



Australian Government

Department of Foreign Affairs and Trade



# Aid Program Performance Report 2013-14

Nauru

September 2014

## Key Messages

- Australia contributed \$14.7 million through the bilateral country program for Nauru in 2013-14.
- The aid program focuses on the Partnership for Development priorities of public sector management, health, education and infrastructure.
- Nauru has experienced significant economic growth in 2013, with its budget growing from \$27 million in 2010-11 to \$99 million in 2013-14 and the country achieving almost full employment in 2012-13.
- Much of Nauru's economic growth in 2013-14 can be attributed to its hosting of the Offshore Processing Centre (OPC) but also revenue from fisheries. The presence of the OPC has also contributed to almost full employment and some increased private sector opportunities.
- The Australian aid program has contributed to results, in the following sectors:
  - public sector management – creation of Nauru's first tax system and customs legislation, improvement to the Financial Management Information System, the introduction of an independent procurement agent, and scoping negotiations to establish an Intergenerational Trust Fund; and
  - education – teacher qualifications (93% of teachers now hold certificate, diploma or degree level qualifications<sup>1</sup>) and early signs of improvements in literacy rates.
- Reviews of the health and education sectors undertaken during 2013-14 found both sectors to be operating under strong strategic planning and the focus of Australia's aid program for these sectors is appropriate.
- The improved fiscal position of the Nauru Government, its 'localisation' policy for key public service roles and the slimming of the bureaucracy has, on occasion, affected its ability to spend all grant funds in a timely fashion.
- The aid program is complemented by significant spending on infrastructure and services by the Department of Immigration and Border Protection (DIBP), which is working together with the Department of Foreign Affairs and Trade (DFAT) to align Australian government spending with broader Nauruan and Australian development objectives. This alignment is reflected in the continuing focus on infrastructure with agreement reached between Australia and Nauru to refurbish the country's only hospital, which burnt down in 2013.

## Context

### Economic performance

Over 2013-14, Nauru's economy has prospered with revenue increasing from approximately \$57 million in 2012-13, to approximately \$99 million in 2013-14. Unemployment levels were negligible. The Government has focussed on repayment of public debt such as pending salaries, and increased public sector salaries, welfare and land owner payments. Liquidation of the defunct Bank of Nauru and the RoNWAN Trust Fund has resulted in considerable sums being distributed to members of the community.

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<sup>1</sup> Nauru Education Sector Review, February 2014, page 26

The Government is pursuing the establishment of a new Intergenerational Trust Fund to which some of this increased revenue can be channelled as savings for the future. While the Government has allocated a good proportion of its revenue into paying off domestic debt (Nauru aims to be debt free by 2015<sup>2</sup>), it does not appear to have made large investments this financial year into maintenance or construction of nation building infrastructure.

While Nauru is enjoying the benefits of the recent economic boom, the Government's expenditure profile in light of increased public sector salaries and land payments may not be sustainable should the country's fiscal circumstances change significantly.

### **Political context and governance**

There was a change of government in Nauru following elections held in June 2013. The Government has made some significant legislative changes, including the introduction of the country's first tax regime.

Early in its first term, the Government introduced a policy of localising senior management roles in the public sector previously filled by donor funded expertise. This resulted in the replacement of some Australian funded Pacific Technical Assistance Mechanism (PACTAM) advisors during 2013-14 particularly from within Nauru's Ministry of Finance (MoF). However, three key roles (Deputy Secretaries for Revenue, Customs and Treasury) were subsequently filled with Australian funded expertise and it is expected that more roles will again be filled in this way. The Government of Nauru's capacity to effectively manage day to day business, including implementation of donor funded activities, was diminished for approximately six months. That capacity is returning.

### **Development indicators**

There is some evidence of serious poverty in Nauru. Those Nauruans who are not landowners will be impacted by the reduced purchasing power of the average Nauruan salary owing to rising costs of food and services. With an increased population, economic activity and greater spending on goods like cars, Nauru's infrastructure is under additional strain. Work is required at the power station to continue improvements to power and water supply. The 105 year old sea port is in need of modernisation and the single ring road around the island is in need of drainage repairs and resurfacing. Additional classrooms are required in schools to accommodate an expanding population base. Much of this infrastructure work will require donor assistance over an extended period.

Australian support for infrastructure programs will be managed primarily through project aid as Australia shifts away from provision of grant aid. This shift aligns closely with DFAT's policy position and strategy for aid engagement with Nauru. It encourages the Government of Nauru to take greater responsibility for funding day to day operational expenses (salaries, consumables and other inputs) allowing donor funds to be directed toward major nation building infrastructure.

While there may be some barriers to women participating in political leadership, encouragingly one of Nauru's five Ministers is a woman. Police reporting also notes domestic violence remains a challenge and this will be quantified through a national survey to be finalised in late 2014.

