



Annual program performance report 2011: Nauru Program

October 2012



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This report summarises Australia's development assistance to Nauru for the period July 2010 to December 2011. It updates progress under the Nauru–Australia Partnership for Development. Major achievements for the period include ongoing and significant advances in the education sector and major reductions in Nauru's debt levels. Considerable increases in government revenue were also achieved, resulting largely from reforms in the fisheries sector and improvements in revenue collection following the establishment of a new government revenue office.

Context

Nauru's extensive phosphate resources made it one of the wealthiest countries in the world, on a per capita basis, during the 1970s. However, the readily mined phosphate was gone by the late 1990s and Nauru became heavily indebted and reliant on foreign aid.¹ Development prospects have also been heavily affected by political instability, in particular a hung parliament and state of emergency following the February 2010 election, which was resolved in November 2010. There has been increased political stability in 2011.

The Nauru economy faces significant constraints, common to other small island states. These include its size, remoteness, a harsh natural environment with infertile soils, limited exploitable resources and the need to create jobs and promote growth for an expanding population. Pelagic fish abound in Nauruan waters, but Nauru has been unable to establish a fishing industry of its own. Fees from fishing licences issued to distant water fishing nations are an important source of revenue.

While Nauru is listed as off-track in relation to many of the Millennium Development Goals, services such as health care, education and utilities are universally available and provided to a comparatively high standard. Although aid-funded, expatriate personnel provide a key enabling role in delivering services. Power and water are supplied 24 hours a day, but production costs are high and cost-recovery is slow.

Since the resumption of phosphate mining in 2007, Nauru's economy has continued to expand and government revenues have increased. GDP per capita increased from \$3660 in 2006 to \$7210 in 2010.² Nauru has also embarked on a promising program of reforms in economic governance and public service delivery. For instance, since 2004 the government has delivered small budget surpluses and has made solid efforts to address the unsustainably high levels of debt owed to domestic and foreign creditors.³ The government has also implemented some important revenue reforms such as the Vessel Day Scheme,⁴ but more needs to be done in tax reform—currently Nauru has no legislation authorising taxation of businesses or households. In 2011 the government undertook a public expenditure and financial accountability analysis which showed that public financial management systems have improved in recent years, but areas still requiring strengthening include procurement, internal controls and external audit.

Nauru has high levels of unemployment and underemployment.⁵ Many people live simply on meagre incomes. There is a growing tendency toward innovation and small-scale entrepreneurship, with a modest cottage industry emerging in areas such as catering and agricultural production. However, with no bank on Nauru, there are serious constraints to

¹ Around 50 per cent of Nauru's national budget was derived from donor contributions in 2010–11.

² Asian Development Bank (2011c), Republic of Nauru (2009).

³ In 2007, domestic debt was valued at 1000 per cent of GDP and external debt was 1300 per cent of GDP. By 2010, external debt had reduced to 96 per cent of GDP (or from \$370 million to \$70 million). Internal debt increased over this period from \$265 million to \$480 million because Nauru recognised the debt owed to customers of the now defunct Bank of Nauru.

⁴ The Vessel Day Scheme allows vessel owners to purchase and trade fishing days at sea in places subject to the Parties to the Nauru Agreement.

⁵ In 2008, the unemployment rate was 27 per cent (Asian Development Bank).

private sector activity and it is difficult for individuals to save and manage their finances. Progress towards establishing basic mobile banking services is a positive development, but there is still a need for a permanent bank. Australia's decision to expand the Pacific Seasonal Workers Scheme to include Nauru from August 2011 will provide important employment opportunities, and efforts need to be made to ensure these are realised.

Nauru receives support from a wide range of donors including Australia, Taiwan, Russia, Japan, New Zealand, the Asian Development Bank, the European Union and the United Nations. Nauru's 10 major donor partners provided over \$30 million (or 52 per cent) of its 2010–11 budget. Australia is Nauru's largest donor partner, providing around \$14 million in cash through government systems. In addition, Australia provided approximately \$4.1 million of in-kind assistance, and a further \$10.4 million through regional and global programs, and other Australian government departments (primarily the Australian Federal Police).

