise to as much as $30 million over a six-month period if elevated fuel prices persist.

The Government is responding through a combination of cost-sharing measures, behavioural adjustments, including reductions in non-essential fuel consumption, and targeted subsidies to reduce the burden on households and businesses. Over the medium term, continued RPC operations, donor-funded expenditure and implementation of the TCRA are expected to support domestic demand, government revenues and employment, helping to cushion the economy against ongoing external volatility while supporting economic growth.

Labour Market

Naoero's labour market continues to exhibit low measured unemployment but remains characterised by significant structural challenges. Labour force participation is estimated at around 60 percent in 2024–25, with participation higher among men (68 percent) than women (51 percent). Although unemployment is low, labour shortages persist in many skilled occupations, reflecting a mismatch between workforce capabilities and employer requirements.[1]

Employment remains heavily concentrated in the public sector. In 2025, the Government accounted for approximately 46 percent of total employment, making it by far the largest employer in the economy. Together, Government and State-Owned Enterprises (SOEs)

[1] These findings should be treated as indicative rather than definitive, as the study identifies inconsistencies between the HIES, Budget and Census datasets.

account for most of the formal employment, highlighting the economy's continued dependence on public sector activity. While this has supported employment stability, it also reflects the limited development of the domestic private sector and the narrow base of economic activity.[2]

The structure of employment has changed significantly over the past decade. Employment associated with the RPC, which accounted for almost one-third of jobs at its peak in 2014–15, has fallen to less than 1 percent of total employment by 2025. This decline has largely been offset by growth in Government employment and SOEs, reinforcing the importance of public sector activity in maintaining labour market outcomes.

Private sector employment remains limited, accounting for less than 7 percent of total employment in 2025. At the same time, new opportunities have emerged through overseas labour mobility programs, including seasonal worker arrangements, which are becoming an increasingly important source of employment and household income for the people of Naoero.

Despite strong local participation, skills shortages continue to constrain productivity and private sector development. Locals account for approximately 85 percent of total employment, while expatriates comprise around 15 percent, predominantly in technical, professional and managerial occupations where domestic skills remain in short supply. This highlights the need to strengthen vocational education, technical training and pathways between education and employment to better align workforce skills with labour market demand.

Youth disengagement also remains a concern, with the proportion of young people not in employment, education or training (NEET) estimated to have increased from around 31 percent to 37 percent in recent years. Combined with lower female labour force participation, this suggests there is scope to increase labour market participation and better utilise the available workforce.

[2] Sourced from NBS Labour Market statistics.

Over the medium term, sustainable employment growth will depend on broadening economic opportunities beyond the public sector, improving workforce skills and supporting private sector development.

PART II - ECONOMIC STATISTICS

This section provides more detail on economic statistics, and it highlights the following:

- National accounts
- External Trade Statistics
- Trade Statistics

Naoero became a member of the International Monetary Fund (IMF) and the World Bank in April 2016, making it the 189th member country. Joining the IMF and World Bank enhances Naoero's economic management by improving the collection of macroeconomic data and providing access to financial and technical support.

1. National Accounts

This information release highlights the initial estimates of gross domestic product (GDP) for the 2024-25 fiscal year, along with revisions for earlier years. GDP serves as an official measure of economic growth in Naoero and provides a snapshot of the economy's performance.

Highlights

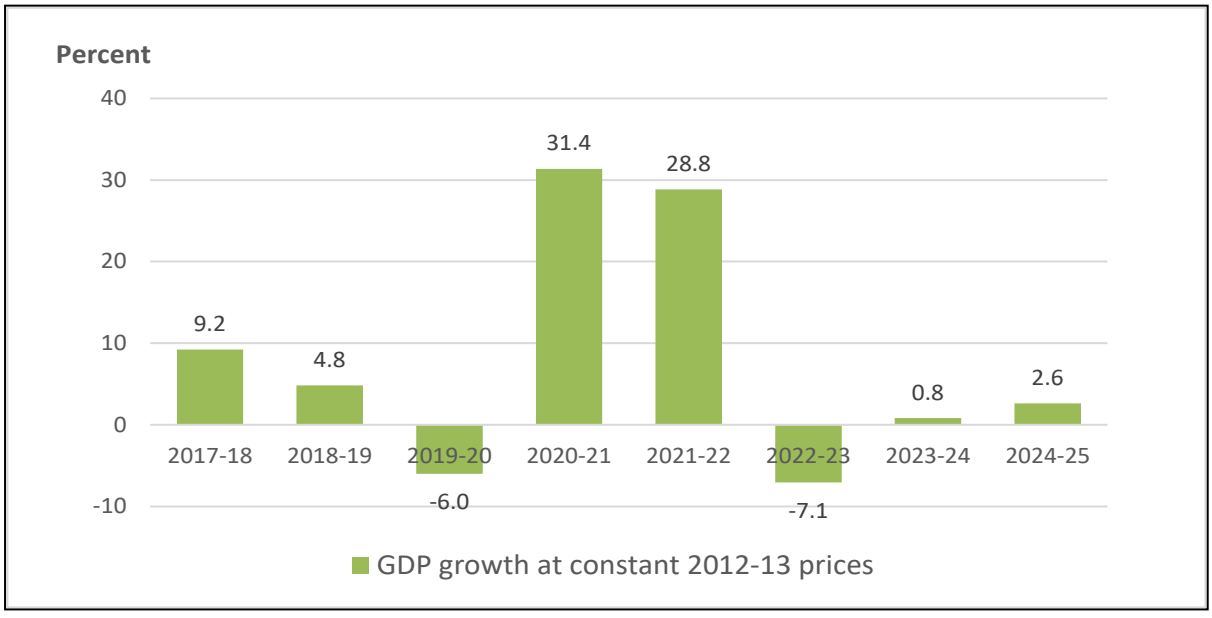
In the fiscal year ending June 2025, the Gross Domestic Product (GDP) by production experienced a real increase of 2.6 percent, following a revised growth of 0.8 percent in 2023-24. The primary contributors to this growth in 2024-25 were the finance and business services sector, which saw a significant 29 percent rise, manufacturing, which grew by 21 per cent, and the electricity, water, and waste management sector, which grew by 18 percent. In contrast, sectors such as construction, transport and communication, and government services—which include public administration, education, and health—experienced moderate declines. It is noteworthy that the Naoero economy remains predominantly public-sector driven, with government and state-owned enterprises (SOEs) comprising approximately 90 percent of the total GDP.

Real GDP Trends

Figures 1 and 2 below illustrate the trend of Real GDP at constant 2012-13 prices and growth for the years from 2018-19 to 2024-25.

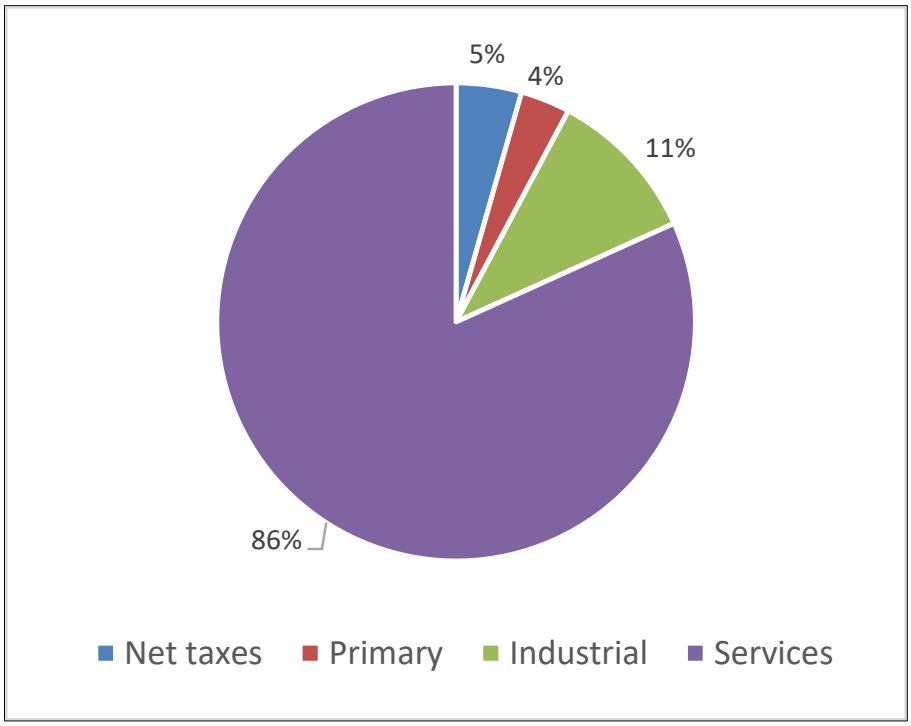
Figure 1: Real GDP, 2017-18–2024-25

Figure 2: Real GDP growth rates, 2017-18–2024-25



Sectoral performance

Figure 3: GDP shares at current prices, 2024-25



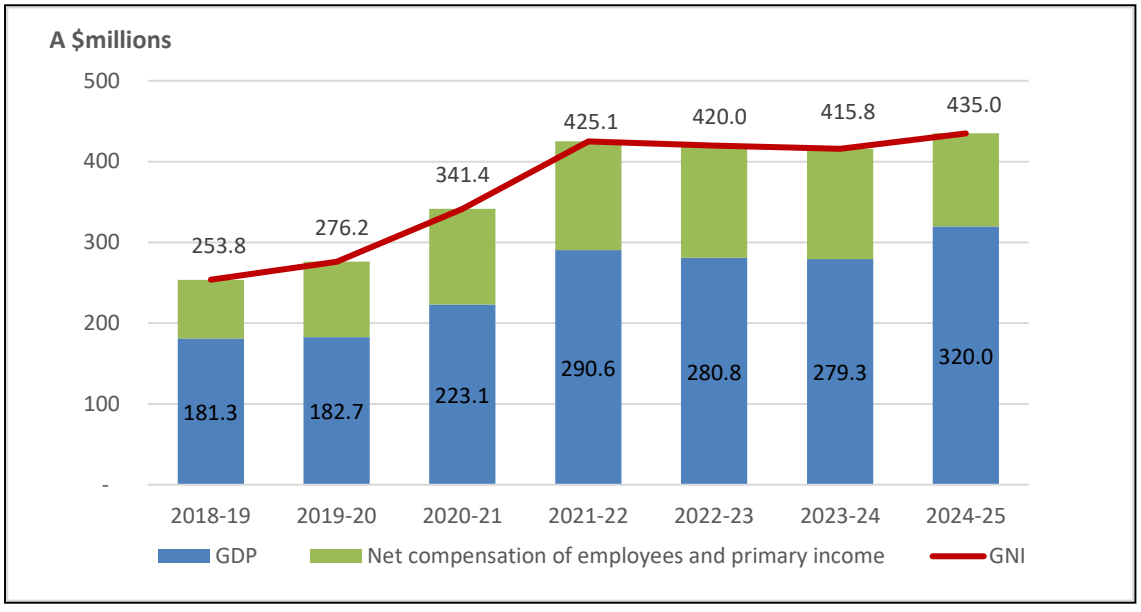
Industry	Real growth rate 2024-25	Key observations
Primary (agriculture fishing, mining)	1.1	Small increases in line with population growth
Industrial (manufacturing, electricity, construction)	9.2	Increase in phosphate production and electricity production
Services (trade, transport, finance, govt admin, education, health, etc)	2.4	Increase in finance and business services and trade
Net taxes (taxes less subsidies)	-12.3	Small increase in taxes offset by increase in subsidies
GDP	2.6	

Gross National Income

Gross National Income (GNI) plays a vital role in understanding the economic landscape of Naoero, as it encapsulates the total income generated by the nation's citizens and enterprises. This figure includes compensation for employees, encompassing wages and salaries earned both domestically and abroad. Additionally, it incorporates primary income sources, which for Naoero primarily stem from foreign fishing license revenues and the fees collected for hosting the Naoero Refugee Processing Centre. GNI is reported in current prices, providing a snapshot of the country's economic activity.

During the fiscal period of 2024-25, Naoero experienced a Gross Domestic Product (GDP) valued at $A 320 million. In contrast, the estimated GNI during the same period reached $A 435 million, highlighting a significant contribution from external income sources. Notably, the net primary income was calculated at $A 115 million, representing a substantial 36 percent of the GDP. This figure underscores the importance of foreign income to Naoero's overall economy, reflecting the interplay between domestic production and international economic relationships.

Figure 4: GDP and gross national income (GNI), 2017-18–2024-25



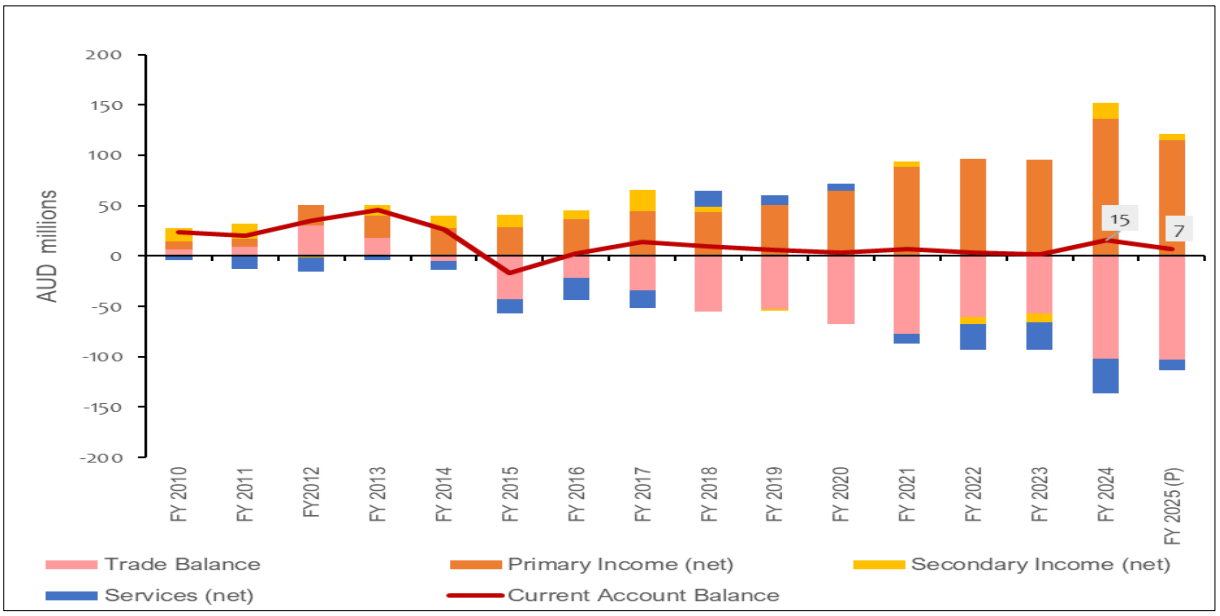
2. External Sector Statistics

The following section presents the annual composition of the Current Account and Export, Import, and Trade Deficit, which are the main components of the Balance of Payments (BOP) and the International Investment Position (IIP). The detailed description of data sources for each BOP and IIP component is in the IMF - Naoero report on External Sector Statistics 2025.