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<sup>2</sup> Nauru 2014-15 Budget Paper 1, page 8

## Donor environment

Australia is the largest aid donor in Nauru. Taiwan is Nauru's second largest donor, followed by New Zealand. For larger projects, such as the port, Australia is working with the ADB and the Government of Nauru to build donor consortiums. Other donors may be attracted to Nauru in time by taking this approach.

## Expenditure

In 2013-14 Australia contributed \$20.2 million to Nauru. Of this, \$14.7 million was provided through the bilateral country program. The remaining \$9.2 million was delivered through regional programs. Australia's contribution to Nauru in 2013-14 was down by \$5.5 million from the \$23.4 million provided in 2012-13<sup>3</sup>. This was a result of a reduced bilateral budget and funding earmarked for infrastructure and essential services (\$5.5 million) being held-over to 2014-15, subject to Nauru meeting agreed performance benchmarks, effectively spending existing grant funding and maintaining cash balances at acceptable levels.

Table 1 Expenditure in FY 2013-14<sup>4</sup>

| Objective                             | A\$ million | % of bilateral program |
|---------------------------------------|-------------|------------------------|
| Public Sector Management              | 3.5         | 24                     |
| Improved Health                       | 3.9         | 27                     |
| Improved Education                    | 3.8         | 26                     |
| Infrastructure and Essential Services | Nil         | Nil                    |
| Private Sector Growth                 | 0.5         | 0.03                   |

Source: Aidworks

## Progress towards objectives

- › While there have been positive economic developments for the country as a whole, the rate of progress in 2013-14 slowed compared to previous reporting periods. This was primarily as a result of the temporary absence of key Australian funded PACTAM advisors in senior positions within a number of Ministries. Most positions have been refilled with PACTAM advisors with Australian funding.
- › Despite these early challenges, financial reforms such as the creation of Nauru's first tax regime were able to be established. Nauru's strong revenue base and improved budget position may help it implement further reforms and become less reliant on aid over time. The main area where progress has slowed is in the Infrastructure and Essential Services sector, where Australia held over funding until the next financial year.
- › Given Nauru's expanded revenue base in 2013-14 and its subsequent capacity to self-fund much of the operational costs associated with power and water, DFAT will reduce grant funding to cover day to day operational and maintenance expenses. The aid program is

<sup>3</sup> Decision not to provide full bilateral aid allocation was made in light of slow expenditure of previous year's aid allocation.

<sup>4</sup> Note: This reporting does not include \$2.7 million in logistical support and program management and monitoring costs.

moving away from current modalities in some sectors, with a project based model for the infrastructure sector focussed on jointly identified needs.

Table 2 Rating of the program's progress towards Australia's objectives

| Objective                             | Current Rating | Previous Rating |
|---------------------------------------|----------------|-----------------|
| Public Sector Management              | Amber          | Green           |
| Improved Health                       | Amber          | Green           |
| Improved Education                    | Amber          | Green           |
| Infrastructure and Essential Services | Red            | Green           |
| Private Sector Growth                 | Amber          | Amber           |

Note:

■ Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.

■ Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

■ Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

Reporting period:

### Public Sector Management

Following the June 2013 election, the new Government of Nauru's localisation agenda resulted in the temporary absence of most Australian funded expatriate advisors during 2013-14. This included senior positions within the MoF, the Ministry for Health, Nauru Utilities Corporation (NUC) and the Department of Education. Expenditure and progress toward objectives has been slower than anticipated during the reporting period, hence the 'amber' rating. As of February 2014 key advisory positions were refilled with Australian funded PACTAM advisors (Deputy Secretary Customs, Deputy Secretary Revenue, Deputy Secretary Treasury, Chief Accountant and Human Resources advisor). This has assisted with bringing the reform momentum back on track. A 'green' rating is anticipated early in the new reporting period. While the program is exposed to some risk through localisation, this is a laudable objective where suitable local capacity exists and buttressed by PACTAM expertise where necessary.

The 2013-14 grant funds for this sector (\$1.18 million) were not transferred to Nauru until June 2014, as the MoF had not managed to effectively spend a significant proportion of 2012-13 grant funds. The Government of Nauru has continued to use grant funds provided in 2012-13 to progress a number of agreed initiatives.

Despite the early challenges, there have been achievements towards the end of the reporting period such as the creation of the country's first tax system, which will provide a mechanism for revenue-raising. The Government also implemented customs reform and made improvements to the aid funded Financial Management Information System (FMIS). A 2013 Public Financial Management review by the Pacific Financial Technical Assistance Centre (PFTAC) found that significant strides had been made in some areas (eg installation of the FMIS), better policy

focused budget preparation documentation and important procurement reforms. The latter leading to the introduction of an independent procurement agent in late 2013<sup>5</sup>.

Australian funding continued to support Deloitte to progress the liquidation of the Bank of Nauru. Deloitte finalised its work on this project in 2013-14 and any subsequent efforts to pay out remaining amounts and reclaim remaining debts will be undertaken by the Government of Nauru.