Program objectives and strategy

The Nauru–Australia Partnership for Development was signed in 2009. Its clear objectives and mutually agreed targets have led to stronger planning processes and the opportunity to shift away from an inputs-based approach to an outcome focused delivery and monitoring mechanism. This has led to funding based on annual operational plans for each partnership priority area, rather than a series of individual project proposals.

The development of multi-year implementation strategies with clearly defined resourcing levels, areas of focus and agreed performance targets, provide an improved level of predictability. However, in this reporting period only the education implementation strategy has been finalised, with drafts prepared for health and public sector management.






Results in the program are heavily reliant on large numbers of advisers. A joint review by Australia and Nauru of the use of advisors found Nauru faces a range of long-term challenges in developing the capacity of senior officials in government departments and state-owned enterprises. Most advisers are filling essential vacancies in management and technical areas, and are core contributors to the government's efforts to reform the public sector and improve efficiency in the delivery of essential services to the island. The provision of specialist advisers to fill senior management roles has helped the Nauru Government address critical operational constraints, but creates other challenges. For example, the provision of power and water were interrupted when expatriate advisers were absent for extended periods. Due to Nauru's severe capacity constraints, this level of adviser input is likely to be a requirement of the relationship for the foreseeable future.

In 2010 and 2011 there were strong advances in the government's public financial management systems, which has led to greater confidence that Australia's approach of providing resources through Nauru's own systems is both viable and cost-effective. However, significant improvements are still required, particularly in the area of public procurement systems. Outcomes in both the health and education sectors continue to show strong progress, particularly in relation to increased school enrolment rates, improved technical and vocational training opportunities, vaccination programs covering major communicable diseases, and increased numbers of skilled and qualified Nauruans filling teaching and nursing positions.




Australian support for fisheries reform has resulted in major institutional strengthening, more effective operations, greater international influence in fisheries policy, and significantly enhanced and more reliable revenue from licensing arrangements. Revenue from fisheries licensing tripled from 2010 to 2011.

AusAID's public financial management program is based on the public expenditure and financial accountability analysis undertaken in 2010, including channelling around 80 per cent of the program through Nauru's government systems. In 2011 Australia supported recommendations from the Cairns Compact peer review process, including development of a costed national infrastructure investment plan and placing a human resource specialist within the chief secretary's office to help improve national and sector planning.

Table 2: Ratings of the Nauru program's progress towards program objectives

Objective	Rating in 2010–11	Relative to previous rating
More efficient public sector management		Improved
Improved education		Unchanged
Improved health		Unchanged
Cost effective infrastructure and services		Unchanged
Increased private sector growth		Unchanged


Note:

-  The objective will be fully achieved within the timeframe of the strategy.
-  The objective will be partly achieved within the timeframe of the strategy.
-  The objective is unlikely to be achieved within the timeframe of the strategy.

Progress against objectives

Objective 1: More efficient and accountable public sector management

Rating and assessment

-  The objective will be fully achieved within the timeframe of the partnership.

The initiative aims to:

- Strengthen the capacity of central agencies to deliver and manage national budgets that are aligned with national development policies and plans.
- Develop and implement policies that reduce fiscal risk and improve revenue generation, including from state-owned enterprises.
- Improve communications between Nauru's government and the community on policy development and implementation progress.
- Improve collection and management of development statistics to inform policy and measure progress against key development outcomes.

\$4.5 million was spent on this objective in 2010–11.

Under this initiative, Australia funds expatriate personnel who fill Nauru's secretary for finance position and three deputy secretary positions within the Finance Ministry. These positions are responsible for managing overall economic and fiscal policy, administering and managing revenue and the budget, and managing development planning and donor coordination.

Funds were also provided for a range of agreed activities managed by the government. These included the Bank of Nauru liquidation, ongoing support for improvements to media functions, a new financial management information system, and a multi-donor supported public expenditure and financial accountability assessment. Funding was provided for activities to redress weaknesses in public financial management identified through this assessment process, including a new revenue office to improve revenue collection from customs duties and outstanding debts owed to government.