Composition of the Current Account

With the activation of the Regional Processing Centre (RPC) activities, Naoero's current account has expanded, reflecting increased inflows and outflows. Inflows were mainly observed in the services and primary income accounts, driven by higher receipts for services provided through the RPC, increased budget support, and continued fishing license revenue. These inflows, however, were offset by a widening trade deficit and increased services outflows—particularly for transport and travel abroad. As a result, the current account recorded a modest surplus in FY2024 and is forecasted to remain in surplus in FY2025, as illustrated in Figure 1.

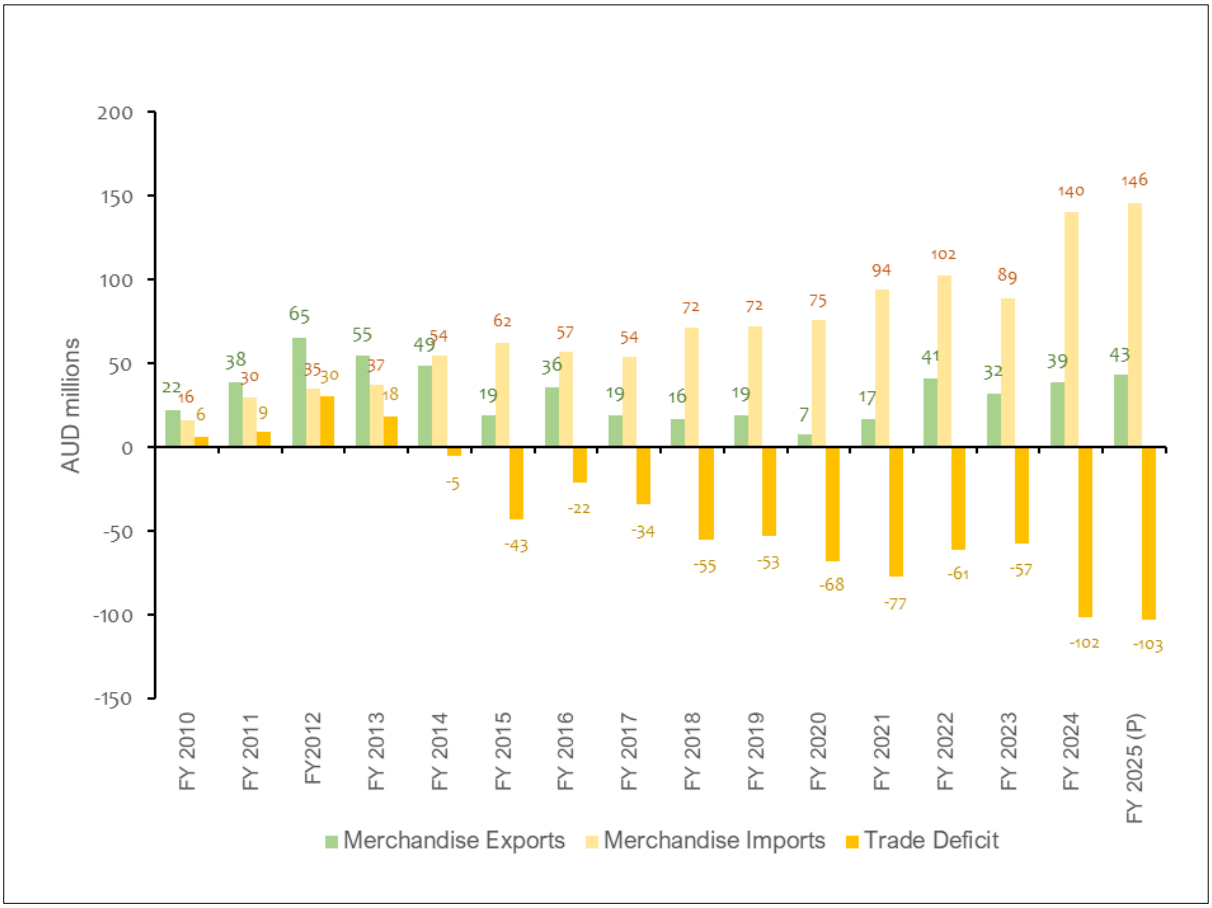
Figure 1. Annual Composition of the Current Account



International Merchandise Trade Statistics

As illustrated in Figure 2, Naoero's trade deficit is estimated to have widened significantly in FY2024 and FY2025. This reflects a sharp increase in merchandise imports, while exports, dominated by phosphate, have remained modest. The rise in imports appears to be driven by both higher quantities and elevated prices. Supply chain disruptions and shipment delays in recent years may have further pushed up import costs. Continued infrastructure investment, including airport and port works, and sustained procurement of fuel and capital goods, have contributed to the higher import bill. With no major new export sectors emerging, the trade deficit is expected to remain at historically high levels over the medium term.

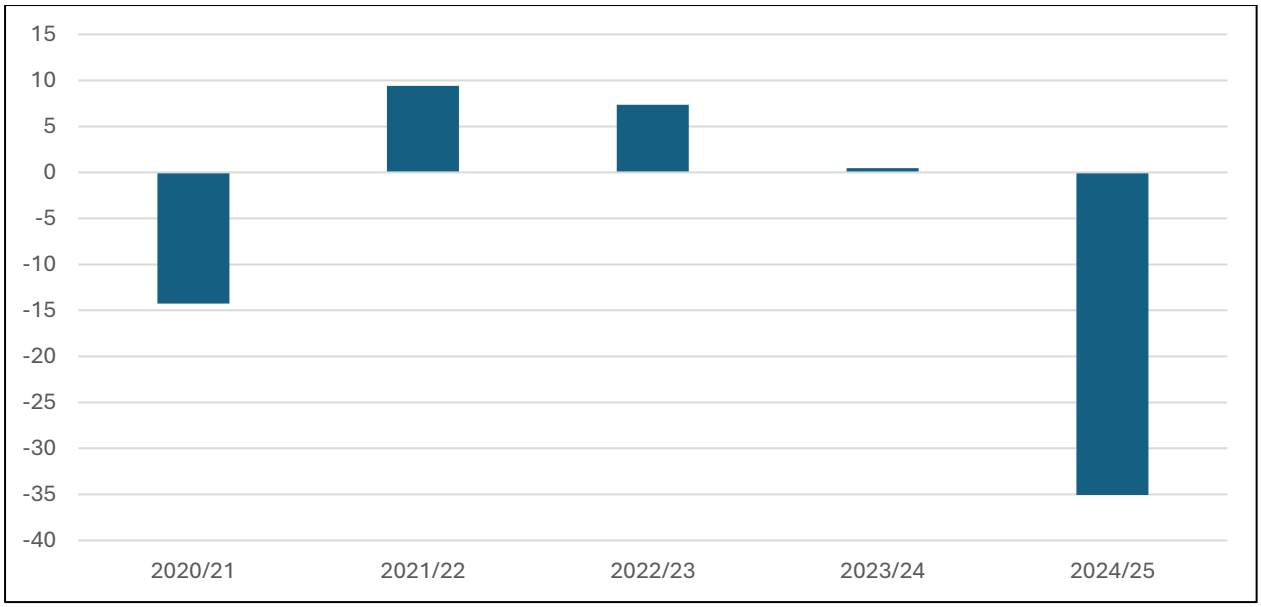
Figure 2. Exports, Imports and the Trade Deficit



3. Government Finance Statistics

Preliminary annual results

Figure 1: Net lending/net borrowing, A $million

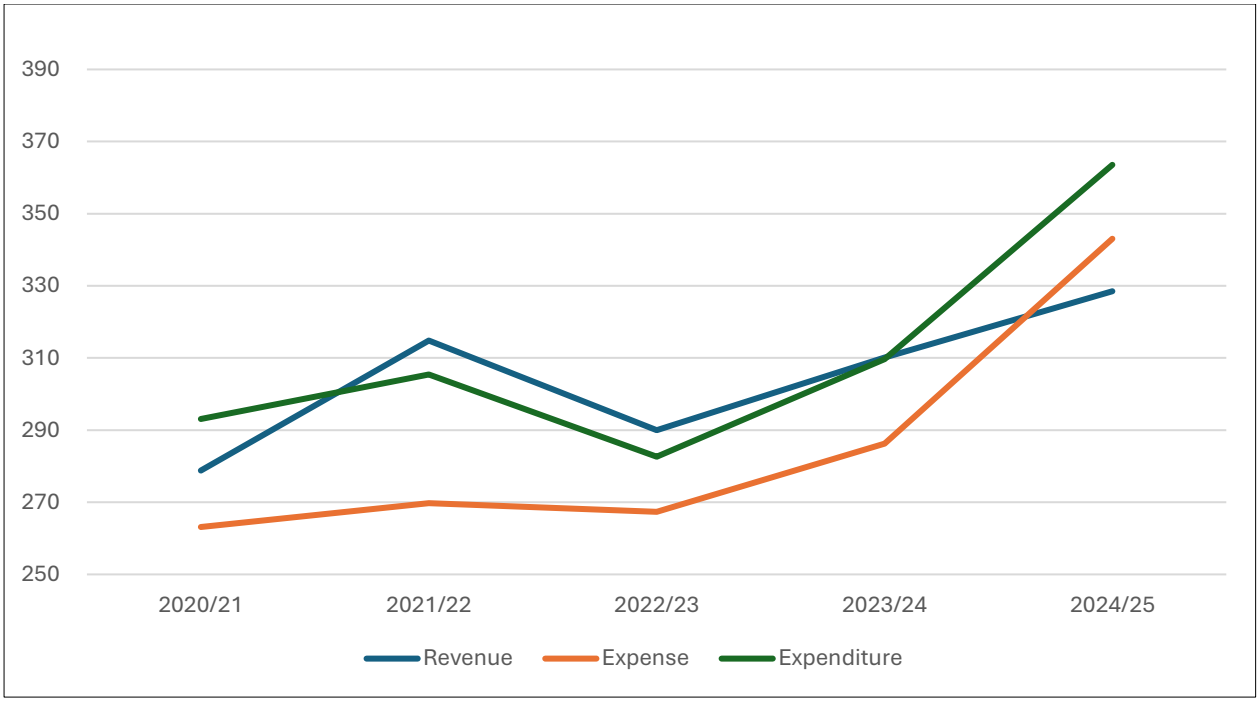


Key highlights

- Total revenue in 2024/25 was A $328.5 million, up A $18.3 million (6%) from 2023/24.
- Total expense in 2024/25 was A $343.1 million, up A $56.8 million (20%) over the year.
- The gross operating balance moved to a deficit of A $14.6 million in 2024/25.
- Net lending/borrowing recorded a deficit of A $35.1 million in 2024/25.
- On the revenue side, grants increased strongly over the year, while taxes declined.
- On the expenditure side, the largest annual increases were in compensation of employees and use of goods and services.

Naoero's government finance statistics for 2024/25 show that revenue increased moderately over the year, while expenditure rose more strongly. Revenue growth was supported mainly by higher grants and other revenue, while tax revenue declined. At the same time, expenditure increased across several major spending categories, particularly compensation of employees and use of goods and services. As a result, the fiscal position weakened in 2024/25, with both the gross operating balance and net lending/borrowing recording deficits.

Figure 2: Revenue and Expenditure, A $million



Revenue

Total revenue reached A $328.5 million in 2024/25. The largest revenue source was other revenue, amounting to A $238.8 million, equivalent to 73% of total revenue. Compared with 2023/24, taxes declined by A $3.7 million (7%), while grants increased by A $13.4 million (53%) and other revenue increased by A $8.7 million (4%). Over the five years to 2024/25, total revenue increased by A $49.7 million (18%).

Expense

Total expense stood at A $343.1 million in 2024/25. The largest components were compensation of employees at A $92.1 million and use of goods and services at A $91.5 million. Compared with 2023/24, the largest absolute increases were in compensation of employees (A$ 19.5 million), use of goods and services (A $15.8 million), social benefits (A $10.2 million), and subsidies (A $9.4 million). Over the five years to 2024/25, expenses increased by A $79.9 million (30%).

Fiscal balance and financing

Gross operating balance was a deficit of A $14.6 million in 2024/25. Gross investment in non-financial assets was A $20.5 million. As a result, expenditure, including investment in non-

financial assets, amounted to A $363.6 million, and net lending/borrowing was a deficit of A $35.1 million. The table also shows net reduction of financial assets at A $35.7 million and net incurrence of liabilities at A $0.1 million.

Table 1: Statement of Operations, A $'000

		2020/21	2021/22	2022/23	2023/24	2024/25
1	**Revenue**	**278,791**	**314,860**	**289,987**	**310,154**	**328,503**
11	Taxes	94,102	87,656	77,032	54,836	51,099
13	Grants	28,416	21,227	14,559	25,142	38,564
14	Other revenue	156,273	205,977	198,396	230,176	238,840
2	**Expense**	**263,139**	**269,775**	**267,323**	**286,257**	**343,062**
21	Compensation of employees	68,220	73,426	75,565	72,514	92,056
22	Use of goods and services	54,440	62,616	67,413	75,682	91,518
24	Interest	208	185	161	137	113
25	Subsidies	30,784	17,265	19,595	27,400	36,800
26	Grants	33,718	25,821	24,645	21,724	22,591
27	Social benefits	34,636	58,725	48,096	39,294	49,483
28	Other expense	41,133	31,737	31,848	49,506	50,501
GOB	***Gross operating balance (1-2)***	***15,652***	***45,085***	***22,664***	***23,897***	***-14,559***
	NET TRANSACTIONS IN NONFINANCIAL ASSETS					
31	**Gross investment in nonfinancial assets**	**29,914**	**35,682**	**15,307**	**23,444**	**20,492**
311	Fixed assets	29,914	34,840	15,307	23,444	20,492
2M	***Expenditure (2+31)***	***293,053***	***305,457***	***282,630***	***309,701***	***363,554***
NLB	***Net lending (+) / Net borrowing (-) (1-2-31) or (1-2M)***	***-14,262***	***9,403***	***7,357***	***453***	***-35,051***
	NET TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES					
32	Net acquisition of financial assets	-14,961	25,090	9,740	-247	-35,707
33	Net incurrence of liabilities	-700	15,759	2,381	137	113

PART III: PEMU AND PUBLIC ENTERPRISES

1. Executive Summary

The Public Enterprise sector continued to play a critical role in supporting economic growth, essential service delivery, infrastructure development, and national revenue generation during FY2025/26. Through the oversight of the Public Enterprise Monitoring Unit (PEMU), significant progress was achieved in strengthening governance, improving transparency, implementing legislative reforms, and advancing the Government's public enterprise reform agenda. Despite ongoing capacity constraints, PEMU continued to enhance monitoring and accountability mechanisms across the sector while supporting public enterprises to meet their statutory obligations and commercial objectives.