In 2014, the annual audit of the Government of Nauru managed Operational Account identified a range of administrative and accounting anomalies. This suggests that the temporary shortfall in capacity within the Ministry of Finance during 2013-14 has had some impact. Improvements are expected owing to the return of expert advisors and as Nauruan localised expertise beds down.

Australia's regional aid funding also made a significant contribution in this sector through capacity building for Nauru's National Audit Office through the Pacific Association of Supreme Audit Institutions and training delivered through the Pacific Islands Centre for Public Administration in Public policy analysis and advice.

### **Improved Health**

The Australian Government has agreed to refurbish the Nauru hospital following a fire in August 2013. Immediately after the fire, Australia reallocated \$1.2 million of funding to restock all pharmaceuticals and replace other critical equipment such as an x-ray machine.

Australia provides approximately 40 per cent of the Ministry for Health and Medical Services' (MHMS) operating budget to assist the Ministry in its daily operations. An independent review of the health sector undertaken in February 2014 found Australia's support for the Ministry "vital and should be continued"<sup>6</sup>. Grant funding for the health sector reform program (\$3.7 million) was not transferred until June 2014 as a result of slower than expected expenditure of funds provided in 2012-13. The Ministry has been using funds provided in previous years to pursue a range of ongoing activities in 2013-14.

With Australian assistance, the MHMS continued to reach more than 95 per cent coverage for key vaccines<sup>7</sup>, including tuberculosis, measles, Hepatitis B, polio, diphtheria and tetanus. For the second consecutive year, there have been zero maternal deaths<sup>8</sup> in Nauru during 2013-14, although the infant mortality rate has remained constant at just over 20<sup>9</sup> deaths per 1,000 live births (or approximately 6 deaths per year). In 2013 the Australian regional aid program funded UNICEF to establish an intensive newborn care unit which has the potential to improve these statistics.

There are gaps in access to sexual and reproductive health services and information, particularly for young women. The need for family planning is also high, at 23.5 per cent<sup>10</sup>.

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<sup>5</sup> PFTAC Aide Memoir on PFM Review Mission, April 2013 page 1.

<sup>6</sup> Nauru Health Sector Review February 2014, page 4.

<sup>7</sup> Nauru Health Sector Review, February 2014, page 26 Table

<sup>8</sup> Ministry for Health and Medical Services informal reporting, July 2014.

<sup>9</sup> Nauru Health Sector Review February 2014, page 25

<sup>10</sup> Nauru Gender Country Plan, April 2014, page 10

Teen pregnancy rates are high (15 per cent)<sup>11</sup> and a recent survey of 120 pregnant women found high rates of Chlamydia (32 per cent)<sup>12</sup>.

An Australian funded health educator is undertaking targeted local capacity building for locally recruited staff. The efforts are having positive results, but would be more effective if there were broader improvements in technical training in healthcare. A further key recommendation of the health sector review is that strengthening human resource management through a focus on a sustainable nursing workforce and skills development among local school leavers be pursued. This will be central to Australian assistance in 2014-15. Australian funding is helping to address limited local capacity through scholarships in healthcare related studies.

The Australian Sports Outreach Program in Nauru—known as Epo'n Keramen (EK)—is helping to improve the health and wellbeing of Nauruans. Funding is provided to increase leadership opportunities and engagement of Nauruans in community activities, and to increase participation in physical activities that will improve their health. More than a third of Nauruans have participated in EK. This will help combat NCDs such as diabetes by getting people more active more often, and by providing opportunities to deliver messages on other risk factors including diet, tobacco and alcohol.

Regionally funded activities for Nauru supported four visits to Nauru by medical teams mobilised by the Royal Australia College of Surgeons in the areas of vascular and ear, nose and throat surgery, cardiology and gastroenterology.

### **Improved Education**

Australia provides approximately 45 per cent of Nauru's education sector budget in grant form as a contribution to the Ministry of Education efforts to implement its strategic plan. Australia also provides up to 10 Australia Awards scholarships each year with a total of 86 long term awards and 11 short-term awards provided to Nauru from 2007–2014. Australia Awards focus on areas of importance to the development of Nauru including health, education, commerce and public sector administration and management.

In 2013 there were 123 teachers and 3,327 students enrolled across Nauru's seven schools including 1,728 girls and 1,599 boys<sup>13</sup>. This gender balance remains relatively stable through the different levels of schooling and broadly reflects the gender demographic across the island. However, challenges remain. Ministry of Education figures suggest truancy level are comparatively high and year six national examination scores across all subjects need to improve. Australian aid will need to continue to focus on the comprehensive reform agenda, improving learning outcomes, and addressing school attendance.

With Australian assistance the Ministry of Education has successfully developed a new strategic plan outlining comprehensive, relevant and appropriate strategies to improve education outcomes. This includes up-grading teacher qualifications; supporting youth re-entry into education; developing early childhood education services; focussing on technical and vocational education and training; expanding teacher services for children with a disability; introducing an

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<sup>11</sup> *ibid*

<sup>12</sup> *Supra* N9

<sup>13</sup> Nauru Education Sector Review, February 2014, page 13

Australian senior secondary school curriculum; and benchmarking assessments of literacy and numeracy at key points in the school cycle.