In 2010–11 performance linked aid⁶ promoted greater progress toward public financial management reforms, including the introduction of a financial management information system and new public procurement arrangements, a costed infrastructure investment strategy (a Cairns Compact peer review recommendation), and progress toward a bulk fuel procurement and tank farm operations arrangement. Agreed performance measures were met, and performance-linked funds were provided as budget support related to unspecified national sustainable development strategy priorities. This approach has strengthened incentives to achieve agreed performance measures and offers Nauru greater flexibility in meeting budget shortfalls.

Major risks associated with channelling support through Nauru's own systems have been considered through both the public expenditure and financial accountability analysis and by a comprehensive risk analysis prepared by Nauru's former secretary for finance. In 2012, an assessment of national systems will also be undertaken. Risk management and mitigation approaches include ongoing support for strengthening public financial management systems, and a reporting regime involving monthly bank account reconciliations and cash flow projections. The continued use of donor funded expatriate personnel in key management positions remains an important risk mitigation measure.

An economic situation analysis commissioned by AusAID in late 2011 identified the need for a stronger focus on, and oversight of, macro-economic management. It also identified a research agenda that will help build a much stronger understanding of Nauru's economic direction and prospects. The analysis is informing a draft implementation strategy for public sector management, which is expected to be finalised mid-2012, as well as the mandate and scope of a program monitoring and advisory group which will be established in 2012.

Objective 2: Improved education

Rating and assessment

 The objective will be fully achieved within the timeframe of the partnership.

The initiative aims to:

- Improve the quality and number of teaching staff.
- Improve the quality of, and access to, primary and secondary school education to ensure higher student enrolment, retention rates, and levels of education attainment.
- Improve access to good quality and relevant tertiary, technical and vocational education services.

A total of \$2.2 million was spent on this initiative in 2010–11. Under the partnership, significant advances have been made in the education sector with some targets being met as much as 12 months ahead of schedule. For example, the primary school completion rate of 84 per cent in 2011 has already exceeded the 2012 target of 83 per cent.

The most significant barriers to participation in education remain the limited recognition of the benefits of education within the community, and a lack of opportunity beyond secondary school. The focus on technical and vocational training and the efforts to re-integrate formerly unsuccessful students back into the education system will help address these constraints over time.

AusAID's assistance in 2010-11 included:

⁶ Performance linked aid is an incentive-based form of aid that provides additional funding in recognition of progress and achievements in identified policy or administrative reforms, or improvements in specific development outcomes.

- supporting the opening an adult education and technical and vocational training facility, with 170 students enrolled in trade training courses
- providing support to refurbish all 10 schools on Nauru to provide a safe and healthy learning environment for all students
- financing recurrent costs including teacher salaries and training programs, materials and equipment
- providing an education advisor who mentors three locally engaged directors of education
- providing 10 tertiary scholarships at regional institutions through the Australian Regional Scholarships Program. These are in areas such as medicine, nursing, economics and public sector administration, mechanical engineering, accounting and education.

With Australian assistance, secondary school completion rates increased from 5 per cent in 2006 to over 30 per cent in 2011, while primary school completion rates have improved more modestly from 76 per cent to 84 per cent over the same period. There have been steady annual increases of up to 12 per cent in the number of teachers with formal qualifications and by 2010–11, 93 per cent of teachers had either a diploma or degree level qualification. The number of Nauruan teachers has increased from 110 in 2008 to 150 in 2011.

Australian aid has helped increase the overall number of children enrolled in schools from 2070 in 2008 to 3026 in 2011. Primary school enrolments in particular have seen a major increase, from 60 per cent in 2002 to 95 per cent in 2011.

In 2010, new legislation was introduced making school attendance compulsory for the first time, and extending school hours to meet regional norms. This resulted in an increase of around 12 per cent in overall school attendance with all students spending an additional two hours a day at school. The new legislation has also resulted in a 20 per cent reduction in truancy levels.

Participation and completion rates in education remain comparatively low by regional standards and basic education outcomes are still poor. Continued support from aid funded expatriate personnel, particularly in advisory and senior management roles, is likely to be required for the foreseeable future.

In October 2011, Australia and New Zealand signed an agreement for AusAID to oversee the delivery and management of New Zealand's aid (AUD\$1 million annually) to the education sector.

Objective 3: A cost effective health system which delivers improved health outcomes

Rating and assessment

- The objective will be partly achieved within the timeframe of the partnership.