Sector Highlights

Several major reform milestones were achieved during the year. The Government successfully implemented a number of Asian Development Bank (ADB)-supported policy actions, enacted three amendments to the Public Enterprise Act, introduced a Cabinet-approved quarterly reporting framework, and increased the publication of Statements of Corporate Intent (SCIs) and audited financial information. These reforms have strengthened financial oversight, improved transparency, and enhanced PEMU's ability to monitor enterprise performance and fiscal risks. To improve sector-wide accountability, quarterly reporting requirements were formalised and now require public enterprises to submit operational health assessments, budget performance reports and financial statements. The introduction of this framework represents a significant step forward in strengthening corporate governance and enabling the Government to identify emerging risks earlier. The year also saw continued reviews of enterprise classifications and governance arrangements to ensure public enterprises remain aligned with the requirements and intent of the Public Enterprise Act.

Compliance Overview

Compliance levels across the sector improved during FY2025/26, particularly in relation to budget submissions, Statements of Corporate Intent and periodic reporting requirements. Most public enterprises submitted annual budgets and corporate plans within required timeframes, and seven enterprises successfully participated in the new quarterly reporting

framework. However, audit compliance continues to represent the most significant governance challenge across the sector. While several enterprises successfully completed audit requirements, a number continue to have outstanding audits or are working to address historic qualification issues. Improving audit completion rates remains a key priority for PEMU and enterprise boards.

Outlook for FY2026/27

Looking ahead, PEMU will focus on consolidating the gains achieved during FY2025/26 by strengthening compliance monitoring, accelerating audit completion, improving fiscal risk management, and supporting continued governance reforms across the sector. Attention will also be directed towards completing public enterprise classification reviews, enhancing board effectiveness, and ensuring public enterprises remain commercially sustainable while continuing to deliver strategic national outcomes.

Overall, the public enterprise sector has continued to mature and strengthen during FY2025/26. While challenges remain, particularly in relation to audit compliance and enterprise-specific operational risks, the sector is increasingly aligned with the objectives of the Public Enterprise Act and is better positioned to contribute to Naoero's long-term economic and fiscal development.

2. Public Enterprise Monitoring Unit (PEMU) Mandate, Functions and Institutional Role

Established under the Public Enterprise Act 2019 with assistance from the ADB technical assistance, PEMU operates as a core specialized team within the Treasury—currently consisting of the Director and two staff members—tasked with administering the Act. The unit faces persistent institutional capacity constraints, alongside historical hurdles in influencing and enforcing change due to its level of perceived authority among standalone PEs.

Core Responsibilities (Section 82 of the Act)

- **Policy and Advisory:** Provide financial, commercial, and policy analysis regarding PE operations, governance, and performance to the responsible Minister.

- **Compliance and Review:** Evaluate key institutional documents—such as Statements of Corporate Intent (SCI), Business Plans, Half-Yearly, and Annual Reports—and provide analytical advice to Treasury, the Minister of Finance and Cabinet. Quarterly reporting requirements have been established separately through Cabinet policy and PEMU oversight arrangements. Reviewing SCIs allows Ministers to inject national strategy or government policy directives into PE planning.
- **Performance Evaluation:** Review actual achievements against the goals outlined in the SCIs using Annual Reports. This data is used to draft Summary Reports for Ministers, which are ultimately tabled in Parliament.
- **Funding and Transaction Analysis:** Collaborate closely on the evaluation of PE financial bids, including Community Service Obligations (CSOs), new capital injections, loans, and major transactions requiring ministerial approval.
- **Director Selection Advisory:** Support the Responsible Minister in the selection and evaluation of directors, promoting appointments based on skills, knowledge, experience and fitness for office as required under the Public Enterprise Act.

Primary Mandate

> Sections 22(1) and 22(3) of the PE Act state that the primary objective of a PE is to operate as a successful business. PEMU's overarching role is ensuring corporate plans reflect this commercial vision. For instances where social mandates threaten commercial viability, sections 25 and 26 of the Act govern the necessary guidelines for Community Service Obligations (CSOs).

3. Public Enterprise Classification and Sector Reforms

The Public Enterprise Act currently classifies Public Enterprises (PEs) into distinct standard categories as outlined below:

Current Classifications

- **State-Owned Enterprises (SOEs):** Cenpac Corporation, Eigigu Holdings Corporation, Naoero Postal Services Corporation, Naoero Air Corporation, Naoero Maritime and Ports

Authority, Naoero Rehabilitation Corporation, Naoero (RPC) Corporation, Naoero Utilities Corporation, and RONPHOS.

- **Government Controlled Enterprises (GCEs):** Naoero Fibre Cable Corporation, Naoero Fisheries and Marine Resources Authority, Naoero Tourism Corporation, and Naoero Seabed Minerals Authority.

Structural and Classification Changes (25/26 Fiscal Year)

During the 25/26 fiscal year, the Public Enterprise Monitoring Unit (PEMU) identified evolving business dynamics across several entities. To maintain formal alignment with the Public Enterprise Act, the Treasury, in collaboration with the Department of Justice, is implementing specific reclassifications, additions, and structural removals for these particular public enterprises.

- **Eigigu Solutions Corporation (ESC)**
- **Eigigu Procurement and Logistics (EPL)**
- **Naoero Fibre Cable Corporation (NFCC)**
- **Naoero Tourism Corporation**
- **Naoero Fisheries and Marine Resources Authority (NFMRA)**

Proposed Additions (Potential GCEs)

The following statutory entities are being formally evaluated for inclusion under the regulatory purview of the Public Enterprise Act:

- Naoero Cultural Authority
- Naoero Foreign Investment Authority
- Naoero Communications Authority
- Consumer Protection Authority
- Command Ridge Virtual Asset Authority

4. ADB Policy Actions Milestone

There has been substantial progress recorded toward meeting the critical public enterprise sector reform milestones established by the Asian Development Bank (ADB):

- **2.2(ii) Debt Policy Act:** Successfully progressed and integrated into framework tracking.

- **2.8(ii) Board Remuneration:** The Public Enterprise Act was successfully amended to enable regulations prescribing remuneration, allowances and benefits for directors and Board Secretaries of public enterprises.
- **2.9(i) Audited Annual Reports:** Successfully published three (NMPA, NSL, NRC) SOEs 25/26 audited annual reports to the Department of Finance website.
- **2.9(ii) Statement of Corporate Intent:** At least 5 SOEs (NAC, NSL, NMPA, NUC, NRC) SCI published into the Department of Finance website.
- **2.10(i) NAC climate change risks:** NAC has included a section on the SCI specifically regarding climate change risks and mitigation.
- **2.10(ii): Quarterly reporting:** Implementation of à regular reporting (quarterly reporting) has been achieved through a cabinet resolution 294/2026 dated 31 March. PEMU has then successfully received 7 completed quarterly submissions.

5. Public Enterprise Governance and Regulatory Oversight

Three statutory amendments were enacted during the 25/26 fiscal year to accommodate the growing number of PEs and improve strict regulatory compliance reporting:

1. Amendment No. 37/25 (Certified 19 September 2025)

- **Scope:** Amendment of Section 3, Part 8, and the insertion of Part 8A.
- **Purpose:** Grants the Secretary of Finance full oversight authority regarding all financial, expenditure, and income accounts of PEs. Because multiple corporations have historically failed to deliver audited cash flow and financial statements, this intervention allows the Secretary view-only access to accounts, providing PEMU with a transparent, clear look at real-time cash positions.

2. Amendment No. 44/25 (Certified 24 October 2025)

- **Scope:** Amendment of Section 37(2)(b), replacing '7' with '9' directors.
- **Purpose:** Expansions in operations across most PEs have led to an increased need for diversified leadership. This amendment raises the maximum allowable board members per enterprise to nine. PEMU is overseeing active compliance with this change.

3. Amendment No. 23/26 (Certified 9 June 2026)

- **Scope:** Amendment of sections 14, 19, 28, 37, 46, 85, and Schedule 1.
- **Purpose:** Aligns the Public Enterprise Act with the newly introduced Public Debt Act 2026, strengthens governance and borrowing controls. It also empowers the Department of Finance to finalize regulations that standardize tier-appropriate board remuneration and updates Schedule 1 details.

6. Quarterly Reporting Framework and Performance Monitoring

To strengthen financial oversight, transparency, and fiscal risk monitoring, PEMU, in collaboration with ADB Technical Advisors (TAs), developed a comprehensive quarterly framework, which has been formally approved by Cabinet. The framework complements the reporting obligations contained in the Public Enterprises Act 2019 and supports PEMU's monitoring functions under Sections 82 and 83 of the Act. Public enterprises are required to submit:

- **1. A RAG Health-Check Status:** A high-level, 'Traffic Light' (Red, Amber, Green) self-assessment of the entity's operational and financial stability.
- **2. Year-to-Date (YTD) Budget Performance Report:** A comprehensive performance tracking document.
- **3. Full Financial Statements:** Comprehensive accounts prepared under IFRS standards, including Statements of Profit or Loss, Financial Position, Changes in Equity, and Cash Flows.

> *Current Progress: PEMU successfully received seven completed SOE quarterly reports for the January–March period. The unit is monitoring subsequent submissions to ensure higher compliance rates in upcoming quarters.*

7. SOE: Performance, Compliance and Strategic Outlook

a) Naoero Airlines Corporation

Mandate:

Naoero Air Corporation (NAC), trading as Naoero Airlines, is the national carrier of Naoero. As a State-Owned Enterprise, its primary objective under Section 22 of the Public Enterprises Act 2019 is to operate as a successful business while maintaining safe, efficient and profitable air services to and from the Republic.

Report	FY	Status
Annual Report	24/25	Submitted
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Not Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

Statement of Corporate Intent:

- Providing Safe and affordable passenger and cargo service to Naoero and the Pacific region.
- Facilitate trade, tourism and the functioning of government connectivity while contributing to economic growth.
- Develop and operate Aircraft Crew Maintenance and Insurance (ACMI) services.
- Grow and operate profitable charter and aircraft leasing services.
- Develop operate profitable scheduled service passenger and cargo services.
- Develop and grow 3rd party maintenance services.
- Develop a joint venture travel agency business.

Naoero Airlines continued its business transformation and fleet modernisation programme during FY2025/26. The corporation implemented organisational restructuring and operational initiatives aimed at reducing costs, improving efficiency and strengthening long-term commercial sustainability.

b) **Eigigu Holdings Corporation**

Mandate:

As the primary commercial arm of the Government of Naoero, EHC's mission is to drive economic growth, generate sustainable revenue, and provide access to high-quality, affordable services for the people of Naoero. We strive to create lasting value for our nation by fostering innovation, resilience, corporate governance and inclusivity in all our endeavours.

Report	FY	Status
Annual Report	24/25	Unaudited
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

Statement of Corporate Intent:

- Reduce cost of living through improved supply chains and market competitiveness.
- Provide affordable goods and services to the community
- Building resilient infrastructure through strategic investment and asset development.
- Driving economic growth through tourism development, employment creation and revenue diversification - expansion of Menen Hotel
- Engage with international financial institutions and other finance agencies and private equity partners to secure debt or equity financing for the hotel expansion.
- EHC will enter into joint venture agreements with foreign investors. Under such agreements EHC will contribute assets, capital or local operational knowledge while the foreign partner will contribute capital management and technical expertise.

Eigigu Holdings Corporation commenced its project to build the hotel at Anabar side to cater for the upcoming Micronesian Games demand for accommodation. Moreover, it is a step forward to boost tourism and hospitality revenue. EHC managed to restock its Supermarket subsidiary with fresh and affordable produce to ensure it achieves its business goals and mandate. Following the 23/24 audit, EHC is progressing to rectify the qualified opinion, hoping to start with a 24/25 audit. Nevertheless, it is complying well with other relevant requirements under the Public Enterprise Act.

c) Naoero Rehabilitation Corporation

Mandate:

To rehabilitate the mined-out phosphate lands at the interior plateau of the island and establish an effective waste management system that can reduce, reuse and recycle the increasing volume of waste on the island.

Report	FY	Status
Annual Report	24/25	Submitted
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

Statement of Corporate Intent:

- **Rehabilitation –** to rehabilitate more than 45ha of mined-out phosphate land at topside by 2030 to support housing, agriculture and infrastructure development
- Support rock harvesting, quarrying and aggregate production for national infrastructure, coastal protection and rehabilitation projects.
- Provide road maintenance and creating a new access road for camp 5. ($300,000 a month allocation from DMA)
- Hire out Crushing Plant to Downer for runway resurfacing project. Under the new agreement lease crushing plant to Downer NZ for a period of four to six months at $600,000 a month.
- Waste recycling and landfill reduction initiative. To uphold NSDS goals, NRC is partnering with Pacific Recycling Foundation to eventually implement a system to recycle and export recyclable materials to Fiji.

Naoero Rehabilitation Corporation (NRC) has successfully sustained a consistent cash flow and revenue stream to fund its operations and capital expenditures, primarily supported by DMA road maintenance allocations and a lease agreement with Downer. Conversely, its

primary projected revenue driver - a collaboration with RONPHOS - failed to yield the anticipated turnover, leading both entities to mutually terminate the partnership. On a compliance note, NRC is to be commended for completing and submitting its 2024/2025 financial audit. While the auditor raised minor qualifications, NRC remains fully compliant with the *Public Enterprise Act* and has satisfied all statutory requirements. Moving forward, PEMU will closely monitor how NRC addresses the findings in the management letter.

d) **RONPHOS**

Mandate:

RONPHOS is a State-Owned Enterprise established on 1st of July 2005 by an Act of Parliament succeeding the Naoero Phosphate Corporation. RONPHOS is required to maintain and operate the phosphate industry on Naoero in a safe, efficient and profitable manner.

Report	FY	Status
Annual Report	24/25	Unaudited
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Not Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

Statement of Corporate Intent:

- Export Targets - establish baseline export of 200,000 metric tonnes for the fiscal year
- Risk Mitigation - implement a conservative pricing structure designed to absorb potential shocks
- Currency Exchange - Closely monitor and manage financial exposure related to foreign exchange rate
- Pricing Strategy - Conservative pricing structure to act as a buffer against global market drops.
- RONPHOS NRC collaboration

- EXIM Loan - remaining balance sits at around 1.75m
- CMEC USD $40m loan project on hold
- New North Arm Project - this will cost USD $16m to $20m. RONPHOS executed an MOU with Shanghai Sunshine Industry Technology Co. Ltd for the assessment. Funding will be purely from the 4.49m anticipated surplus for 26/27 and Government assistance.