There has been strong progress in important areas such as improved enrolment rates (net primary enrolments in 2013-14 were at 100 per cent<sup>14</sup> already meeting the Partnership for Development target for 2015), teacher qualifications (93 per cent of all Nauru's teachers now hold either a certificate, diploma or degree level qualification<sup>15</sup>). There are also some early signs of improvements in benchmarked learning outcomes with a 20 per cent increase in the number of students meeting the year 6 literacy benchmarks over 2012-13 results<sup>16</sup>. Broadly speaking, both boys and girls tend to achieve similar academic results.

Australian assistance will focus on consolidating these gains through ongoing support for teachers and principals over coming years. The new Ministry of Education strategic plan includes a multi-faceted school-community partnership approach to addressing the problem of school attendance.

Funding through Australian regional programs supported 36 students from Nauru to pursue studies at the University of the South Pacific<sup>17</sup>, as well as 20 enrolments and 12 graduates through the Australian Pacific Technical College<sup>18</sup>.

#### **Infrastructure and Essential Services**

Australian support for infrastructure and essential services is predominantly provided in the form of grant funding to support the operations and management of the Nauru Utilities Corporation (NUC). Australian funding in 2013-14 covered the position of CEO<sup>19</sup>, and Operations Managers for power and water services.

Over the last few years NUC has made progress in restoring these services to a reliable 24 hour per day supply. However, in 2013-14 services declined with power outages and water production struggling to meet demand. These challenges can be attributed to the expanding population base, ageing infrastructure and demanding maintenance regimes at the NUC.

Australia did not provide funding for this sector in 2013-14. Funds allocated to infrastructure and essential services have been held-over to the 2014-15 financial year and will be provided to Nauru subject to a number of benchmarks being met. Those benchmarks will be aimed at strengthening management and maintenance of key assets.

In 2013-14, Australia funded construction of a new technical and vocational training facility as part of the ongoing development of Nauru's Learning Village that will ultimately also house a library and a University of the South Pacific campus.

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<sup>14</sup> *ibid*, page 18

<sup>15</sup> *ibid*, page 26

<sup>16</sup> *ibid*

<sup>17</sup> USP 2013 Annual Report

<sup>18</sup> APTC Quarterly Reports September 2013 and March 2014

<sup>19</sup> Funding for the CEO NUC will not continue beyond 2013-14

Funding through the regional program supported the Secretariat of the Pacific Community's Adaptation to Climate Change Project which provided solar powered water desalination plants to assist with sustaining water supplies.

### **Private Sector Growth**

An increase in general economic activity has resulted in the revitalisation of the private sector in Nauru. There are new Nauruan businesses being established and thriving in a wide range of services, providing increased job opportunities for Nauruans, income for business owners and increased revenue for the Government from customs and other duties.

In 2013–14, Australian assistance under this objective continued to focus on support for phosphate mining funded through the Nauru Australia Compact of Settlement (NACOS)<sup>20</sup> and the ongoing Fisheries Institutional Strengthening Program. Funding provided under NACOS represented a core element of operational budget for the Nauru Rehabilitation Corporation (NRC) in pursuing its phosphate mining operations. NACOS funding ended in 2013-14. It will be important for NRC to focus on the efficiency of mining operations if the industry is to have a sustained future.

In 2013-14, Australia provided funds to support the costs of a full time fisheries advisor to oversee implementation of phase two of the Fisheries Institutional Strengthening program. Phase two is focussing on the development of private sector opportunities in areas such as aquaculture and aquarium fisheries, in particular, construction of infrastructure (holding ponds) required to establish and maintain stocks for local Milkfish farming. Progress was also made in establishing an appropriate policy and regulatory framework for onshore private sector fisheries. Revenue from the operations of the NFMRA continues to expand and in 2013-14 revenue from the sale of fishing licences was estimated at \$21 million<sup>21</sup>, up from approximately \$10 million in 2012-13<sup>22</sup>.

## **Gender**

- › Through Pacific Woman Shaping Pacific Development, Australia has committed approximately \$5 million to support women's empowerment in Nauru. In 2013-14 a two year country plan was developed outlining the first activities, including recruitment of a counsellor with expertise in domestic violence and working with children. The counsellor will be responsible for managing a caseload, training health sector workers and developing protocols for identifying and working with survivors of violence, assist health workers to develop and roll out an awareness campaign and support improved linkages between police, health workers and the government supported safe house.
- › Australia is also assisting Nauru to revise its Crimes Act to include a chapter on domestic violence, continue funding the Country Focal Officer for the Regional Rights Resource Team, who supports efforts on domestic violence with the justice sector.