The initiative aims to:

- Strengthen health system management, in particular budget prioritisation, strategic planning, infrastructure redevelopment and improved health statistics.
- Reduce the prevalence of non-communicable diseases and sexually transmitted infections through more effective preventative and public health programs.
- Improve maternal and child health outcomes by addressing child nutrition and improving access to and quality of antenatal and postnatal care.

A total of \$3.9 million was spent on this initiative in 2010–11. While there are continuing significant health problems in Nauru, particularly in relation to non-communicable diseases, some cancers and sexually transmitted infections, the health system provides a comparatively high quality service by regional standards. This is a direct result of donor assistance, strong development planning and good quality advisers in senior management roles. While more Nauruans are taking up non-medical and nursing roles, there continues to be reliance on expatriates to fill senior management and clinical positions.


AusAID's assistance in the sector is provided primarily by filling the roles of the secretary of health and medical services, a strategic health planner and a health educator. In addition to this, financial support is provided directly to the government for priority activities identified against the health department's strategic and operational plan. Australian funding has been used to purchase drugs and consumables, fund hospital repairs and maintenance, fund health promotion and education, purchase and maintain medical equipment, and fund staff training and specialist medical visits. AusAID funding provided to the Ministry of Health in support of its sector strategy has helped strengthen systems, resulting in improved medical infrastructure and quality of health care.

Australian support to the health sector has helped Nauru achieve 95 per cent child immunisation coverage for key vaccines including tuberculosis, measles, hepatitis B, polio, diphtheria and tetanus. Infant mortality rates have fallen from 40 per 1000 live births in 2002 to 24 per 1000 live births in 2010–11. There were no maternal deaths in 2011.

Australian support is also helping Nauru to address the prevalence of non-communicable diseases such as diabetes through an improved nutrition program that is benefiting around 1500 infants and primary school children, and through public education programs and sports promotion. However, the prevalence of non-communicable diseases, some forms of cancer and sexually transmitted infections are linked to entrenched lifestyle practices that require a long-term effort to change. For this reason, this objective is considered overly ambitious and will only be partially met during the partnership's timeframe. This target will be revised, in consultation with the Nauru Government, to reflect a more realistic objective.

Objective 4: Reliable and cost effective provision of essential infrastructure and services

Rating and assessment

 The objective will be fully achieved within the timeframe of the partnership.

The initiative aims to:

- Improve the reliability and cost effectiveness of power and water services through more effective governance, maintenance and cost recovery arrangements.
- Increase use of renewable forms of energy and clean water capture, particularly at household level and public buildings.
- Support maintenance and provision of essential infrastructure and services.

This initiative is the largest component of the Nauru program, expending \$7.5 million in 2010–11. Assistance to date has focused on technical support through the provision of a chief executive for the Nauru Utilities Corporation, an operations manager at the power station, and a diesel fitter. Other funding is provided for procurement of parts and materials as part of an ongoing maintenance regime, as well as for procurement of diesel fuel used for power generators and water desalination equipment.

With Australian assistance the Nauru Utilities Corporation has successfully refurbished and recommissioned Nauru's electricity generators and desalination equipment. This has resulted


in a return to reasonably stable, 24-hour power availability for around 1600 homes as well as industry, and up to 80 per cent of Nauru's water needs are being met through desalination. Water shortages and interruptions to power supply in 2010–11 were infrequent, and typically resulted from scheduled and advertised maintenance events. Improved reliability of these services has been the most important achievement realised under this partnership objective. Capacity building efforts to date have not proven effective, and expatriate personnel will be required in key technical and management roles for the foreseeable future. Having reached this level of comparative stability, there is now an opportunity to develop medium to long-term strategic planning toward the government taking greater responsibility for funding its power and water operations and maintenance.

Other advances during 2010–11 include the introduction of new technology which is expected to reduce fuel consumption at the power station by as much as 30 per cent—this represents a potential saving of around \$2 million a year. New technology has also been introduced to reduce the oil consumption of Nauru's electricity generators, which will potentially save a further \$180 000 a year. A strong strategy to reform the Nauru Utilities Corporation has also been pursued, including introduction of a cost recovery regime using pre-paid metering.