RONPHOS fell short of its 25/26 budget targets, failing to meet its initial projection of approximately 18 shipments. While detailed information remains limited, the shortfall is primarily driven by asset deterioration; specifically, severe weather conditions heavily damaged the cantilever, rendering it non-operational. Consequently, RONPHOS has adopted a more conservative strategy for 26/27, lowering its projections to focus entirely on asset revitalization. Regarding financial compliance, audited annual reports remain delayed; however, the 22/23 audit is reportedly complete, and PEMU is actively following up to confirm.

e) Naoero Utilities Corporation (NUC)

Mandate:

NUC was established under the Naoero Utilities Act 2011 (the Act) and commenced operations on 1st August 2011. The act sets out the mandate of NUC in relation its functions to provide electricity and water.

Report	FY	Status
Annual Report	24/25	Unaudited
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

Statement of Corporate Intent:

- Generate and supply electricity

- Provide maintenance and operate any works to ensure above function
- Acquire, store, treat and distribute and supply water
- Provide maintenance and operate any works to ensure above function
- Collect, store, treat and safely dispose of wastewater and sludge
- Provide maintenance and operate any works to ensure above function
- To do anything that the corporation determines to be conducive to above functions

The Naoero Utilities Corporation is quite on track with its 25/26 budget. It successfully commissioned the 6-megawatt solar power plant that was initially scheduled for September 2025. Despite this progress, the corporation continued to face financial pressures arising from fuel price volatility and the gap between existing tariffs and the cost-of-service delivery. In response, NUC implemented revised electricity tariffs during the year while the Government maintained support measures to mitigate impacts on domestic consumers. The 24/25 audited annual report remains pending, which is understandable given the complexity of untangling the previous qualified audit opinion. Despite the delayed audit paperwork, NUC deserves high marks for its proactive transparency. The corporation continues to maintain excellent communication with the Department of Finance and remains diligently compliant with the *Public Enterprise Act*.

f) Naoero Postal Service Corporation (NPSC)

Mandate:

Naoero Post was established under Parliamentary Act through the Naoero Postal Services Corporation Act 2018. It is established for the sole purpose to foster efficient and reliable postal solutions, connecting Naoero with the world while upholding the highest standards of integrity, innovation, and customer satisfaction.

Report	FY	Status
Annual Report	24/25	Unaudited
Half Year Report	25/26	Submitted

Third Quarterly	25/26	Not Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

Statement of Corporate Intent:

- Expand and strengthen Frigate Logistics operations, including the Brisbane Warehouse
- Increase Staffing
- Implement an asset revitalisation program, including logistics equipment and vehicle upgrades.
- Acquisition of new subsidiaries
- Diversification across industries
- Expansion into new markets
- International Expansion

Naoero Postal Services Corporation (NPSC) has successfully integrated its Brisbane-based subsidiary, Frigate Cargo and Logistics Services (FCLS), into its latest budget projections. Operating under NPSC's broader mandate, FCLS has quickly become a major financial engine, generating substantial revenue that significantly outpaces its parent company. The combined budget projections reveal substantial revenues but also highlight equally high expenditures. This indicates there is ample room for management to streamline operations and aggressively trim overhead costs. On the regulatory front, NPSC has yet to finalize and submit its latest required audit under the *Public Enterprise Act*. However, the corporation continues to maintain compliance with all other statutory obligations.

g) Naoero Maritime and Port Authority (NMPA) &

h) Naoero Shipping Line (NSL)

Mandate:

As a State-owned Enterprise owned by the Government of Naoero, Naoero Maritime and Port Authority provides essential port services, including vessel operations for container, fuel, and phosphate transport. NMPA and NSL are two separate entities since the Maritime regulates the Shipping line, however, to allow continued support and training for the section it remains with NMPA.

a) NMPA

Report	FY	Status
Annual Report	24/25	Submitted
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

b) NSL

Report	FY	Status
Annual Report	24/25	Submitted
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

Statement of Corporate Intent

- Tabling the Vessel Registration Bill to provide the legal mandate for operating both international and domestic registries
- Development and knowledge sharing with international and CROP agencies to manage the office and registry effectively.

- Sign-up as a member to the Tokyo MOU to establish an effective port State control regime in the Asia Pacific region.
- Prioritizing ISPS Code compliance to attract foreign vessels and enable Naoero Shipping Line (NSL) to access major international ports.
- Executing ongoing asset maintenance programs and implementing a Terminal Operating System (TOS)

Although the Naoero Shipping Line (NSL) operates as a subsidiary of the Naoero Maritime and Ports Authority (NMPA), a clear directive requires them to maintain separate accounting and reporting frameworks to ensure transparent, independent performance disclosures. While NSL continues its efforts to achieve a positive turnover, NMPA generates a moderate amount of net revenue to fund their inter-company activities. Both entities have submitted up-to-date audited annual reports for the 2024/2025 fiscal year and remain fully compliant with the *Public Enterprise Act 2019*. PEMU will continue to collaborate with both NMPA and NSL to sustain this high level of compliance and proactively mitigate fiscal risks.

i) **CENPAC**

Mandate:

Cenpac is initiated by the Government of Naoero as one of the rapidly growing Internet Service Provider integrators that services middle-market businesses, educational institutions and government organizations.

Report	FY	Status
Annual Report	24/25	Unaudited
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Submitted
SCI	26/27	Not Submitted
Budget	26/27	Submitted

Statement of Corporate Intent:

CENPAC has yet to provide a completed document of its SCI. However smaller details to the 26/27 plans were provided during the 26/27 budget session.

CENPAC has fully absorbed the Naoero Fibre Cable Corporation (NFCC) and is now taking over the fibre cable operations; there is no clear date reported for the commissioning of the fibre cable. Moving on, PEMU has yet to receive any reports from its JV with NEOTEL, likewise, CENPAC's budget does not incorporate any NEOTEL JV figures. CENPAC provided its returns to the government of $1.75m AUD and reported that the usual budgeted dividend will vary, due to fibre cable operations.

j) Eigigu Procurement Pty Ltd

Mandate:

Eigigu Procurement Pty Ltd (EP) was founded in July 2017 and is an Australian registered business that specialises in procurement activities and freight forwarding services.

Report	FY	Status
Annual Report	24/25	Unaudited
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

Statement of Corporate Intent:

- Procurement Agent - Procuring goods to Gon and private sector and service providers
- Freight forwarding - Freight and logistics to Gon and private sector and service providers

- Tending work -Tendering for RPC works in Naoero. Tendering for Gon works
- Infrastructure works - Maintenance and upgrading community safety facility
- Waste to Energy power plant - Selling the engineering design for Naoero Waste to power plant

Eigigu Procurement Limited (EPL) demonstrated strong financial performance, reporting substantial net turnover and a positive net asset position that supports its capacity to distribute dividends to the government. The company successfully delivered its budgeted return of $200,000 AUD and expects to maintain this performance level in the upcoming financial year, contingent on the continuation of services under its existing contracts and agreements. While EPL's FY 24/25 audited annual report is reportedly complete, it has not yet been formally submitted. Furthermore, although EPL has not yet been officially added to Schedule 1 of the *Public Enterprise Act 2019*, it remains fully compliant with all of the Act's statutory and reporting requirements.

k) **Eigigu Solutions Corporation**

Mandate:

ESC is committed to developing enduring local capabilities, provide sustainable financial returns to the Government of Naoero, support Government policies and priorities, and continue to maintain highly professional delivery of regional processing services.

Report	FY	Status
Annual Report	24/25	Unaudited
Half Year Report	25/26	Submitted
Third Quarterly	25/26	Submitted
SCI	26/27	Submitted
Budget	26/27	Submitted

- Module 1A: Transferee Transport

- Module 2A: Grounds Maintenance
- Module 2B: Site Management and Maintenance
- Module 2F: Cleaning
- Module 2H: Pest & Vermin Control
- Module 4: Welfare
- Module 5: Essential Services and Critical Infrastructure (WWTP & Power)
- Module 6: Locally-Based Employees (LBE's)
- Module 7B: Interpreters

Eigigu Solutions Corporation reported strong financial turnover and projects that it will maintain this performance into the next fiscal year. Its operational modules remain unchanged, continuing to provide a diverse range of services to the RPC. Although ESC has yet to submit audited financial statements and annual reports, it remains fully compliant with all requirements under the Public Enterprise Act 2019. PEMU will continue to collaborate with ESC to closely monitor operations and improve its reporting compliance.

8. 2026-27 FISCAL RISK REPORT: PUBLIC ENTERPRISE PORTFOLIO

1. Executive Overview

While Naoero's macroeconomic outlook has been strengthened by the recent signing of the multi-year bilateral arrangements with partners and from the recent Third Country Resettlement Arrangements, the State-Owned Enterprise (SOE) sector remains a profound structural vulnerability.

The SOE portfolio exhibits elevated, concentrated risks driven by aging infrastructure, contract dependence, and widespread non-compliance with financial reporting standards.

Poorly performing SOEs place a heavy macroeconomic burden on Naoero's economy. They absorb scarce capital yielding minimal returns, divert government resources away from vital social investments in health and education, and drive up the costs of doing business.

Without disciplined oversight and active risk mitigation, the fiscal pressures generated by underperforming SOEs threaten to crowd out critical national investments and erode the sovereign wealth generated by bilateral arrangements.

2. Cross-Sector Fiscal Risk Themes

- *Contract and Revenue Concentration:* A significant portion of the SOE portfolio relies entirely on single-source government lifelines or bilateral agreements tied to Regional Processing Centre (RPC) operations. This creates high exposure to external policy shifts.
- *Infrastructure Deficits and Asset Deterioration:* Historic underinvestment has led to critical asset failures, notably in the phosphate sector, requiring massive, immediate capital expenditures to maintain baseline operations.
- *Governance and Compliance Lags:* Meaningful fiscal risk assessment is routinely obstructed by delayed annual reports and unaudited financial statements. Despite the mechanisms introduced by the *Public Enterprise (Amendment) Act 2025*, reporting arrears obscure true government exposure.
- *Commodity Price Shocks:* Broad exposure to global fuel and commodity pricing continues to squeeze operating margins across the utilities, maritime, and aviation sectors, directly impacting the cost-of-service delivery.
- *Lack of Qualified Competent Resources***:** A lack of qualified and competent accounting and commercial resources to drive meaningful, lasting reforms across the sector.

Entity	**Profile**	**Stress Scenario**
Naoero Utilities Corporation (NUC)	Mandated to provide Naoero's national water and electricity supply, with international diesel currently driving roughly 60% of operational costs. The FY 2026–27 baseline budget assumes early commissioning of the new 6-megawatt solar power plant to displace diesel usage.	If the solar farm commissioning suffers significant delays or technical failures, NUC will forfeit the anticipated 30% to 40% diesel fuel volume savings. This creates critical cash flow pressures, forcing emergency government subsidies or upward tariff adjustments to maintain

		the 200 kWh Lifeline household rate.
Naoero Airlines Corporation (NAC)	National carrier restructured in FY26 to secure $4.17 million in labor costs, targeting $111.1 million in revenue for FY 2026–27 with a fleet of five aircraft. Modernizing its fleet by replacing older B737-300 models with a new B737-800 passenger aircraft (MSN 40997), funded via a $15 million USD ADB concessional loan and government equity.	Cash flow remains highly vulnerable to the reduction or loss of core aviation streams, including the ABF standing charter contract, weekly RPC flights, and DFAT-underwritten North Pacific Connector support. Contract drop or non-renewal collapses the revenue base, rendering fleet debt-servicing completely unsustainable. For an airline that is not able to efficiently scale its high fixed costs due to its very constrained routes, a minor business disruption or loss of an existing revenue stream poses far-reaching consequences.
RONPHOS	Phosphate mining and export enterprise. Severe weather damage to the cantilever loading facility has rendered it non-operational, lowering export projections to focus entirely on asset revitalization via the $16 million to $20 million USD North Arm replacement project, funded partially by a $4.49 million anticipated surplus.	Total loss of the cantilever creates an immediate operational freeze on export continuity. Failure to secure capital or project implementation delays prevent cash generation to service its remaining $1.75 million EXIM loan or handle environmental rehabilitation liabilities.

		RONPHOS being rendered non-operational with zero export continuity until the cantilevers are repaired will lead to an imminent call for buyouts from the Treasury, hence posing a huge, significant fiscal exposure due to its high overhead, specifically payroll costs.
Naoero Rehabilitation Corporation (NRC)	Mandated to execute topside land rehabilitation and manage waste. Projects $10.5 million in revenue for 2026–27, with a vital $3.6 million annual ($300,000/month) road maintenance allocation from the DMA serving as its core financial lifeline. Further revenue includes a $2.4 million, 4-to-6 month crushing plant lease to Downer NZ for the runway resurfacing project.	Heavy reliance on government-funded work orders leaves it exposed to project completions or funding drops. A reduction in the DMA allocation or end of the runway lease creates an immediate revenue cliff, stopping heavy machinery maintenance and jeopardizing the 45-hectare land rehabilitation target.
Eigigu Holdings Corporation (EHC)	Government commercial arm spanning hospitality, retail, and property assets. Projects $36.1 million in revenue and $4.4 million in profit for FY 2026–27, with a strategic focus on expanding the Menen Hotel by adding 212 rooms to capture Micronesian Games demand.	Large-scale hotel expansion depends entirely on soliciting foreign direct investment (FDI) and forming joint ventures. If foreign partnerships fail to materialize or tourism results fall short, EHC faces construction delays and a total lack of internal liquidity, escalating dependency

		on the government for recapitalization.
Eigigu Procurement Limited (EPL)	Profitable Australian-registered procurement and freight forwarding enterprise delivering a $200,000 dividend to the government, projecting $20.1 million in product sales income for 2027.	Severe contract concentration risk as its major contract is scheduled to expire on September 30, 2026. Critically, nearly $4 million (82.2%) of its $4.85 million in trade receivables is aged 90+ days; a failure to collect these debts alongside losing future RPC tenders will trigger immediate insolvency.
Eigigu Solutions Corporation (ESC)	Operates primarily as a cost center delivering essential garrison and welfare services to the RPC, forecasting $44.78 million in revenue and a $4.59 million profit before tax for 2027.	Complete financial dependence on RPC hosting funding and the MTC Australia Labour Hire Agreement, which expires on December 31, 2026. Changes in asylum policy frameworks or a failure to renew contracts will instantly collapse its modules and force an immediate demobilization of the local workforce.
Naoero Postal Service Corporation (NPSC) & Frigate Logistics	Expanding freight and international logistics through its Brisbane-based subsidiary, Frigate Cargo and Logistics Services (FCLS), to drive business development and global economic integration.	Substantial revenue is offset by high operational overheads, with outstanding bills escalating beyond $1 million. Continued asset and vehicle fleet investments without operational streamlining risk trapping the

		corporation in structural deficits, requiring annual government subsidies to prevent postal network suspension.
Naoero Maritime and Port Authority (NMPA) & Naoero Shipping Line (NSL)	Provide essential port services, stevedoring, and container cargo delivery via two vessels: *Micronesian Pride* and *Micronesian Ocean*. NSL is structuring direct liner routes from Brisbane to cut transshipment costs.	Exposed to prolonged port construction and dredging delays, which restrict port utilization to a mere 5 days a month. Tug breakdowns (e.g., the $800,000 drydocking required for *E-kaauedo*) or inability to achieve operational efficiency prolongs total dependence on government subsidies.
CENPAC	National telecom SOE that has fully absorbed the Naoero Fibre Cable Corporation (NFCC) to manage wholesale fibre operations, planning a $1.75 million dividend distribution.	High capital costs and total dependence on retail customer uptake and licensed operators. Wholesale payment defaults, cybersecurity threats, or connectivity shocks to the East Micronesia Cable will completely strip away its financial dividend capacity.