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<sup>20</sup> The Nauru Australia Compact of Settlement (NACOS) was finalised in 1993 as an out of court settlement. The Government of Nauru agreed to discontinue its claim against Australia in the International Court of Justice for compensation for phosphate lands mined before 1st July 1967, while Australia agreed to pay Nauru a cash settlement of \$107 million: \$57 million upfront and \$50 million at an annual rate of \$2.5 million (in real terms) over 20 years commencing in 1993-94.

<sup>21</sup> Government of Nauru Budget Paper 1, 2013-14 Table 3 page 5.

<sup>22</sup> *ibid.*

## The Australian Federal Police Capacity Building Program

- › The Nauru Police Force (NPF) Police Capacity Program (PCP) is a bilateral component of the Australian Federal Police (AFP) Pacific Police Development Program (PPDP) and was established in November 2004.
- › The PPDP trained the NPF in the use of their electronic Case Management System, providing the ability for the NPF to electronically record all criminal complaints, and manage the case through to finalisation. Mentoring was provided to the Criminal Investigations Unit officers during relating to the investigation into the July 2013 riot at the OPC.
- › Approximately 60 NPF officers received training in the 2013-14 financial year. Training was conducted by AFP trained and qualified NPF instructors in public order management (POM). AFP trained Police Negotiators continued to perform in-house training on the negotiation equipment provided by the NPF PCP. Two commissioned NPF officers attended a PPDP-regional command control and coordination course in Australia.

## Mutual Obligations

- › Australia funded a human resources advisor to help the Government of Nauru develop HR planning and to undertake a public sector job evaluation review aimed at developing stronger performance linked salary scales and career pathways for public sector employees.
- › Attracting a commercial bank to establish a branch in Nauru is another priority for the Government of Nauru. With Australian assistance (through the Asian Development Bank), the Government has made all necessary arrangements to legally establish a bank in Nauru. For a range of reasons, no bank has yet been established.
- › The Government of Nauru has undertaken to improve its financial reporting by implementing the roll out of the FMIS to line agencies, preparing user manuals and providing training for relevant personnel. Australia will fund technical assistance to improve the functionality of the FMIS.

## Program Quality and Management

- › DFAT arranges annual independent audits of the Operational Account. In 2013-14, the audit reported a range of administrative and technical accounting anomalies, pointing to capacity constraints in the Ministry of Finance over this period. Placement of three PACTAM advisors in Deputy Secretary roles within the department in early 2014 will help address many of these issues.
- › Monitoring visits by the DFAT funded Program Monitoring and Advisory Group (PMAG) take place several times per year focussing on one sector each visit. In 2013-14, PMAG reviewed the health and education sectors, focussing on the effectiveness of Australia's assistance.
- › Assessments of Nauru's economy and PFM arrangements are undertaken at least once per year either through PFTAC or as part of a joint PMAG/ADB exercise. In April 2014, a joint PMAG/ADB economic mission assessed Nauru's broader economic circumstances and the impact of the aid program in strengthening PFM systems. The assessment estimated the

Nauruan economy will grow from 4.9 per cent in 2013 to 10 per cent in 2014<sup>23</sup>. The report also notes a number of risks associated with this rapid economic growth, including the potential for an inflationary effect and distortion to the labour market. The report suggests that the focus of Australia's assistance for PFM reform (improving efficiencies in budget and revenue management) is both high priority and appropriate<sup>24</sup>.

- › An April 2014 PMAG/ADB assessment of Australian assistance for power and water services found that despite a return to regular power outages in 2013-14, Australia's continued support for the NUC is appropriate, including efforts to improve corporate management – an area currently led by the ADB as part of its SOE (State Owned Enterprise) reform program<sup>25</sup>. The decline in the reliability of power services in particular over the 2013-14 period suggests that in the future Australia should investigate a more effective modality of support for this sector.

### **Analysis of Quality at Implementation Reports**

- › A summary of Quality at Implementation (QAI) ratings is at Annex B. Ratings for relevance remained strong. Overall the trend in ratings for 2013-14 demonstrates some decline in quality, particularly in regard to effectiveness and efficiency. Ratings for M&E and sustainability also showed some decline, although there was an improvement in the rating for M&E in regard to the public sector management initiative. This reflects the ongoing scrutiny from the PMAG, PFTAC, ADB and the annual audits of the operational account.
- › Ratings for gender equity showed a mixed result against last year's QAI ratings, but overall results in this area suggests room for improvement. Effort will be required over the next year to reach the aid policy benchmark on gender equality. While this percentage will improve due to new activities under the Pacific Women Shaping Pacific Development initiative, targeted work would be desirable to mainstream gender equality in other programs, particularly in health, education and infrastructure.