Limited progress has been made towards expanding the use of renewable forms of energy. It is unlikely that major progress toward this target will be made within the partnership's timeframe without significant advances in the relevant technology to reduce expense and increase output. For this reason, the objective relating to renewable energy has not been considered in the quality assessment process. Future work on renewable energy will draw on analysis produced by the Asian Development Bank and the European Union, and link to the work undertaken by Pacific regional organisations.

Objective 5: Increased private sector growth

Rating and assessment

 The objective will be partly achieved within the timeframe of the partnership.

The initiative aims to:

- Pursue mutually beneficial regional trade liberalisation and economic integration arrangements.
- Enable sustainable management of revenue in the phosphate and fisheries sectors, including by establishing enhanced legal and trust fund arrangements.
- Stimulate development of new small and medium-sized enterprises.
- Enhance access to appropriately regulated and credible financial and insurance services.

This initiative absorbed \$0.4 million in 2010–11, with efforts focused on small business development and fisheries operations.

Private sector development under the partnership has not been given a strong focus due to the higher priority needs of public sector reform, infrastructure and social service delivery. Progress in these areas will, however, ultimately have significant benefits for Nauru's private sector. AusAID contributed funding in 2009 to cover the operations of the Nauru Entrepreneurship Development Centre through to 2011, which is managed by the United Nations Development Programme. The centre provides training and micro-credit to individuals for small business development and management, including financial planning and administration. By mid-2011, about 50 participants had undertaken training through the centre and graduates had established 14 new businesses. Funding was also provided in 2010–11 to cover costs associated with winding up the Bank of Nauru. The liquidation is an

important step in attracting new commercial banking operations to the island, which is necessary for future development of the private sector.

Under the guidance of the AusAID-funded fisheries advisor, the Nauru Fisheries and Marine Resource Authority is operating more effectively and efficiently, and taking a significant role in international negotiations and policy development on regional fisheries management. In 2011, new arrangements for issuing fishing licenses were introduced, resulting in an increase in fisheries revenue from around \$4 million in 2010 to more than \$12 million in 2011. The Fisheries Institutional Reform Program is also supporting establishment of private sector operations in areas such as inland fisheries exploitation and aquarium fisheries development. There has also been some progress in promoting small business on the island through the technical and vocational education and training program at the Nauru Secondary School. While a handful of new businesses started up as a result of skills gained during the construction of the school, anecdotal evidence indicates that other businesses will be established or expanded as Nauruans gain formal trade qualifications through participation in the technical and vocational education and training scheme.

At the Pacific Islands Forum in August 2011, Nauru was invited to participate in the Pacific Seasonal Workers Scheme. This will assist Nauru's economic integration, build a stronger workforce and add to the economy through increased remittances.

Climate change

The most likely impacts of climate change for Nauru are coastal erosion, salt water intrusion, changing distribution of fish stocks and reduced levels of clean and fresh water. In 2010–11, support for climate change adaptation focused mainly on Nauru's integrated water resource management program, providing funding to purchase and install water tanks. A total of \$500 000 was provided toward Nauru's water storage expansion program, which installed around 70 10 000-litre tanks. Provision of additional tanks has expanded Nauru's rainwater capture capacity, and increased storage capacity for desalinated water in times of drought. A further \$100 000 was provided for a pilot program to reduce sewage pollution in underground water supplies.

Further support for climate change adaptation will target comprehensive coastal zone management programs that minimise the effect of erosion and sea water incursion, and protect coastal and reef fisheries. A priority in this sector is to develop a comprehensive and integrated long-term strategy for climate change adaptation (including around coordinating donor financing for climate change), and to build climate change considerations into Nauru's infrastructure strategy and investment plan.

Gender and disability

Nauru's education system offers universal access at both primary and secondary levels. The gender split in primary school enrolments is close to 50:50, but more girls than boys finish high school. The government has established an Office of Women's Affairs and women's crisis centre, and civil society groups have been set up covering women's services. Australia will provide volunteer support for these institutions from 2012. While implementation strategies under the partnership for both health and education incorporate targets related to universal access and gender equity, a greater focus in this area will be required in the future. Gender analysis and a gender strategy will be developed during 2012.

