

Renewed Optimism for Nauru's RONPHOS

Nauru, Phosphate, and the Resource Curse

Nauru, situated in the central Pacific, about 41 kilometers south of the equator, is the world's smallest island republic, with a land area of 21 square kilometers. The government, its agencies, and a number of state-owned enterprises (SOEs) comprise the bulk of the economy. The country has relied heavily on phosphate revenues. The industry currently supports approximately 700 families.

The people of Nauru had one of the highest per capita income in the world in the late 1960s and 1970s. However, Nauru is an example of the effects of what is known as the "resource curse." Mineral riches did not bring lasting prosperity. The decline of phosphate mining from the 1980s, coupled with poor management of the country's offshore assets and excessive domestic public expenditure, saw Nauru's

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economy collapse in the early 2000s. More than half of the country's households have incomes below the basic needs poverty line of A\$37 per person per week.

The Role of RONPHOS in Nauru's Economy

The Republic of Nauru Phosphate Corporation (RONPHOS) is a fully government-owned enterprise in the business of processing and selling phosphate in the international market. It has been granted a sole concession from the government, together with the Nauru Rehabilitation Corporation, which mines the phosphate. Being the largest employer on the island, RONPHOS plays a key role in Nauru's economy.

However, like many SOEs in the Pacific region, the productivity of RONPHOS has been low. This led to its inability to honor its obligation to pay dividends to the government, which in turn, resulted in lower-than-estimated government revenue. The financial status of RONPHOS was weak and its cash balances fell to critically low levels. Poor production volumes and low international prices put the viability of the company at

risk. As a result, staff morale has been low, and the people of Nauru generally held a pessimistic view about the company and the country's future.

Restructuring RONPHOS: Outcomes and Outlook

In 2011, the Government of Nauru sought assistance from the Asian Development Bank (ADB) to restructure the senior executive management of RONPHOS and recruit a new chief executive officer (CEO). ADB, through the Pacific Private Sector Development Initiative (PSDI) provided technical assistance, which represented the first use of PSDI resources in Nauru. A new CEO was recruited, and he commenced work in October 2011.

PSDI-funded efforts have resulted in RONPHOS registering a marked recovery in the last few months. The company's cash flow has drastically improved, with its cash balance increasing to more than 10 times the level before the new CEO started. As a result, RONPHOS has made all of its scheduled repayments on debt inherited from the Nauru Phosphate Corporation.

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Cantilever loading phosphate onto a ship for export at RONPHOS headquarters

Infrastructure Investment and Institutional Reform Combine to Reduce Poverty in Solomon Islands

The vast majority of the population of Solomon Islands lives in remote, widely dispersed, rural villages and relies on subsistence or semi-subsistence agriculture and fishing for their livelihoods. Lack of connectivity to major markets limits opportunities for people to generate cash incomes. According to the Asian Development Bank (ADB), income per person, estimated at \$1,030 in 2010, is the lowest among Pacific island countries.

Many Solomon Islanders rely on transport links with the provincial and national centers for essential goods and services. The ethnic tensions, which lasted from 1999 to 2003, not only resulted in extensive damage to public property; they also severed key transport links in Guadalcanal and Malaita. As the conflict escalated, destruction of essential infrastructure became widespread. Bridges were bombed and roads were severely damaged. The largest oil palm plantation in the country, Solomon Island Palm Oil Limited, located in East Guadalcanal, about 10 kilometers (km) east of the capital, Honiara, was closed down as all its processing facilities and other vital structures were destroyed. Many were left unemployed as a result.

Although peace and order were later restored with support from the Regional

Assistance Mission to Solomon Islands, the country's infrastructure was left in a dismal state. Many roads were in such a condition of disrepair that they were impassable by light vehicles and a challenge to cross even for trucks and buses.

Since 2000, development agencies, including ADB, the Australian Agency for International Development (AusAID), European Union, and the New Zealand Aid Programme, as well as private sector initiatives, have provided assistance for the rebuilding, upgrading, and rehabilitation of land and maritime transport infrastructure to support economic activity.