### **Partner Performance**

- › Australia's key partners in delivering assistance to Nauru are New Zealand, the ADB and PFTAC. New Zealand provides funding in support of the education sector but delegates management and oversight of implementation arrangements to Australia. New Zealand provides significant assistance for the law and justice sector providing funding to support the judiciary and other senior positions within the Justice Department. New Zealand's role in this sector is a positive complement to Australia's broader role ensuring significant donor investments are underpinned by a strong and independent judicial system and rule of law.
- › Support through the ADB has also been complementary to Australia's investments with significant work with the NUC in support of improved power and water operations, as well as on strengthening management and operations of SOEs more broadly. Both the ADB and PFTAC play a central role in supporting Nauru's PFM systems through technical assistance

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<sup>23</sup> PMAG independent review report April 2014, page 3 paragraph 15

<sup>24</sup> *ibid* executive summary page VI

<sup>25</sup> *Supra* N24 page 13

and training provided to build capacity of the Ministry of Finance and support the Australian funded advisors working in senior management roles.

- › While the temporary absence of two Australian funded PACTAM advisors resulted in a decline in the Ministry's PFM capacities and deterioration of some accounting and administrative systems, these positions were subsequently filled.

## Risks

Table 3 Management of key risks to achieving objectives

| <b>Key risks</b>  | <b>What actions were taken to manage the risks over the past year</b>   | <b>What further actions will be taken to manage the risks in the coming year</b>   |
|---|---|--|
| Political instability in Nauru impedes progress on development activities or detracts from reform agenda.   | Consultations with the GoN MoF at Assistant Secretary level to discuss performance measures and progress and to underscore Australia's priorities and expectations.   | Assistant Secretary, High Commissioner and GoN departmental secretary level dialogue is maintained to ensure attention and commitment to development activities and the reform agenda. |
| A stronger domestic budget position results in a reduced commitment to the reform agenda and loss of influence by donors.   | Assessments of Nauru's economy, the impact of increased revenue and the GoNs approach to managing revenue flows were undertaken twice in 2013-14 by DFAT economists and PFTAC. The assessments informed regular consultations with GoN on economic management.                      | As above.  |
| Fiduciary risk increased and continued use of GoN PFM systems brought into question due to loss of advisors and loss of capacity.                                 | This has materialised in 2013-14. DFAT has since provided additional new advisors. Alternative approaches are being explored to minimise use of GoN systems.  | Explore and implement alternative delivery models for Australian aid focussing multilateral organisations, managing contractors and technical assistance.                              |
| The cessation of NACOS payments leaves phosphate mining under resourced reducing government dividends and risking job losses in mining and associated industries. | DFAT facilitated the NRC unrestricted access to funds held in the Rehabilitation and Development Cooperation Agreement Trust Fund to support core mining operations for the next 3-4 years, until a stronger revenue base can be established and operational efficiencies improved. | No further action required.  |
| Roll out of the FMIS is unsuccessful and the GoNs capacity to effectively report on and manage PFM processes declines.  | Minimise provision of grant funding and move toward a greater focus on managing contractors and use of other institutions such as the ADB and PFTAC.  | DFAT will consider providing funds directly to the IPA for procurements using Australian aid funding.  |

|  |   |   |
|--|---|---|
| The new independent procurement agent (IPA) is not effectively and exclusively utilised by GoN or SOEs.  | Formalised a requirement that all DFAT funded procurements must be managed by the IPA and have closely monitored use of the IPA by GoN and SOEs. Audit of the Operational Account also reviewed use of the IPA. | Assist GoN in undertaking a review of the IPA and attach significant PLA funding to exclusive use of the IPA.   |
| Fiduciary risk increased due to slow expenditure of aid funding resulting from limited capacity in Nauruan public service (reduced numbers or low skill level) | A significant amount of funding was deferred to 2014-15. Continued support for the education sector and scholarships to increase the skill level.   | Consider reducing the number of sectors supported through the aid program. In addition, explore and implement alternative delivery models for Australian aid. |

## Management Responses

- › Pursue alternative delivery methods and minimise use of Government of Nauru PFM systems. Continued use of Government systems is placing additional administrative and reporting burden on all ministries which are already challenged to meet the demands of day to day operations. Alternative delivery methods such as use of managing contractors, regional organisations and multilateral development banks should be explored.
- › Consolidate investments and focus resources and increase effectiveness and efficiency of flagship sectors such as health and education.
- › Enter into a procurement contract with Nauru's IPA (or alternative procurement provider) to give donors greater oversight of procurements. This will assist to further minimise administrative complexities for the MoF and other ministries, and reduce the level of grant funding.
- › During negotiation of the next phase of Australia's development assistance, strategies for the health and education sectors should implement the recommendations of all recent reviews, where appropriate, resources permit and the Nauru Government agrees.
- › Continue to provide technical assistance to implement the recommendations of the audit of the Operational Account.
- › Engage with Australian gender advisors to better embed gender considerations into investments.
- › Work closely with DIBP and other Australian government partners to manage pressures on the Nauruan system, develop whole-of-government strategies for funding requirements on agreed priority needs.
- › Sympathetically consider further deployments of PACTAM advisors as requested by Nauru and explore the deployment of Australian volunteers to assist Nauru at the working level in infrastructure and utilities.
- › Cease budget support for day to day operational expenses in the utilities sector and focus funding on major infrastructure developments such as the hospital reconstruction, education facilities and other essential infrastructure.
- › Continue to use the PMAG model with modifications to make it more effective and efficient.