3. Policy & Mitigation Recommendations

To insulate the national budget from the compounded exposures detailed above, the following structural controls must be prioritized:

1. *Strict Enforcement of the PEA 2025:* Operationalize the *Public Enterprise (Amendment) Act 2025* to mandate compliance. The Public Enterprise Monitoring Unit (PEMU) must

be empowered to freeze funding or mandate remedial action for entities (such as NPSC, RONPHOS, and ESC) that continually fail to submit audited financial statements. PEMU must continue to be supported by TAs similar to the ADB-funded TA program that just ended. PEs would benefit greatly from a common, shared resource within PEMU to assist them in clearing backlogs of accounts.

2. *Establish a Fiscal Risk Technical Working Group (FRTWG):* Formalize an FRTWG—led by the Department of Finance—via Ministerial Order to dynamically identify, assess, and report on SOE fiscal risks, ensuring the National Fiscal Risk Register remains an active decision-making tool.

3. *Implement an Integrated Debt Matrix:* Utilize the newly enacted Debt Act to rigorously evaluate all SOE borrowing, joint ventures, and capital commitments (e.g., RONPHOS's North Arm and EHC's hotel expansion). Zero operational borrowing must be strictly enforced across all enterprises.

4. *Targeted Board Interventions:* For high-risk entities experiencing severe operational or financial distress, immediately appoint highly qualified external or expatriate directors to inject commercial expertise, establish financial discipline, and prepare for a transition to a centralized Public Enterprise Steering Committee (PESC).

PART IV: NATIONAL SUSTAINABLE DEVELOPMENT STRATEGY

This section provides an overview of progress against the NSDS.

The first NSDS originated during a time of crisis, as both a reminder of past errors but also as a guide toward a more sustainable future. The central message was, and remains, "Partnerships for Quality of Life". At its launch in 2005, the late His Excellency President Ludwig Scotty noted that "we need to build the economic base to provide economic opportunities for everyone" and that "the implementation process will be the true test".

In 2009 the Strategy was revised amidst a tentatively positive economic outlook, and after the reopening of the Regional Processing Centre in late 2012, Naoero enjoyed several years of relative prosperity, followed by an economic downturn.

The latest revision of the NSDS began in 2016, with a stocktake of progress that showed only a quarter of all milestone activities had been implemented. In 2017, a public consultation process sought feedback on ideas, concerns and priorities. Key messages from communities included the explicit need for action covering health and education and the urgent need to combat the impacts of climate change. The revision activities were completed, and Cabinet approved the NSDS 2019-2030.

In February 2022, Cabinet approved 132 Key Performance Indicators (KPIs) for the NSDS 2019-30 goals. The KPIs set specific activities and targets that the key stakeholders for the NSDS goals want to achieve by 2030. These stakeholders also set the annual targets for each KPI to ensure progress is made towards achieving the end targets in 2030. Annual reports showing KPI progress are published on the Naoero finance website (naurufinance.info).

The NSDS is a starting point - a shared framework for action that needs to be operationalised through sector strategies and Annual Operational Plans which articulate specific tasks, timelines and targets.

1. ECONOMIC SECTOR

Econ-Goal 1: A stable macroeconomic environment conducive to private investment established

GDP growth is currently at 1.9%, above the target rate of 1.5% for FY 2025-26. Actual GDP figures will be published in April 2027. The GDP to debt ratio is 2.3%, well within the target of a debt to GDP ratio of less than 20%. These are strong results in challenging global economic circumstances.

The Public Entity Monitoring Unit in Treasury continues to support State Owned Entities. One SOE has a positive ROA of 1.9% (Cenpac Corporation).

Econ-Goal 2: Increased Level of Domestic Agricultural Production Aimed at Addressing Food Security and Healthy Livelihood

A major milestone occurred in August 2025, when the Global Environment Facility (GEF) officially approved the full-sized project, "Transforming Naoero's Food Systems through Climate Smart Agriculture".

- **Scope & Funding:** Executed jointly by DEMA and the UNDP, this massive initiative utilizes over $5.9 million in GEF project grants alongside substantial co-financing ($43.6 million) to systematically transform Naoero's food systems by 2032.
- **Core Activities:** Following the conclusion of its Project Preparation Grant (PPG) phase in early 2026, DEMA has transitioned into implementing nature-smart and climate-resilient production models. This includes setting up weather-proof greenhouses (tunnel agriculture), managing plastic agricultural waste, minimizing chemical inputs, and introducing renewable-energy-powered cooling systems and fertilizer conveyance systems designed to conserve Naoero's scarce freshwater lenses.

DEMA’s physical infrastructure footprint has expanded directly over the current fiscal year.

- Through recent budget allocations via Supplementary Appropriation Bills in early 2026, the Naoero Reef Products /Naoero Rehabilitation Corporation (NRC) has been actively engaged in essential land levelling, site development, and infrastructure support specifically for DEMA’s core agriculture site in the Menen District.

Econ-Goal 3: Enhance development and sustainable management of marine and fisheries resources to provide sustainable economic returns

No milkfish production occurred, as it was not possible to fully repair the Aquaculture Holding Facility (AHF) damaged saltwater inlet pipes and get the saltwater supply working. Because of this, it was not possible to import any milkfish fries for restocking of local ponds. Various attempts were made to fix the problem, with two options available. The first option is to drill a well next to the facility and use this well as the water supply source for the facility. The option requires the use of a drilling rig. Several drilling rigs are available on-island but with most of them currently out of order or waiting for spare parts. The second option is to reinstall the old inlet pipe but to find a way of securing the inlet pipe. A local construction company (G&T Construction), with staff who were involved in the initial setting up of the aquaculture facility, have been approached to assist. They have proposed setting up a protective casing that will be secured by bolts to the basement rock to stop it from being thrashed around by the waves and currents. In addition, they will upgrade the whole facility to get it back to full operation. The quotation for the works is being finalised. This will be covered by the Resilient Coastal Fisheries and Aquaculture Project (RCFAP) for Naoero. Works should take approximately five weeks to complete, and the Aquaculture facility should be operational once more before the end of 2026.

Work towards establishing community fisheries management areas is progressing, with a total of 13 potential reef area sites (over 10% of the reef area) to be proposed for protection from fishing activities and under the management of communities. Progress on this work is going very well with the expectation of the first formal declaration of some community fisheries management areas coming up in September or October 2026. The Coastal Fisheries and Aquaculture Regulations were endorsed in January 2026, providing the necessary legal protections for coastal areas.

Econ-Goal 4: Efficient and effective use of mining and quarrying resources for economic and rehabilitation purposes

NRC has implemented several business strategies and activities relevant to this NSDS goal, including ***Business Strategy No. 1 - Rock Harvesting and Raising, Seawall Construction and Coastal Protection.*** This project involves lobbying landowners to secure land contracts for the rock harvesting and raising for various projects on the island to maintain sufficient stock. As the process of rock harvesting involves the removal of pinnacle rocks and land clearing, this process is categorised as land reclamation in the rehabilitation process. NRC will be searching

for landowners who are willing to allow the corporation to use their land for rock harvesting for a royalty payment.

Rehabilitation

Under the leadership of CEO Dexter Brechtefeld, the NRC focused heavily on upgrading its waste management technology and building local workforce capabilities to accelerate land remediation.

Japan-Funded Waste Management & Soil Project (November 2025): On November 21, 2025, NRC reached a major milestone in environmental restoration. The outgoing Ambassador of Japan formally handed over the final batch of heavy machinery for the Sustainable Waste Management and Soil Production project. Valued at approximately AU$2.5 million (¥200 million), this equipment is specifically designated to optimize the island's landfill systems and process materials into arable topsoil for replanting mined-out areas. Further information on the project is provided under Infra-Goal 3.

Workforce Training & Certification (November 2025): To boost its capacity for heavy clearing and land manipulation, NRC teamed up with *Mining Skills Australia* from November 10–19, 2025. They ran an extensive training and testing course for local excavator and truck operators, with an official Certificate Handover Ceremony held on November 28, 2025.

In early January, the NRC published its formalized *Statements of Corporate Intent* for both the FY 2024-25 and FY 2025-26 periods, outlining their structural goals to scale back the island's reliance on open landfills and accelerate the restoration of Topside.

Econ-Goal 5: Promote development of small and micro-enterprises, foreign investment and economic integration into the global economy

Naoero has consistently maintained its “largely compliant status” with OECD standards. An OECD review in 2025 found that as Naoero had not hosted any Reporting Financial Institutions for 8 consecutive years, it would be exempted from any future Automatic Exchange of Information (AEOI) reviews, until such time as an RFI is established in Naoero. The exemption does not affect Naoero’s obligations under the Exchange of Information Reporting (EOIR) framework and a peer review of Naoero’s compliance with that framework is currently in

progress. The results of that review will be discussed at the Peer Review Monitoring Group meeting in June 2026.

Through the Supplementary Appropriation Bill (No. 2) 2025-2026 passed in late 2025, the Department of Commerce and Foreign Investment received targeted funding allocations specifically to operationalize the Small Business Enterprise Fund. This initiative focuses on driving local economic growth by equipping micro, small, and family-led local businesses with accessible capital and the digital resources outlined in Naoero 's broader National Digital Transformation Strategy. 30 new SMEs were also offered financial management training support.

The Department successfully attracted 8 foreign investment inquiries (on target).

In FY 2026-27, the Department will prioritise its foreign investment promotion campaigns, streamline business monitoring and evaluation processes, exploring new foreign investment partnerships, and supporting private sector capacity building to accelerate economic diversification. Key initiatives include hosting an international investment forum and negotiating targeted investment agreements.

Econ-Goal 6: Promote development of small-scale sustainable tourism

Over the past year, the Tourism Sustainable Working Group achieved full delivery on its Year 2 Action Plan, driving significant progress across national events, community development, and tourism infrastructure. Cultural engagement and public awareness were elevated through the successful execution of three major national events: International Tourism Day, National Youth Day, and World Tuna Day. International outreach and capacity building peaked at the SPTE Fiji in May 2025, where the team engaged with 30 buyers and tour operators while simultaneously training 15 local tour guides in partnership with local historians and the NES, covering Naoeroan history, culture, and vital first aid.

To formalize the local industry, a draft tour operator list was compiled alongside community consultations with accommodation providers to address quality standards, visitor expectations, and service gaps. On the administrative front, structural bottlenecks were tackled by completing consultations with Immigration to simplify the visa application process, alongside an ongoing review of FMIS coding for tourist visa revenue. These cohesive efforts

culminated in a measurable boost for the local economy, with tourist arrivals increasing to 563 individuals between August 2025 and April 2026.

Econ-Goal 7: An effective, competitive and stable financial system that will enhance economic growth and development

Naoero Small Business Enterprises Act 2025

Since the principal Act was passed in April 2025, the government has moved rapidly from the legislative phase into operational setup and regulatory enforcement.

The most notable developments and statutory milestones since mid-2025 include:

1. Enactment of the Small Business Enterprises Regulations 2025

In late July 2025, the Cabinet officially exercised its regulatory powers under Sections 10 and 14 of the Act to gazette the Naoero Small Business Enterprises Regulations 2025. This subsidiary legislation formalised the administrative framework overseeing the program, including:

- **The 14-Day Processing Mandate:** The newly formed National Coordinating Committee is legally required to evaluate and hand down a decision on funding applications within 14 days of receipt.
- **Strict Ownership Thresholds:** To qualify for assistance under the regulations, a business must either be a sole proprietorship owned entirely by a Naoeroan citizen, or a partnership/entity where Naoeroan citizens hold at least a 70% ownership stake.
- **Targeted Eligible Sectors:** The regulations explicitly map out which industries qualify for funding under the scheme. This includes local manufacturing, technical trades (mechanical, electrical, plumbing), professional service practices (legal, accounting), IT, and specific primary industries like piggery, poultry, hydroponic farming, and aquaculture.

2. Operational Funding via the Supplementary Budget

To bridge the gap between policy and practice, the Parliament passed the *Supplementary Appropriation Act (No. 2) 2025-2026* in January 2026. This budget adjustment provided funds

to operationalise the Small Business Enterprise Fund. This pool of funds was made available to the Department for disbursement as grants and capital support to local applicants.

3. Setup of the National Coordinating Committee

The structural oversight dictated by the Act is now active. The National Coordinating Committee for Small Business Enterprises has been established to drive policy coordination and handle fund accountability. Structurally, the committee is chaired by the Secretary of Finance, with cross-sector representation—including a designated representative from the Naoero Chamber of Commerce appointed directly by the Minister—ensuring that local private-sector context guides the allocation of public funds.

Post and Frigate Services

A primary focus of Naoero Post's recent activity has been expanding beyond traditional mail into commercial shipping and transport, heavily utilizing its wholly owned supply chain subsidiary:

- **The Brisbane Pipeline:** NPSC has concentrated on strengthening its logistics arm through Frigate Cargo and Logistics Services, based in Brisbane, Australia. This subsidiary acts as the core hub for consolidating freight bound for the island.
- **Rate Adjustments for Customers:** To better support local small businesses and community operations on-island, Naoero Post announced targeted **reductions to Less-than-Container Load (LCL) rates** for Naoero-bound cargo, lowering the financial barrier for importing goods from Australia.