Supporting Economic Activity

To become viable again, the East Guadalcanal palm oil plantation needed, among other things, to be able to easily transport palm oil to the port in Honiara, for export in large tankers. This was made possible by the rehabilitation of the Guadalcanal east road, a 34 km link to Honiara, supported by ADB, AusAID, and the New Zealand Aid

Lack of connectivity to major markets limits opportunities for people to generate cash incomes

Programme through the Post-Conflict Emergency Rehabilitation Project. In 2005, Guadalcanal Plains Palm Oil Limited purchased the plantation formerly owned by Solomon Island Palm Oil and invested \$17 million in reestablishing the facilities and replanting aged oil palms. The new company has restored production to pre-conflict levels. It now employs over 4,000 workers, including a large number of smallholders that engage in contract farming.

The Post-Conflict Emergency Rehabilitation Project also restored vital transport links to facilitate the reopening of the Gold Ridge gold mine, which was destroyed as a result of the conflict. Having contributed as much as 34% of the country's gross domestic product (GDP) in the past, the reopening of gold mining operations has boosted the confidence of private investors in the economy. Gold Ridge produced 51,054 ounces for 2011 at an average price of \$1,689 per ounce, which gives gross revenues of \$86.2 million (10% of GDP). The mining life is expected to be 10 years, and production is expected to be 105,000 ounces in 2012, and 120,000 ounces annually until the end of its mining life.

The International Monetary Fund estimates that gold mining revenue (royalties, export duty, and income tax) will increase from less than 1% of GDP during 2011–2013 to around 4% annually starting in 2014 when the company begins paying income tax.

Generating Employment Opportunities in Rural Areas

In addition, ADB's other infrastructure projects, including the two phases of the Solomon Islands Road Improvement Project and the Emergency Assistance Project, directly stimulate economic activity in rural areas by generating some opportunities for employment. The Solomon Islands Ministry of Infrastructure Development engages members of local community groups in Guadalcanal, Makira, and Malaita to carry out labor-based, equipment-



Loading and unloading of cargo to/from interisland vessel after completion of Taro Wharf in Choiseul Province, Solomon Islands



Women engaging in labor-intensive road maintenance in Western Province, Solomon Islands

supported maintenance to ensure that assets are sustained. Rather than utilizing heavy machinery to fill pot holes or clear vegetation, manual labor is used, aided by simple tools and small-scale equipment.

The international contractors undertaking major rehabilitation contracts also actively involve local women’s groups to assist with various tasks. On Makira Island where the Solomon Islands Road Improvement Project—funded by ADB and the governments of Australia, New Zealand, and Solomon Islands—supported the rehabilitation of 100 km of roads, women from the Kaonasugu community were hired to weave gabion baskets. These wire cages filled with rocks are commonly used in road works to provide support and prevent erosion.

Lowering the Cost of Road Transport

The rehabilitated roads have not only improved access to Honiara and major market centers such as Gizo, but have also dramatically shortened travel times and lowered the cost of operating vehicles in Solomon Islands. These increases in efficiency have given rise to the commercial operation of taxis and other transport services, and allowed transport costs to fall up to 30% in some areas.

Strengthening the Maritime Transport Sector

Where road coverage is poor, maritime transport is the primary mode of transportation. The Domestic Maritime Support Project, supported by ADB, the European Union, and the Government of Solomon Islands, to strengthen the maritime transport sector, is reconstructing nine wharves and jetties throughout six provinces. This will result in increased shipping activity and improved services, making them more frequent, reliable, and cost effective.

The Domestic Maritime Support Project also implements a scheme that engages private ship operators to service commercially unviable routes in areas with a higher incidence of poverty, lower agricultural productivity, and less access to transport services. Eight routes are currently being subsidized with a view to these becoming commercially viable as economic activity increases in the outer islands as a result of the interventions. The scheme also builds private sector capacity within the shipping industry.

Better access to the wharf facilities and shipping services as a result of the project allows goods and produce to be freighted between Honiara and the outer islands. The improved access to markets provides rural areas with increased economic opportunities.

Stimulating Market Activity

The infrastructure projects have helped stimulate a dramatic growth in production and marketing of main market crops, such as cocoa, copra, and oil palm. In Guadalcanal, the sale of such crops has increased by about one third after project completion. Villagers report that sales of farm produce have increased 75% and new sources of off farm income have increased fourfold.