## Annex A

### Progress in addressing 2012-13 management responses

| Management consequences identified in 2012-13 APPR  | Rating          | Progress made in 2013-14   |
|---|-----------------|--|
| <ul style="list-style-type: none"> <li>Engage closely with the Government of Nauru, ADB and PFTAC on policy and planning relating to management and effective use of Nauru's expanding revenue base.</li> </ul>   | Ongoing         | <ul style="list-style-type: none"> <li>The ADB, PFTAC and DFAT have engaged closely over 2013-14 on a number of economic assessment missions and on developing plans for more effective use of excess revenue, including on developing an intergenerational Trust Fund for Nauru to help absorb revenue</li> </ul>                                       |
| <ul style="list-style-type: none"> <li>Close engagement with the ADB, PFTAC and other donors will be required to ensure ongoing participation in the PMAG process.</li> </ul>   | Ongoing         | <ul style="list-style-type: none"> <li>The ADB and PFTAC have been actively engaged in PMAG processes throughout 2013-14 including on economic assessment missions and PFM assessments.</li> </ul>   |
| <ul style="list-style-type: none"> <li>Develop a performance assessment framework.</li> </ul>   | Not Achieved    | <ul style="list-style-type: none"> <li>Sectors in which performance benchmarks will apply have been agreed between the Governments of Australia and Nauru, with verification measures to now be agreed.</li> </ul>   |
| <ul style="list-style-type: none"> <li>Establish reference groups for the health, education and infrastructure sectors involving DFAT specialists and Nauru program personnel as well as representatives of Nauru's departments of health and education and the Nauru Utilities Corporation.</li> </ul>                       | Not Achieved    | <ul style="list-style-type: none"> <li>No longer a priority.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Undertake a review of assistance to the education sector including an Australia Awards tracer study.</li> </ul>  | Achieved        | <ul style="list-style-type: none"> <li>Completed.</li> </ul>   |
| <ul style="list-style-type: none"> <li>Agree on a timeline for the Government of Nauru and ADB for shifting our funding emphasis in the infrastructure sector from operational expenses to institutional reform of the Nauru Utilities Corporation, as well as other strategic infrastructure investments.</li> </ul>         | Achieved        | <ul style="list-style-type: none"> <li>Timeline agreed as 2014-15 onwards.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Undertake a gender analysis, develop a gender strategy and establish mechanisms for gathering statistics on gender issues.</li> </ul>  | Achieved        | <ul style="list-style-type: none"> <li>Gender analysis undertaken and a country plan prepared for roll out of the Pacific Women Shaping Pacific Development initiative over the next two years. Regional funding to SPC to improve gender relevant data collection and analysis could also potentially support Nauru</li> </ul>                          |
| <ul style="list-style-type: none"> <li>Undertake a private sector development needs assessment through the ADB's Private Sector Development Initiative.</li> </ul>  | Not Achieved    | <ul style="list-style-type: none"> <li>Awaiting ADB input</li> </ul>   |
| <ul style="list-style-type: none"> <li>Discuss future funding options for the phosphate mining and land rehabilitation programs with the Nauru Rehabilitation Corporation and the Government of Nauru recognising that annual contributions under the Nauru Australia Compact of settlement (NACOS) ended in 2014.</li> </ul> | Ongoing         | <ul style="list-style-type: none"> <li>Options discussed with NRC and DFAT. It was subsequently agreed to provide NRC unrestricted access to \$13 million in NACOS funding held in the Rehabilitation and Development Cooperation Trust Account. These funds will underpin core mining and rehabilitation operations over the next 3-4 years.</li> </ul> |
| <ul style="list-style-type: none"> <li>Increase the department's resourcing at Post to satisfactorily manage and monitor the wide range of priorities under the Partnership for Development impacting on almost all sectors in Nauru.</li> </ul>  | Partly Achieved | <ul style="list-style-type: none"> <li>An additional A-based officer has been deployed on a 6 monthly rotational basis for the duration of 2013-14.</li> </ul>   |

Note:

- Achieved. Significant progress has been made in addressing the issue
- Partly achieved. Some progress has been made in addressing the issue, but the issue has not been resolved
- Not achieved. Progress in addressing the issue has been significantly below expectations