Under the Partnership for Development AusAID and Nauru are pursuing a target of 70 per cent of students with disability having access to education services by 2015, up from around 61 per cent in 2011–12. In 2012–13, AusAID will be developing a disability-inclusive development plan to identify access and inclusion of people with disability in all five partnership priority outcomes areas.

In education, AusAID provides annual funding support for the operations of Nauru's Able-Disable Centre providing education services for around 40 students with disability. Funding is also provided in the education sector for staff training for special needs teaching as well as for development of a disability-inclusive school curriculum.

In the health sector, AusAID provided funding in 2010–11 to help develop community-based clinical and rehabilitation services for people with disability.

Australia's support for Nauru's disability inclusive development efforts have been channelled through partnerships with the Pacific Islands Forum Secretariat, the Pacific Disability Forum, Disability Rights Fund, the Secretariat of Pacific Community Regional Rights Resource Team and the World Health Organization.

Through the Public Sector Linkages Program, Australia supported the Pacific Disability Forum and the Australian Human Rights Commission (2009–2011) to bring together disability organisations and government representatives in the Pacific, including in Nauru, to build their capacity and knowledge of the Convention on the Rights of Persons with Disabilities.

Regional and global assistance

Nauru benefits from a range of AusAID's regional and thematic programs, as well as through Australian core contributions to international organisations such as the Asian Development Bank, World Health Organization, United Nations Children's Fund and the United Nations Population Fund. Core contributions to regional bodies such as the Pacific Islands Forum, the Forum Fisheries Association, Secretariat of the Pacific Community and Secretariat of the Pacific Regional Environment Programme support the work of these organisations in Nauru.

Increasing engagement by regional and multilateral organisations provides benefits in terms of increased access to technical assistance, analytical expertise and an expanded donor funding base. However, the expanding number of donor partners has significant transaction costs for the government, which absorb resources in coordination efforts. In 2010–11, regional programs supported Nauru for biomedical engineering services through Australian Volunteers International, development of financial instructions for the Department of Finance through the Pacific Financial Technical Assistance Centre, educational assessment services through the South Pacific Board for Educational Assessment, and strengthened media services through the Pacific Media Assistance Program. Nauru's health sector also received considerable support through regional and global institutions such as the World Health Organization.

Regional funding supported Nauru's participation in initiatives focused on strengthening ombudsman services in the Pacific as well as leadership development. The Australian Sports Outreach Program has achieved excellent results by increasing sporting activity in Nauru over the past few years. Anecdotally, there has been a significant increase in the number of children and adults participating in recreational and competitive sporting activities. If sustained, we expect this to lead to improved health standards and reduced incidence of non-communicable diseases.

Research and analysis

AusAID commissioned an independent economic situational analysis in 2011, which is informing planning for the longer-term. The analysis also identified a comprehensive research agenda that will be taken forward over 2012–13, and which is aimed at developing a much stronger understanding of Nauru's economic circumstance, opportunities and policy options. There is also a significant existing body of research and analysis which the Australian aid program has drawn on in developing the current program. This includes the multi-donor analysis undertaken in developing Nauru's national sustainable development strategy, the public expenditure and financial accountability assessment undertaken in 2010, regular demographic and health surveys undertaken with assistance from the Secretariat of the Pacific Community, Nauru's infrastructure strategy and investment plan, the Australian funded strategy for reform of Nauru's utilities services, and analysis undertaken in developing Nauru's education sector strategic plan. The program monitoring and advisory group, to be established in 2012, will provide ongoing sectoral analysis.

Other programs

Police Cooperation Program

The Nauru Police Force Police Cooperation Program was established in November 2004 under a memorandum of understanding between Australia and Nauru. The Australian Federal Police currently provides a senior officer in the position of police commissioner, an operations advisor who focuses on mentoring and capacity development, and a logistics officer.

Succession planning has commenced to address Nauru's national sustainable development strategy short-term milestone of appointing a Nauruan police commissioner by 2012. In 2011, the Australian Federal Police provided around \$2.04 million in assistance for personnel and capacity building.