2. SOCIAL SECTOR

Soc-Goal 1: Improve the quality and broaden the scope and reach of education

During this financial period, the Department of Education and Training focused on consolidating the Education Strategic Plan 2023-2027. The Department of Education and Training centered its efforts on improving the quality, scope, and reach of education in alignment with the National Sustainable Development Strategy (NSDS). The Department

made significant progress in establishing evidence-based foundations through data collection and diagnostic assessments.

Foundational literacy and numeracy continued to be a focus, with the Learning Through Doing program (LTD) and University of Florida Literacy Institute (UFLI) programs selected to build teaching capability and improve classroom practice. These evidence-based approaches will support a shift toward consistent, research-informed pedagogy across schools. Work also progressed on the NZMFAT support language and cultural program, scheduled for implementation in May 2026, which will enhance Naoeroan language, culture, and identity across early and primary years. In addition, the Climate Finance Capacity Support Program advanced the integration of climate change content into science and social science curricula in years 1–3, ensuring that emerging materials are culturally grounded and locally relevant.

During the first two quarters of the FY 2025-26 operational plan, the Department undertook several high-priority government actions that reflect a growing emphasis on system responsiveness and equity. These included the implementation of the Re-engagement Program for students who have left formal schooling, the discontinuation of the Year 8 Secondary Scholarship Scheme, and the launch of the 2026 RON Tertiary Scholarships to support 60 year 12 graduates to pursue further studies at regional institutions, strengthening national workforce development and long-term capital goals. Foundational work undertaken this year, including data collection, diagnostic assessments, baseline studies, and systems reviews, created a stronger evidence base to inform targeted interventions and ongoing systems strengthening in the years ahead.

Strategic partnerships remain central to the implementation of Naoero's national education priorities, drawing on the support of international, regional, bilateral, and local stakeholders. Australia's Department of Foreign Affairs and Trade (DFAT) assistance continued through the Naoero Education Program (NEP) and a direct funding agreement (DFA). The New Zealand Ministry of Foreign Affairs and Trade (MFAT) added language revitalization and cultural preservation to its existing climate-related education initiatives.

The Department of Education also works closely with key government of Naoero agencies, including the Department of ICT, Public Health, Medical Services, WASDA, PLWD, DCCNR, and the VTPD. New partnerships with Fiji National University (FNU) and USP were also established

to support the RON Tertiary Scholarship program, helping to establish more predictable and supportive pathways into higher education. Furthermore, PacREF facilitated regional activities through the SPC EQAP, UNICEF, and USP to support ongoing initiatives. The department also collaborated with the Institute of Education (IOE) to undertake an ADB-funded research project on equity in education in Naoero, which was recently published.

The department's core priorities were reaffirmed by directing efforts toward inclusion and access, learner-centered pedagogy, early childhood development, literacy and numeracy improvement, cultural identity and language, secondary pathways development, safe learning environments, and workforce quality.

Soc-Goal 2: A healthy and productive population

The Statistics Office reports showed that the employment rate by sex and age and persons with disabilities during the financial reporting period fell by 5%.

In Naoero, more than 90% of people have received vaccinations. The goal of reducing the number of deaths per 1,000 people by 1% from the baseline has been achieved. Additionally, no maternal deaths have been reported. For the fiscal year, the goal for health worker density and distribution was 2.25 physicians and 8.5 nurses per 1000 people. There are currently 68 nurses and 37 doctors working during this reporting period.

Soc-Goal 3: Enhanced quality of life through sports for all

During the 2025-26 financial year, the Department of Sports focused on establishing a modernized foundation for the sector through the enactment of the *Sports Act 2026* and the updating of the National Sports Policy. Ongoing work within the Community Development Unit resulted in the engagement of 200 males and 155 females, primarily between the ages of 6 and 40, across eight active districts. To support these activities, the department successfully maintained 22 active sports federations and directed efforts toward upgrading community basketball courts and the sports complex. Infrastructure progress remained a high priority, with significant focus on the stadium project and the technical fit-out of primary venues. Furthermore, the Department utilized technical and legal consultants to ensure that anti-doping programs and new constructions meet UNESCO and international standards.

In addition to these structural improvements, the department launched the Coaches and Athletes Special Allowance (CASA) initiative to provide structured support for excellence, while the Community Project Unit (CPU) reached approximately 990 students through primary school outreach programs. Naoero's presence on the international stage was further highlighted by the nation's representation at the 2025 World Athletics Championships and its active participation in the Oceania Athletics Masters Cup 2025. These milestones were further supported by the Naoero -Australia treaty, which, upon entering into force in September 2025, provided a vital framework for strengthening national sports systems and fostering athletic excellence.

The department is also working with Women and Social Development Affairs and the Department of Education and Training to protect culture and traditional sports. This financial year, the department has included traditional sports in school sports programs, including the able-disable center school.

Moving forward, the government has directed the department to establish strategies that ensure the achievement of its goals, particularly considering the postponement of the Micronesian Games to January 2028. This extension provides an international strategic window to ensure all facilities and administrative systems meet international standards. In collaboration with stakeholders, the department will implement measures effectively, efficiently, and accurately across several key areas, including the completion of the stadium project by overseeing final construction phases and technical fitouts. Plans include the broad development of sports infrastructure, such as facilities, training programs, and athlete support, alongside the consistent development of local coaches, athletes, staff, and federations.

Soc-Goal 4: A cultural, socio-inclusive, cohesive and self-reliant community with sustainable livelihoods

This financial year, the Department of National Heritage made significant progress in preserving Naoero's history, most notably completing restoration works at the burial site of the Late Chief Detudamo and identifying five additional heritage sites for protection. To ensure Naoero's laws keep pace with traditions, the department also reviewed the *National Heritage Act, 2017* to officially include intangible cultural heritage.

The Naoero Museum also undertook major upgrades, with the installation of 20 new display cases, improving how we showcase our story to the public. Furthermore, the Department successfully transferred a wealth of cultural data back to Naoero, including 3D prints, videos, and digital reprints of historical objects, while launching a new heritage database and a printed catalogue to document and safeguard our landmarks for future generations.

Soc-Goal 5: A just society that recognizes and respects the rights of women and children, that promotes equal opportunity

The Department of WASDA was able to identify nine cases that were referred for prosecution by the Office of the Director of Public Prosecutions that fall within the category of family/domestic violence during the reporting period. Of these nine cases, four were resolved within 12 months, that is, decisions by the court were made. Twelve months and three cases later. Trial dates are still pending for two cases. The 12-month threshold has not been breached, so it is likely these two cases will be resolved within the baseline target.

Soc-Goal 6: investing in youth - a sustained future for Naoero

The Department of Community & Youth has demonstrated consistent progress in its ongoing programs, notably through the development of the Naoero Youth Policy 2026-2030. Following extensive stakeholder consultations and collaboration with UNFPA, the first draft has been successfully compiled to address contemporary issues facing the youth.

In the area of social protection, the department is finalizing the framework for the National Aged Care Program, aimed at providing essential services to vulnerable elderly citizens via certified carers. Additionally, the Life Skills Program (LSP) continues to achieve its annual target of 15 graduates, with longitude data from 2020 to 2025 confirming that these participants successfully transition into further education or employment within six months, thereby enhancing the prosperity and potential of Naoero an youth.

Soc-Goal 7: A robust, vibrant and effective civil society for a just and peaceful Naoero

The Naoero Electoral Commission has built significant progress by conducting a thorough review of previous election cycles, capturing critical lessons learned, and pinpointing areas needing institutional modernization. As part of the work, the commission has reviewed existing electoral laws and operational procedures to identify gaps requiring alignment with

international best practices. NEC has also established a baseline framework for managing voter registration to prepare for upcoming data clean-up and verification processes. The commission has designed and successfully launched targeted civic outreach initiatives, most notably a practical program that supports and facilitates school prefect elections to encourage early voting habits.

3. INFRASTRUCTURE SECTOR

Infra-Goal 1: Provide a reliable, affordable, secure and sustainable energy supply to meet socio-economic development needs

The 6-MW Solar Plant has been partially commissioned and is providing renewable

energy to the grid. Unfortunately, full commissioning has been delayed and is now expected

to be fully commissioned in the next financial year. Once commissioned, fuel savings from reduced generator reliance will reduce Naoero Utilities Corporation's dependency on fuel costs. The projected fuel reduction is 22%, equivalent to $3,676,645 a year. Unfortunately, the recent conflict in the region has significantly increased fuel prices, offsetting the savings provided by the solar power plants. This will have a substantial negative impact on NUC's operations. As a result, NUC has adopted the target of 100% renewable energy contribution by 2028. This includes developing a strategy for displacing energy in the land transport sector with the expected uptake of electric vehicles. NUC shall develop a strategy to respond to this demand in a manner that will improve its business status.

NUC consistently hits annual milestones, demonstrating a clear commitment to operational excellence. By improving the reliability of services to their customers, they have reduced power outage frequency and duration of SAIFI < 15 and SAIDI < 1500 minutes. By improving availability of production assets, they have improved maintenance compliance of generators to > 90% and increased generation availability to > 90%. By improving and maintaining efficiency of production, they have increased the renewable energy contribution (reducing fuel for power generation) to > 40% and increased renewable energy contribution to > 38%.

Naoero continues to actively advance its National Energy Roadmap 2024-2030, focusing on reducing fossil fuel dependence, enhancing energy efficiency and integrating renewable

energy sources. The Supporting Mainstreamed Achievement of Roadmap Targets on Energy (SMARTEN) Project has achieved several major milestones as it enters its final phase in 2026. A key focus has been the “low carbon transport” demonstration, which successfully introduced e-mobility on the island’s public and government sectors.

The project successfully expanded the national fleet with electric alternatives to reduce fossil fuel dependency. The primary achievements for 2025–2026 regarding e-vehicles and e-mobility include:

- Electric Cars: Procurement and delivery of 6 electric cars integrated into the government fleet.
- Electric Motorbikes/Bikes: Procurement and delivery of 10 electric motorbikes (often utilized in similar e-bike/e-mobility contexts) to support lighter transport needs.
- Charging Stations: Installation of 6 dedicated charging stations across the island, ensuring the infrastructure is in place to support the new vehicles.

As of March 2026, the SMARTEN project held its final board meeting, marking the successful completion of these pilot initiatives. The achievements in 2025-2026 serve as a blueprint for Naoero’s Updated Nationally Determined Contribution (NDC) 2025-2035, which now includes a formal target to develop a comprehensive Electric Mobility Roadmap and reach a 20% electric vehicle component for the national fleet by 2030.

In terms of Energy Efficiency Programs, DCCNR, through the Naoero Energy Efficiency on the Demand Side (NEEDS) project, continues the energy rebate scheme in coordination with the NUC for appliance rebates and LED lighting upgrades in government buildings. These efforts aim to reduce electricity consumption and promote sustainable practices. This initiative has introduced mandatory energy performance labelling and minimum energy performance standards for appliances.

Infra-Goal 2: Provide a reliable, safe, affordable, secure and sustainable water supply to meet socio-economic development needs

NUC continues to meet the water demand from both the residential and commercial customers. The reverse osmosis plant has achieved its overall goal of ROA > 90% supply and

NUC anticipates maintaining its performance this year and the coming years, as an average level of rainfall is expected. The water tanker availability is a challenge for NUC, their maintained target is > 65%. To reach its 100% target in this area, NUC intends to refurbish its existing impaired water tankers and explore new procurement pathways alongside bilateral partners, such as Japan. In terms of water quality, NUC has not failed and maintained the 100% water quality compliance as the Reverse Osmosis (RO) system consistently meets Australian drinking water standards.

The building code set which considers accessibility for water tanks is progressing very well by the lead agency, the Department of Infrastructure and Development. The building code manual is progressing, and they have gone overboard in recruiting personnel under the Building Code Unit. They anticipate in the coming months for the publication of the manual and the enforcement of the NBC.

The DCCNR water division continues to educate the public and engage with the Education Department to introduce WASH programs in schools. Through its outreach programs, the department coordinates with the communities, youths, women groups and other relevant stakeholders on identifying new water gaps at household level. The testing of home water tanks for national water standards is still carried out with 50% of water tanks tested per district.

It has come to NUC's attention that there is an increase of water usage at schools. Therefore, DCCNR has initiated the WASH programs in the past years, in coordination with the schools to try to control the usage of water. An underground water system may be introduced next year for toilets, instead of potable-water. The department is continuing work on the downpipes, with 70% of dwellings now having downpipes connected to its water tank. The downpipe and rainwater harvesting system project is still ongoing with SPC.

Infra-Goal 3: Effective management of waste and pollution that minimises negative impacts on public health and environment

As part of the National Sustainable Development Strategy 2019–2030 goals, waste recycling and landfill reduction remain among the many challenges the country faces in environmental management. With the continued reliance on landfills and open dumping, the build-up of underground methane has become a major concern. Because of this issue, the Naoero

Rehabilitation Corporation is working (NRC) is now strategically partnering with the Pacific Recycling Foundation (PRF) in Suva, Fiji and leading Naoero to be admitted into the Pacific Recycling Alliance (PRA) in an effort to implement the circular economy in waste recycling by exporting recyclable materials to Fiji. The effort is very significant in the process, as Naoero, like many other countries, has recyclable materials and does not have a partner in the recycling market. This strategic partnership is crucial regarding the long-term impact of landfill dumping. Studies are needed to measure the levels already accumulated beneath the surface to determine the risks this may pose to the environment, both in the immediate and long term, to prevent the worst outcomes. To date, the Naoero Rehabilitation Corporation (NRC) has been working in collaboration with the Department of Environmental Management & Agriculture (DEMA), Naoero Waste & Recycling Initiative (NWRI) and the Pacific Recycling Foundation (PRF) to strengthen the waste segregation and recycling program on the island.

Japan-Funded Waste Management & Soil Project (November 2025): On November 21, 2025, NRC reached a major milestone in environmental restoration. The outgoing Ambassador of Japan formally handed over the final batch of heavy machinery for the Sustainable Waste Management and Soil Production project. Valued at approximately AU$2.5 million (¥200 million), this equipment is specifically designated to optimize the island's landfill systems and process materials into arable topsoil for replanting mined-out areas. The Sustainable Waste Management and Soil Production project—backed by a AU$2.5 million (¥200 million) grant from Japan’s Economic Social Development Programme—is designed to tackle two of Naoero 's biggest environmental hurdles at once: a severely constrained landfill system and the lack of fertile topsoil caused by historic strip-mining.

Run by NRC, the project is built around several concrete operational goals and data metrics.

1. Diverting and Repurposing Over 50% of Landfill Waste

Naoero’s primary landfill receives roughly 9,000 tonnes of waste annually. Without domestic recycling facilities, this volume creates immense structural strain.

Data analysis by the NRC revealed that 53% of that total (approximately 4,770 metric tonnes) consists of:

- Green waste (vegetation and organic clearing)

- Cardboard
- Wood waste

Instead of letting these materials sit in the dump, the primary objective is to continuously separate them at the tip and route them directly into heavy-duty organic processing.