## Annex B

### Quality at Implementation ratings

| Investment name          | Approved budget and duration | Qal year | Quality at Implementation ratings |               |            |                           |                |                 |
|--------------------------|------------------------------|----------|-----------------------------------|---------------|------------|---------------------------|----------------|-----------------|
|                          |                              |          | Relevance                         | Effectiveness | Efficiency | Monitoring and Evaluation | Sustainability | Gender equality |
| Public sector management |                              | 2013     | 5                                 | 5             | 5          | 5                         | 5              | 5               |
|                          |                              | 2012     | 5                                 | 3             | 4          | 5                         | 4              | 3               |
| Education                |                              | 2013     | 5                                 | 4             | 5          | 4                         | 5              | 4               |
|                          |                              | 2012     | 5                                 | 4             | 5          | 4                         | 4              | 5               |
| Health                   |                              | 2013     | 5                                 | 4             | 4          | 4                         | 4              | 4               |
|                          |                              | 2012     | 6                                 | 4             | 5          | 4                         | 4              | 4               |
| Infrastructure           |                              | 2013     | 4                                 | 4             | 4          | 5                         | 5              | 3               |
|                          |                              | 2012     | 5                                 | 5             | 5          | 4                         | 4              | 2               |
| Australia awards         |                              | 2013     | 5                                 | 5             | 4          | 3                         | 5              | 5               |
|                          |                              | 2012     | 5                                 | 4             | 4          | 3                         | 5              | 4               |

Definitions of rating scale:

Satisfactory (4, 5 and 6)

6 = Very high quality

5 = Good quality

4 = Adequate quality, needs some work

Less than satisfactory (1, 2 and 3)

3 = Less than adequate quality; needs significant work

2 = Poor quality; needs major work to improve

1 = Very poor quality; needs major overhaul

## Annex C

### Evaluation and Review Pipeline Planning

- > List all evaluations completed in the reporting period. A completed evaluation means the final report has been received and a management response has been approved.

List of evaluations completed in the reporting period

| <b>Name of Investment</b> | <b>Aidworks number</b> | <b>Name of evaluation</b>    | <b>Date finalised</b> | <b>Date Evaluation report Uploaded into Aidworks</b> | <b>Date Management response uploaded into Aidworks</b> | <b>Published on website</b> |
|---------------------------|------------------------|------------------------------|-----------------------|--|--|-----------------------------|
| Improved Education        | INI950                 | Education sector Review 2014 | January 2014          |  | N/A  | No                          |
| Improved Health           | INI970                 | Health Sector Review         | February 2014         |  | N/A  | No                          |

List of evaluations planned in the next 12 months

| <b>Name of Investment</b> | <b>Aidworks number</b> | <b>Type of evaluation</b> | <b>Purpose of evaluation</b>  | <b>Expected completion date</b> |
|---------------------------|------------------------|---------------------------|---|---------------------------------|
| Public Sector Management  | INI943                 | PFM Review                | e.g. To assess progress in implementing reforms identified through the 2010 Public Expenditure and Financial Accountability review. | March 2015                      |

## Annex D

### Nauru - Performance Benchmarks 2014 -15

| Program strategic objective  | 2014-15 benchmark   | Rationale for selecting this performance benchmark  |
|--|---|---|
| <u>Education</u> : Improving the quality and access to primary and secondary school level education to ensure high student retention rates and education attainment levels | Government of Nauru has developed and implemented strategy to reduce truancy rates in Nauruan schools | To date, Nauru has made impressive progress on improving access to and quality of education, as evidence by the levels of enrolment rates and teacher qualifications. The challenge for Nauru, is to improve student participation. DFAT provides earmarked budget support to Nauru's education sector to implement their education strategic plan. In addition, this benchmark is also one of the proposed five benchmarks that Nauru needs to achieve in order to receive additional \$5.5 million aid funding in the current financial year.   |
| <u>Health</u> : A cost effective health system which delivers improved health comes  | Improved management of NCDs along the whole continuum of care.  | Although screening of NCDs has improved, to reduce the number of NCD related premature deaths there needs to be greater focus on the whole continuum of care. DFAT provides earmarked budget support to Nauru's health sector to implement their health strategy. In addition, this benchmark is also one of the proposed five benchmarks that Nauru needs to achieve in order to receive additional \$5.5 million aid funding in the current financial year.   |
| <u>Infrastructure</u> : Reliable and cost effective provision of essential infrastructure and services   | Stage One of RoN Hospital redevelopment is completed by July 2015.                                    | Provision of essential infrastructure for the entire Nauruan community, is a key priority for both the GoN and Australia. Improving access to modern health services, through the hospital redevelopment, will in the long term contribute to improving health outcomes for the Nauruan people. Stage one will focus on addressing urgent medical infrastructure needs resulting from (i) the lost of buildings from Aug 2013 fire; and (ii) Nauru's rapidly expanding population. It is anticipated that Stage One will be delivered by Department of Immigration and Border Protection. |
| <u>Operational</u> : Increased number of programs adequately addressing gender equality considerations   | 80 per cent of programs adequately addressing gender equality   | The Minister for Foreign Affairs announced the performance benchmark of 80 per cent of programs performing adequately on gender equality in June 2014 as part of the elevation of gender equality as one of six key pillars to deliver Australia's aid program.   |