Significant outcomes in 2010–11 included:

- a new Nauru Police Centre, which was officially opened in late August 2011
- in-country training courses and workshops conducted on general policing
- uniforms and other equipment provided as part of a ongoing capacity development program for the Nauru Police Force
- regular disciplinary hearings and training to maintain ethics and integrity
- funding for three new positions—a deputy commissioner, manager of corporate support and a finance officer—as part of the organisational restructure to achieve national sustainable development strategy targets
- providing strategic advice to the ministerial taskforce for successful privatisation of the Nauru Police Force Protection and Guarding Unit, which will result in the separation of 150 personnel
- regular community meetings to maintain a strong emphasis on community liaison.

The Nauru Australia Compact of Settlement

In 2010–11, Australia provided \$3.8 million to the Nauru Rehabilitation Corporation under the Nauru Australia Compact of Settlement treaty. This is an out of court settlement reached in 1993 when the Government of Nauru agreed to discontinue its claim against Australia in the International Court of Justice seeking compensation for damage to phosphate lands mined

before 1 July 1967. As part of the settlement, Australia agreed to pay Nauru \$107 million: \$57 million upfront and \$50 million at an annual rate of \$2.5 million (indexed to 1993 prices) over the ensuing 20 years. In accordance with the treaty, this funding is to be used for mutually agreed land rehabilitation and development programs. While AusAID is Australia's coordinating authority under the treaty, the Nauru Australia Compact of Settlement is not an aid initiative and money relating to it is a legal settlement due to the government.

While a five-year work program covering land rehabilitation (as well as secondary phosphate mining) was agreed with the Nauru Rehabilitation Corporation in 2007–08, there has been only modest progress to date on the rehabilitation program. The corporation's focus has been on mining operations, taking advantage of the upsurge in global demand for phosphate. Limited progress on rehabilitation is balanced by the economic and social benefits provided by a more prosperous mining industry, including higher dividends for land owners and government, as well as increased employment opportunities for Nauruans.

Quality of aid activities

Quality at Implementation assessments were undertaken covering the five partnership priority areas in 2010–11. The results are summarised below:

Initiative name	Relevance	Effectiveness	Efficiency	Monitoring and evaluation	Sustainability	Gender equality
EDUCATION						
	6	5	4	4	5	3
HEALTH						
	6	4	4	3	3	3
INFRASTRUCTURE AND SERVICES						
	5	4	4	4	4	3
PUBLIC SECTOR MANAGEMENT						
	6	5	5	4	4	4
PRIVATE SECTOR GROWTH						
	3	4	4	4	4	3

Definitions of rating scale

Satisfactory (4, 5 and 6)		Less than satisfactory (1, 2 and 3)	
6	Very high quality	3	Less than adequate quality; needs significant work
5	Good quality	2	Poor quality; needs major work to improve
4	Adequate quality; needs some work to improve	1	Very poor quality; needs major overhaul

AusAID's annual Quality at Implementation reports show mixed results for this reporting period, with improvements in the performance of public sector management programs balanced against relative stagnation in other sectors. The quality rating for the education sector remains unchanged from last year, reflecting continued high quality performance and strong progress toward targets. Outcomes in the health sector have also been strong, largely as a result of the program's effective use of technical assistance. However, costs associated with this assistance are very high and there is some evidence that Nauru is capable of attracting and recruiting strong personnel, at least in the health sector, at much lower rates on its own. A different way to provide technical assistance for some sectors warrants consideration.

Continued use of partner government systems is helping to both improve those systems and streamline delivery of Australian assistance. However there is a need to introduce stronger

monitoring, evaluation and reporting mechanisms. The establishment of a program monitoring and advisory group in 2012 will strengthen program monitoring.

Program risks

There are three key risks for the Nauru program, which have been prominent for the duration of the partnership:

- poor sustainability
- significant reliance on using weak partner systems
- lack of formalised monitoring and evaluation systems.

Australia's support is delivered through technical assistance, providing advice and filling senior management roles, and cash contributions toward agreed activities. This funding is channelled through a Nauru Government operated bank account and is managed through government systems. While significant work is being undertaken on strengthening public financial management and a detailed risk analysis has been produced, the heavy reliance on this delivery mechanism will always be a risk. However, audits to date have determined that Australian funding has been managed well, and all funds have been appropriately directed toward agreed priorities. Continued use of donor funded expatriate personnel in senior management roles strengthens the management of funds, but itself represents a sustainability risk in the longer-term. Nauru's decision in 2012 to outsource all government procurements to a third party procurement agent also mitigates this risk considerably.