2. Creating Localized Soil Production

Because decades of phosphate mining stripped away the island's natural topsoil, land remediation requires importing or manufacturing organic matter. The organic waste diverted from the landfill is fed into heavy industrial woodchippers and mixers. It is then composted and engineered into nutrient-rich organic soil. This "new" soil is directly designated for:

- Refilling and levelling mined out "Topside" pinnacles.
- Agricultural use to improve local food security.

3. Mechanization and Targeted Sorting

The final batch of equipment handed over by Japanese Ambassador Rokuichiro Michii upgraded the NRC's sorting and processing pipeline. The operational fleet provided by the grant includes the following machinery:

Equipment Category	**Units**	**Operational Purpose**
Hydraulic Excavators & Wheel Loaders	2	Heavy-duty sorting, moving, and separating bulk waste at the dump site.
Industrial Woodchippers & Chainsaws	5	Breaking down large trees, green waste, and timber into small compostable fragments.
Garbage Trucks (Detachable Arm & Roll types)	2	Specialized transport to keep green waste isolated from inorganic trash during collection.

Waste Can / Plastic Compressors	2	Crushing non-compostable recyclables to drastically reduce their physical footprint in the landfill.

NRC is working in collaboration with the Naoero Waste & Recycling Initiative (NWRI) in pushing the recycling program in Naoero.

Given the continuing increase in waste volume on the island, NRC will be sponsoring some recyclable equipment such as recycle bins to the Naoero Waste & Recycling Initiative (NWRI) to be placed in public schools, hospitals, government buildings and stores to kick-start the waste segregation program on the island. The purpose of this program is to collect data on the volume of recyclable waste that existed on the island. The first items to be collected in this fiscal year will include plastic bottles, cardboards and soft drink cans. This exercise may be extended to other recyclable waste objects later, but in the meantime, these are the only ones being identified as part of the original plan under the NSRUDP.

Infra-Goal 4: Improve transport infrastructure and provide reliable sustainable transport services

Air Transport

As part of the Naoero Runway Resurfacing Project, NRC will formalize a service agreement with Downer NZ to undertake the redevelopment and upgrading of the island's only runway. Under the new arrangement, NRC will lease its crushing plant to Downer NZ for a period of four to six months, providing both essential equipment support and a significant revenue stream for the corporation. This arrangement is critical to the success of the Naoero Runway Resurfacing Project because the island lacks the technical expertise and experience required to deliver infrastructure of this scale. By partnering with Downer NZ and providing the crushing plant under a structured lease, NRC ensures that specialised knowledge, modern construction standards are brought into the project, while simultaneously generating a significant revenue stream to support its operations.

Land Transport

NRC will conduct road grading operations for the road at topside to be maintained every month and other days required to keep it in usable condition. The road maintenance service remains a vital source of income for NRC, serving as a key revenue stream that enables the corporation to operate on a monthly basis.

Additionally, road access reconstruction and redevelopment for the old road at Nibok Topside being mined by RONPHOS Corporation for commercial purposes provide further funds. For this project, two ZX 490 Excavators will be assigned to carry out the work. One will be used for rock breaking, while the other will handle hauling. The project timeline is estimated at approximately six weeks, excluding Sundays. The project consists of two main components: land redevelopment and road maintenance from Nibok through to Camp 5 in the Ewa District. This work is considered essential, as the previous access road in Baitsi has been closed off by the landowners. Redeveloping the road access from Nibok to Ewa will also enable connectivity to the second access route proposed by the Department of Internal Affairs in Uaboe District. This project is crucial for both routine and emergency purposes, ensuring reliable access to the Camp.

The Naoero Maritime and Ports Authority (NMPA) and the Naoero Shipping Line (NSL) are foundational drivers for the achievement of Infra-Goal 4. Operating through a dual commercial structure (Port Operations and the Shipping Line) balanced by a rigorous regulatory arm (Maritime Division), NMPA is systematically upgrading Naoero 's connectivity. By transforming port infrastructure, scaling regional shipping capabilities, and enforcing strict regulatory and safety standards, NMPA and NSL ensure that Naoero transitions toward an economically sustainable, reliable, and modern transportation hub.

Fulfilling the mandate of improving transport infrastructure, NMPA is actively overseeing the completion of a world-class port development project. Supported by the Asian Development Bank (ADB) Project Management Unit (PMU), key infrastructural developments include:

- Optimized Port Depth: Ongoing strategic dredging operations are focused on securing an optimal berth depth to support larger vessels and future economic development.
- Technological Integration: The phased deployment of a modern Terminal Operating System (TOS) and integrated logistics software is underway, supported by a newly recruited IT officer to maximize data-driven efficiency.

- Asset Maintenance: Dedicated capital maintenance is planned for crucial transit machinery, including the drydock and engine maintenance of the NMPA Tug *E-kaauedo* via the Project Maintenance Fund.

The commercial arms of the organization are explicitly aligned to boost domestic supply chain resilience and expand international maritime networks:

- Direct Liner Services: Utilizing its two-vessel fleet (*Micronesian Pride* and *Micronesian Ocean*), NSL is shifting from costly transhipment models to direct liner services from major hubs like Australia (Brisbane) and China, significantly reducing freight costs to Naoero.
- Central Pacific Hubbing: Capitalizing on larger vessel capacities, NSL is solidifying cargo volumes to Tuvalu and targeting new expansion into Kiribati via upcoming Memorandums of Understanding (MOUs), positioning the Naoero Port as a central sub-regional transit hub.
- Operational Restructuring: NSL is proactively overhauling its crew management and vessel maintenance schedules to secure high-tier liner reliability.

A modern transport framework requires flawless safety protocols and internationally recognized compliance to maintain open borders:

- ISPS & MSIC Security: Achieving International Ship and Port Facility Security (ISPS) compliance remains a top priority to safely attract foreign vessels. This is reinforced by the successful domestic rollout of the Maritime Security Identification Card (MSIC) restricted access regime.
- Environmental & Boundary Protection: The Maritime division enforces critical safeguards including Search and Rescue (SAR) readiness, oil spill management, and Port State control inspections, protecting Naoeroan waters while bringing in fine-based revenue.
- Vessel Registry Localization: Through the recently adopted Vessel Registration Bill, NMPA is preparing to onboard a maritime legal expert to repatriate the vessel registry onshore, converting a previously unmonitored asset into a national revenue stream.

To monitor performance against Infra-Goal 4, NMPA and NSL adhere to strict operational benchmarks:

- Efficiency: Maintain a container movement rate exceeding $15\ hr and guarantee cargo delivery within 5 business days of a request.
- Quality Control: Keep cargo damage during stevedoring operations below an average of 3%.
- Audit & Inspection: Successfully satisfy all criteria of the International Maritime Organization (IMO) IMSAS audit while inspecting at least 20% of all visiting vessels annually.
- Connectivity: Successfully operationalize the TOS system and continuously introduce new regional ports into the active vessel schedule.

The Department of Transport continues to demonstrate its commitments in earning revenue which exceeds its annual expenditure. Global air travel is projected to triple by 2050 – driven by an increase in travel in the Asia-Pacific region. This offers greater opportunities for 'new' funds to be earned either through access to our Flight Information Region or increased passenger travel. Another opportunity for land-based revenue include transitioning the current public bus fleet from conventional fossil fuel- based types to an electric or hybrid fleet. This will be a cleaner approach and will help achieve Naoero in its renewable energy targets. Self-sustenance of this proposed system will be funded through a user-pay program, similar to that implemented in most developed countries.

In terms of technical capacity within the workforce, the Department has gradually increased its number of qualified workers within the organization since its certified personnel review was conducted in 2019. The plans for the FY 2025-26 year were initially to increase the certified personnel count to >20 by the end of June 2026. As of March 2026, this target had been achieved with newly certified personnel within the Civil Aviation department increasing by an additional 8 certified staff members thus bringing the total number of certified employees up to 22. The external funding of training support has depleted, placing the responsibility for funding further certification on the Department itself. Depending on the approved budget for FY 2026-27, the Department is being more conservative in the

forthcoming fiscal year and will be aiming to increase the number of certified personnel up to 25 only.

The department will continue to strengthen coordination with other relevant stakeholders. For the forthcoming FY 2026-27, the department intends to further enhance that cooperation by introducing new synergies such as the Airport Integration Unit (AIU) and the Public Transport Advisory Group (PTAG).

A Universal Safety Oversight Audit Programme (USOAP) for the Naoero International Airport has been scheduled for the calendar year of 2027. ICAO had initially indicated interest to undertake the audit during the FY 2025-26 but has since advised that it will take place in Naoero at a later date due to logistical reasons. FY 2026-27 will be used to further prepare for the audit.

There have been setbacks and delays in the build up to the Runway Resurfacing Project, but recent progress achieved in March 2026 indicates that an estimated date of completion could possibly be in December 2026. Therefore, the forecasts for the FY 2026-27 will aim at supporting that the project completion is successfully achieved. At the midpoint of FY 2025-26, the installation of the state-of-the-art weather instruments is complete. The logistical preparations are underway to have the facility assets commissioned and fully implemented in the FY 2026-27.

In terms of the expansion of VRID operations and transitioning the bus fleet to electric/hybrid types, FY 2025-26 presented a success story of the rollout and commissioning of Naoero's first vehicle plate embossing machine. The targets for FY 2026-27 will be to observe the progress of production and assess if there is potential for Naoero to manufacture and export vehicle number plates to other small island development states, if feasible.

Coupled with the achieved embossing machine, the introduction of electric bus shuttles was implemented and continues to operate on a daily basis throughout FY 2025-26. The target for FY 2026-27 is to expand on that service by transitioning the supply of buses to an entirely electric or hybrid fleet. The Transport Department will be seeking support from both external donors and the Government of Naoero for this initiative.

Infra-Goal 5: Provide universal and reliable access to internationally competitive services and an independent and commercially viable media

Cenpac Corporation continues to enhance connectivity, foster innovation and drive economic growth through strategic investments, targeted marketing methods and customer-oriented approach. The internet intermediates are rapidly evolving in nature, scale and scope and poised to connect an increasing number of users. Cenpac provides local coverage for our customer or backbone services for other internet providers as well as other related services including; gateway sales, east marine cable sales and website hosting (domain).

Ensuring fast and reliable broadcasting, Naoero Media will contract qualified technical engineers and continue training local staff in broadcast engineering and Outside Broadcast operations through partnerships with Professional Media outlets in the regions such as: - MMG limited, the Pacific Media Academy and Fiji Broadcasting Corporation and also with the Pacific Cooperation Broadcasting Limited. These efforts will help build a skilled team capable of supporting major regional events such as the Micronesian Games 2028 which Naoero is to host.

Naoero Media will also expand Naoero Television from three to five free-to-air channels, with plans to include international channels such as BBC World News and CGTN. In addition, new media legislation and stronger advertising services will support better governance and increased non-government revenue. It has made steady progress toward improving the reliability and capacity of national broadcasting services. Key efforts focused on strengthening staff technical skills and improving operational systems.

4. CROSS-CUTTING SECTORS

Cross-Goal 1: Strengthen and develop the institutional capacity of the Naoero Public Service

During the financial year, the Chief Secretary's Department continued to strengthen coordination across the public sector and public administration systems. Key progress areas included the establishment of a strengthened payroll function aligned with NSDS Goal 20, ongoing support to ministries with recruitment actions, and the maintenance of essential operational services. The Department also advanced HRMIS data-verification work and

provided consistent support to Cabinet, ensuring continuity of public service operations during a period of significant structural change.

Cross-Goal 2: Strengthen Parliament, Audit, Justice, Law, Order and Border Control

Through the newly approved Naoero-Australia Program for Economic Governance, Australia assisted the development of capacity through providing expert advisors in Treasury, Planning and Aid, Revenue, Customs, Infrastructure, HR and NUC. These roles involve capacity development of Government staff and process and system improvements.

Since 1 July 2025, the Parliament of Naoero has undergone a significant transition, including a general election and the passage of several key legislative frameworks.

The following summary provides an overview of parliamentary and committee activities through to March 2026.

1. 2025 General Election and Leadership

- **October 2025 General Election:** Following the 11 October elections, the **25th Parliament** convened on 14 October 2025.
- **Leadership Re-election: David Adeang** was re-elected unopposed as President. **Marcus Stephen** was re-appointed as Speaker, and **Isabella Dageago** was elected as Deputy Speaker.
- **Constitutional Referendum:** Concurrent with the election, a referendum was held on a proposal to extend parliamentary terms from three to four years; however, the proposal was rejected by voters.

2. Major Legislation Passed (July 2025 – March 2026)

Parliament has been active in strengthening financial oversight and social protections. Key Acts certified in late 2025 and early 2026 include:

- **Financial & Economic:**
    - **Supplementary Appropriation Act (No. 2) 2025-2026:** An "appropriation-neutral" bill used to reallocate existing resources to high-priority areas like public health and the Naoero Police Force.

    - **Naoero Trust Fund (No. 2) Act 2025:** Established the Intergenerational Trust Fund No. 2, providing a legal body for long-term wealth management with specific annual reporting obligations.

- **Social & Rights-Based:**
    - **Human Rights Commission Act 2025:** Formally established the Human Rights Commission to promote and protect constitutional rights.
    - **Naoero Superannuation (Amendment) Act 2025:** Increased the mandatory employer contribution rate from **5% to 10%** and narrowed eligibility for business exemptions to ensure more Naoeroans are covered.
    - **Public Order Act 2025:** Designed to safeguard community peace and safety, providing police with specific powers to address public disturbances and genealogy-based insults.

3. Committees and Regional Activities

- **54th Presiding Officers and Clerks Conference (POCC):** From 8–10 July 2025, Naoero hosted delegates from 17 Pacific and Australian parliaments: The Parliament of Naoero hosted the Presiding Officers and Clerks Conference (POCC) for the Pacific and Australia regions. The theme was "Independent Parliaments, Strengthening Democracy," focusing on financial autonomy and legislative oversight.
- ***Attendees:*** Included Speakers and Clerks from the Australian Federal Parliament, New Zealand, Papua New Guinea, Fiji, Samoa, Solomon Islands, and several Australian state parliaments (including Queensland and Victoria).
- ***Naoero Leadership:*** The event was opened by the Speaker, Hon. Marcus Stephen, and then-Acting President Hon. Lionel Aingimea.
- **Standing Committee on Public Accounts:** The **Standing Committee on Public Accounts** is one of Naoero's most critical parliamentary bodies, tasked with ensuring transparency and accountability in the management of public funds.

Following the October 2025 general elections, the committee was reconstituted for the **25th Parliament**.