Complementing Institutional Reform

While improving infrastructure is a necessary condition to enhance economic activity and reduce poverty in Solomon Islands, it is not sufficient on its own. Sustained economic growth will also require strengthening the institutions that reduce the cost of doing business in order to encourage investment and entrepreneurship.

The Pacific Private Sector Development Initiative (PSDI) complements infrastructure investment by assisting Solomon Islands to improve its business law framework, increase access to finance, and improve the efficiency and governance of state-owned enterprises. PSDI has so far engaged in initiatives, such as company law reform, that have made it easier to do business in Solomon Islands. For example, the new online registration process allows those living in remote areas to set up formal business with greater ease and at lower cost. The new Companies Act has a provision for single shareholder and/or director companies, which better suits the needs of small enterprises, and gives women greater control over their business and income by removing the need for a second, usually male, owner. The new Act also allows for the registration of “community companies,” a corporate form that provides a more transparent and accountable alternative to holding and using community assets under charitable trusts or cooperatives. PSDI has also assisted in strengthening the collateral framework, making it easier for businesses to access credit. It has provided assistance for the reform of state-owned enterprises to improve delivery of public services as well as the customs and excise framework to support efficient revenue collection.

In this way, a combination of infrastructure investment and institutional reform is laying the foundation for a brighter economic future for Solomon Islanders. ■

Papua New Guinea Passes Personal Property Security Act



The Personal Property Security Bill supported by the Asian Development Bank’s Pacific Private Sector Development Initiative was tabled in Parliament and passed into law on 9 December 2011. Implementation support, including the development and installation of an electronic registry, has commenced in April 2012.

Renewed Optimism for Nauru's RONPHOS

RONPHOS is on track to meet its two key performance targets: an export volume of 450,000 tons and the timely payment of dividends to the government. Production yield has substantially increased since the new CEO took over, and there is optimism that the company will meet its targeted export volume, which is about 17% higher than actual production of 385,000 tons in fiscal year 2011. The company has also committed to advanced quarterly dividend payments to the government. It has already paid the government \$3 million in dividends, which is higher than the amount paid in the 2 previous fiscal years combined. This allows the government to more adequately fund social services, such as in the areas of education and health.

Not only does the revitalized RONPHOS have a substantial trickle down



Reynold Samson David, Chief Executive Officer, Republic of Nauru Phosphate Corporation

RONPHOS' far-reaching improvements have helped generate renewed confidence not only in the company but also more broadly in the economy

effect on the economy as a whole through the payment of government dividends and other means, but it also directly improves the lives of the people of Nauru. "The real benefit of RONPHOS' restructuring and success is related to employment," said Australian High Commissioner for Nauru, Bruce Cowled. RONPHOS currently employs close to 500 workers who are now paid on time. RONPHOS' far-reaching improvements have helped generate renewed confidence not only in the company but also more broadly in the economy.

In addition, the improved financial performance of RONPHOS allows it to pay royalties to land owners on time. This will facilitate negotiations for further use of the land, which is particularly critical as Nauru is about to transition into secondary mining of phosphate.

"The future of RONPHOS is very promising even as the primary land is becoming exhausted. The challenge for RONPHOS now is to find innovative

ways to add value to what is left after the primary mining," said Minister of Finance David Adeang.

Other Support for Private Sector Development

ADB, through PSDI, is currently providing support to develop and implement performance management systems for the Nauru Rehabilitation Corporation and the Nauru Utilities Corporation, which will include the recruitment of the new CEOs.

SOE reform remains one of the government's key policy priorities. According to Minister Adeang, "We plan to extend reforms to other SOEs with a focus on improved corporate governance. We have a good momentum to continue and broaden SOE reforms, and the government is determined to stay on track."

The Government of Nauru has also requested ADB assistance to assess the different options for attracting a foreign financial institution to provide services in the country. Since the Bank of Nauru collapsed in the early 2000s, Nauru has been without a financial institution capable of providing commercial banking services. The delivery of basic financial services on the island will allow Nauruans to hold deposits, thereby providing an incentive to save or invest surplus income, as well as access credit to engage in business activity. ■



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