Sustainability is questionable across all sectors in Nauru. Capacity building has to date delivered limited results and domestic revenue is likely to be insufficient for Nauru's longer term needs in the foreseeable future. It's probable that Nauru will remain heavily reliant on donor support and expatriate personnel over the long-term. AusAID planning should reflect this reality and acknowledge that capacity substitution as well as capacity building is required.

While there is an AusAID officer based in Nauru, additional resources will be required if monitoring and evaluation is to be managed effectively. A program monitoring and advisory group has been planned for a number of years. The absence of a dedicated monitoring regime continues to represent a significant risk to ensuring strong outcomes, as well as to informing better planning for the future. Establishing the group will be a priority for the program in 2012.

Management consequences, issues and lessons

Following is a list of priority actions that will be undertaken by AusAID in the coming year to address issues raised in this report. A summary of last year's management consequences can be found at Annex 1. Management consequences for 2012 are:

- develop a gender strategy
- establish a program monitoring and advisory group
- explore alternative approaches to capacity building, recognising the limited impact of efforts to date and acknowledging that technical assistance (capacity substitution) as well as capacity building will be required for some time to come
- place greater emphasis on economic analysis and targeting reforms to public financial management systems. This will be required if aid is to continue to be channelled

through Nauru's government systems and could include exploring International Monetary Fund membership

- develop a long-term, integrated climate change adaptation strategy, and integrate climate change into Nauru's infrastructure strategy and investment plan
- review the current mechanism for providing technical assistance through the Pacific Technical Assistance Mechanism. This needs careful analysis and consideration, including mechanisms to reduce the risk of politicisation of adviser roles
- review the scholarships program to assess its effectiveness (this will link in with a broader Pacific-wide scholarships review scheduled for 2012)
- take forward private sector growth priorities under the partnership.

Annex 1: Progress toward 2009–10 management consequences

Key management consequence	Status	Comment
1. Continued focus on policy dialogue and innovation through incentives tied to program reform and implementation progress in an environment of ongoing political instability.	On track and ongoing	Education and health implementation strategies have been finalised and endorsed. A draft public sector management strategy is near completion. Performance linked aid has produced results in relation to public financial management and utilities reforms in 2011.
2. Review technical assistance provided versus the need for reform and change.	Achieved	A full review of technical assistance was undertaken in 2011, which confirmed all current positions as relevant to the current reform agenda. It also recommended a number of future technical assistance options and amendments to the current mix to meet the future and ongoing reform program.
3. Establish a joint program review group to pursue clear and effective program-wide and sector specific monitoring and evaluation frameworks.	No progress	Work will commence to establish this monitoring and evaluation function by mid 2012.
4. Strengthen donor coordination and harmonisation through ongoing support for the Cairns Compact peer review process.	On track and ongoing	Australia has supported recommendations from the Cairns Compact peer review process, including a costed national infrastructure investment plan, mobilising volunteers to help improve dialogue between the government and non-government sectors, and placing a human resource specialist within the chief secretary's office to help improve national and sector planning. AusAID's public financial management program is based on the public expenditure and financial accountability analysis undertaken in 2010, including channelling around 80 per cent of the program through Nauru's government systems.
5. Review the scholarship program's direction, effectiveness and relevance.	No progress	This is now scheduled for late 2012 following recruitment of two new O-based staff.
6. Review the staffing profile at Post.	Achieved	Informal review undertaken in early 2011 and executive agreement to recruit two new O-based program officers was obtained in late 2011. Recruitment to commence first half of 2012.
7. Increase support for the work of civil society groups, particularly in areas where government service delivery is lagging such as health promotion and gender based violence.	On track	AusAID funding has been agreed to place five volunteers in Nauru for up to one year each, working largely in areas of civil society. Areas to be targeted will be finalised in consultation with the Government of Nauru, but AusAID has indicated a preference for gender, disability and youth related services. Volunteers are expected to begin late 2012.
8. Develop a gender strategy.	No progress	AusAID's gender contact at Post attended gender training in Canberra in February 2012 and as part of that exercise liaised with the Gender Unit to initiate development of a gender strategy.