Membership (25th Parliament, Oct 2025 – Present)

The current members of the Public Accounts Committee are:

- **Hon. Wanganeen Emiu, MP** (Chairman)
- **Hon. Rennier Gadabu, MP**
- **Hon. Pyon Deiye, MP**
- **Hon. Timothy Ika, MP**
- **Hon. Jason Bingham Agir, MP**

2. Legal Mandate and Functions

The committee was established under the **Public Accounts Committee Act 1992**. Its primary duties include:

- **Audit Review:** Examining the yearly financial statements of the Republic alongside reports from the **Director of Audit**.
- **Corporate Oversight:** Reviewing the financial affairs of public corporate bodies required to report to Parliament.
- **Inquiry Powers:** Investigating any specific questions regarding public accounts referred to it by the House.
- **Reporting:** Making recommendations to Parliament on desirable alterations to the form of public accounts or methods of financial control.

The committee has significant legal powers, including the ability to **summon witnesses** and request documents, operating with the same protections and privileges as the Supreme Court.

3. Recent Focus and Activity (FY 2025-26)

- **Naoero Trust Fund No. 2:** A major focus for the committee recently has been the transparency measures embedded in the **Naoero Trust Fund No. 2 Bill 2025**. This legislation specifically requires the fund to provide annual reports and information to the committee to ensure it remains outside direct government control while maintaining high standards of accountability.

- **Audit Gap Closure:** The committee continues to work with the Department of Audit to maintain the progress made in recent years to close historical audit gaps, ensuring that current financial statements are reviewed and tabled in a timely manner.
- **Technical Support:** The committee's work is supported by technical assistance from the **Pacific Association of Supreme Audit Institutions (PASAI)**, which has been active in Naoerou through early 2026 to enhance compliance audit methodologies.

4. Diplomatic & Regional Engagement

- **International Relations:** Parliament supported the formal establishment of diplomatic relations with **Uzbekistan** and **Oman** in early-to-mid 2025, expanding Naoero's global footprint.

Australia (November 2025):

- President Hon David Adeang visited Parliament House in Canberra for meetings with the Australian Home Affairs Minister and Foreign Affairs Minister.
- This visit coincided with a leadership program hosted by the Pacific Security College and focused on regional processing agreements and security cooperation.

United States (August 2025):

- Deputy Speaker Hon Isabella Dageago was part of a high-level government delegation to the White House in Washington, D.C.
- The visit focused on building stronger economic ties and discussing deep-sea mining interests, specifically briefing officials on Naoero's amended sponsorship agreements.

5. Parliamentary Twinning & Strengthening

- **CPA Benchmarks Exercise (January 2026):** A delegation from the Victoria Parliament (Naoero's "twinning" partner) visited Yaren to work with Speaker Hon. Mr Marcus Stephen and Clerk Ms Ann-Marie Cain on a democratic self-assessment. This is part of a reciprocal relationship where Naoero MPs often visit Melbourne for professional development (and vice versa).

The **Naoero Accountable and Inclusive Governance (NAIG)** project, a tripartite partnership between the Government of Naoero, the UNDP, and the Government of Australia, has focused on institutional strengthening and social inclusion during the **2025-26 Financial Year**.

The following table summarizes the core activities and progress from **1 July 2025 to March 2026**:

Focus Area	Activity & Status (FY 2025-26)	Target Completion
Institutional Oversight	Initiated independent functional reviews for the **Parliament** and the **Electoral Commission** to ensure impartial governance.	**Q3 2026**
Social Inclusion	Development of a comprehensive **Inclusion Strategy** for women, youth, and persons with disabilities.	**June 2026**
Monitoring & Evaluation	Recruitment process for a dedicated **M&E Specialist** to improve data management and institutional reporting.	**June 2026**
Civic Engagement	Implementation of "year-round" outreach programs focusing on inclusive civic education and political participation.	**Ongoing**
Capacity Building	Strengthening existing youth platforms as an alternative to a formal youth organ to increase political engagement.	**Ongoing**

Audit

The Naoero Audit Office successfully completed audits for several State-Owned Enterprises (SOEs) this year, along with the audit of the New Delhi Mission in February–March 2026. A

compliance audit of at least one department before June 2026. If time permits, additional audits will be completed in the financial year.

During 2025-26, Naoero Audit Office provided staff training and professional development through two external training sessions, in addition to in-house training for junior staff, and also offered on-the-job training focused on compliance audits. Staff have been enrolled in higher qualification programs with USP to enhance their knowledge, and the courses are currently ongoing.

ICT

The Department of ICT has not only maintained key services, but transitioned to a proactive development of a robust, modern suite of tools for the government. A summary of their activities in the financial year includes the following activities:

Core Services & Connectivity

- **Secure Networking:** Managed high-speed internet, a global VPN for remote work, and an expanding, secure Wi-Fi network (**govnet**).
- **Communication Tools:** Fully managed official email addresses, distribution groups, and mobile SIM plans (voice and data) for official use.
- **Hardware & Mobility:** Provision of mobile internet modems and support for all government-related IT hardware and software.

Data Management & Continuity

- **Storage & Collaboration:** Currently managing 30+ shared drives, with a planned transition to a modern solution called **Synology Drive**.
- **Security & Recovery:** Implementation of offsite backups for disaster recovery and the installation of **Lansweeper** to monitor and document all network assets.
- **Server Upgrades:** Successfully migrated the government mail server to high-speed SSD hardware and optimized media streaming to support over 4,000 listeners.

Infrastructure & Special Projects

- **Island-Wide Connectivity:** Ongoing expansion of the fiber optic network, including critical repair work near the airport.
- **Network Oversight:** Deployment of new UniFi switches and a real-time "Network Status Page" for instant troubleshooting.
- **Major Collaborations:** Network overhaul for the **Naoero Medical Centre**.
    - Software installations for **FIU** and **Austrac** (Taipan Software).
    - Upgrading the official Naoero Government website (scheduled for **Q3 2026**).

Key risks to ICT's data and activities include:

- Prolonged outages due to single link dependencies
- Lack of redundancy due to no data centre
- Cyber-attacks causing data loss and service disruption, reputational damage
- Long lead times for hardware/software, single supplier dependency, procurement delays due to funding process. Also, the risk of cost increases moving forward due to hostilities in the Middle East, and,
- Absence of policies and legal frameworks.

The Department of Justice continues to explore ePassport options to improve the security of Naoeroan passports and help Naoeroans make use of electronic immigration systems while travelling.

Cross-Goal 3: A transparent and fair land management system that supports social, economic and private sector development

The Department of Land Management is progressing key initiatives in the following areas:

1. Review of the Land Tenure System and Legislation

The Department has completed the works for enactment and enforcement of the *Survey Act, 2025* which has replaced the outdated Act.

The Department has started works on the Naoero Land Owners Utilisation Bill and the proposed Land Banking system, and is working with the Justice Department to finalise these

initiatives. The department also aims to set up a Land Lease Registry, which will serve as a national database for recording all lands leased by the Republic and State-Owned Enterprises (SOEs). These initiatives will remain a priority in FY 2026-27.

2. Modernization of Land Records and Survey Equipment

The Department aims to upgrade to the latest software and equipment to enhance the accuracy of land records. To achieve this, the department has purchased 3 LISCAD software licenses and new computers for the survey team. The team continues to explore training opportunities for staff in using the database and software.

The Director of Lands & Survey has been working diligently to map and gazette all land portions. In FY 2025-26, a Master Island Survey is planned, aligning with international requirements for such surveys to be conducted every 10 years. This initiative will include:

• Coastal area re-surveys

• Bolts and drone surveys

• Mapping of newly erected houses, buildings, roads, and access roads, and

• Assessment of coastal erosion and sea level rise impacts.

The Master Island Survey will also provide essential data on the availability of phosphate land and coconut land for government use and housing development. The Department has completed the coastal survey for Menen District and will continue these works in FY 2026-27 and 2027-28.

3. Development of a Land Archive

The Department is working towards establishing a comprehensive land archive, where all data and land records will be stored both electronically and physically. To support this initiative, all vacant positions in this section have been filled. Plans for further development include:

• Acquired a large printer that supports scanning of old records, and

• Providing staff with archive management training through the Australian Society of Archivists' self-directed online courses and PARBICA.

These initiatives will strengthen the Department's capacity to manage land records efficiently and securely.

4. Enhancing the Land Records Section

The Land Records Section is responsible for processing land rental payments and updating all land records. To improve efficiency, the Department has engaged Datec Fiji to develop a land record database system which will be an in-country database. The Department has been working with the Department of ICT to make this project a reality. The initial steps have been made and the project is due to be completed by September, 2026.

The Department also engaged in mass banking data collection for land rental payments, this is still ongoing, and is due for completion by the end of FY 2025-26.

5. Implementation of the Funeral, Burial, and Cremation Act

The Department would like to mark the boundary for the National cemetery at the German wireless land and research the possibility of a national crematorium.

Cross-Goal 5: Build up resilience to combat the effects of climate change and natural disasters

Since July 2025, the **Naoero National Emergency Services (NES)** has primarily focused on a major national safety operation involving unexploded ordnance (UXO), alongside ongoing disaster preparedness and public health support.

Key activities and milestones recorded from 1 July 2025 to the present include:

1. Operation Render Safe (July – August 2025)

The most significant activity during this period was the management of a **State of Disaster** declared on 16 July 2025 following the discovery of a World War II-era unexploded bomb in the southern district of Boe.

- **Exclusion Zones & Evacuations:** The NES coordinated the enforcement of a 150-meter exclusion zone. This involved the mandatory evacuation of residents, the closure of schools (including Boe Infant School), and the restriction of all business and fishing activities within the zone.

- **International Coordination:** The NES worked closely with the **Australian Defence Force (ADF)** to facilitate the "render safe" procedure.
- **Successful Disposal:** The operation concluded on 28 July 2025, when the UXO was successfully disposed of, leading to the lifting of the State of Disaster.

2. Disaster Preparedness & Infrastructure (Ongoing)

Following the UXO operation, the NES has shifted focus toward long-term resilience projects:

- **Tsunami Readiness:** Activities have included conducting tsunami drill exercises for schools and clearing evacuation routes for infant schools in high-risk coastal areas.
- **Drought Mitigation:** The procurement of portable **Reverse Osmosis machines** for schools was prioritized to ensure water security during dry periods.
- Naoero Emergency Services progressed the development of a National Drought Management Plan, which is due to be completed in June 2026. This work was completed in partnership with the Department of Climate Change and National Resilience (DCCNR) and funded by the New Zealand Government.
- The team also worked with PCRIC, Department of Finance and other stakeholders to consider parametric drought insurance, which will be effective for Naoero from 1 April 2026.
- **Training & Capacity Building:** Personnel have participated in "Working in an Emergency Operations Centre" (EOC) training and Initial Damage Assessment (IDA) training, supported by the Pacific Community (SPC). An inter-agency Disaster Information Management System training workshop was also conducted in (March 2026).

3. Public Health & Emergency Response

- **Dengue Outbreak Support:** In late 2025, the NES supported the Ministry of Health in a national clean-up campaign to eliminate mosquito breeding grounds (derelict vehicles and buildings) during a dengue outbreak.

- **Emergency Communications:** Progress has continued on the **National Emergency Communications Strategy**, which includes the installation of early warning sirens and collaboration with Digicel for SMS alerts.

4. Regulatory & Legislative Updates

- **Authorized Officers:** Under the *National Disaster Risk Management Act*, new authorized officers (including police, fire, and ambulance personnel) were appointed in early 2026 to enforce public order and safety regulations.

Since 1 July 2025, Naoero's Department of Climate Change and National Resilience (DCCNR) has focussed on accelerating the transition to renewable energy, updating national climate policies, and driving forward major infrastructure-driven adaptation programs.

The department's major activities and milestones across this period include:

Updated Climate Action Frameworks (September 2025)

In mid-September 2025, the government officially launched its updated national climate frameworks.

- **RON Adapt 2025:** DCCNR launched the updated *Republic* of Naoero *Framework for Climate Change Adaptation and Disaster Risk Reduction* (RON Adapt 2025). The updated strategy focuses heavily on practical, ground-level resilience, such as expanding sustainable aquaculture, upgrading rainwater harvesting and storage in public institutions, integrating climate change education directly into school curriculums, and planting protective coastal vegetation.
- **Updated Nationally Determined Contributions (NDC 2025–2035):** DCCNR submitted its updated NDC to the UNFCCC, outlining eight critical thematic areas including Productive Land & Coast, Water Security, Food Security, Energy Security, and a dedicated section for Loss & Damage.

Energy Fleet Decarbonization & The SMARTEN Project

Guided by the *Naoero Energy Roadmap*—which targets having at least 20% of all vehicles on the island be electric by 2030—the DCCNR made significant strides through the **SMARTEN Project** (*Supporting Mainstreamed Achievement of Roadmap Targets on Energy in Naoero*):

- **Electric Vehicle (EV) Integration:** In September 2025, the DCCNR expanded the state's green transport footprint by acquiring its first six electric cars and ten electric bikes for the government fleet, building on the two electric buses already operational on the island.
- **Infrastructure Support:** The department has been rolling out corresponding charging stations across key nodes to support the expanding fleet.

Progress on the Higher Ground Initiative (HGI)

The DCCNR's dedicated HGI division has:

- Progressed the master land-use planning phases required for safe, structured relocation, and
- Linked the HGI directly to the newly drafted *Climate Smart Agriculture Plan* and the upcoming *Strategic Plan for the Sustainable Development of Agriculture* to dramatically expand localized food production on Topside.

Water and Food Security Upgrades

- **Water Quality Monitoring:** In late 2025/early 2026, Naoero progress moved toward the final stages of establishing a dedicated water office and laboratory under the Naoero Utilities Corporation (NUC) to actively monitor groundwater and distributed water safety, combating prolonged drought risks.
- **Climate-Resilient Fisheries:** The department initiated unconditional data-collection partnerships with the Pacific Community (SPC) to continuously monitor the direct impacts of sea-surface temperature changes and climate variability on coastal fisheries and marine resources.

International Advocacy & Regional Finance

DCCNR pushed heavily for the operationalization of the Multidimensional Vulnerability Index (MVI) at international funding tables to ensure small island developing states like Naoero can secure fair, streamlined access to affordable climate finance without being restricted by traditional GDP-per-capita metrics.

In FY 2026–2027, the Climate Action Unit of DCCNR will prioritize institutional strengthening through the development and finalization of the National Climate Change Policy (NCCP) Roadmap. This roadmap is envisioned as a living policy framework that aligns and integrates three key national climate strategies: the NCCP, NDC 3.0, and RON Adapt II. It will serve as a guiding instrument for the Climate Action team to effectively implement its mandate in addressing climate change.