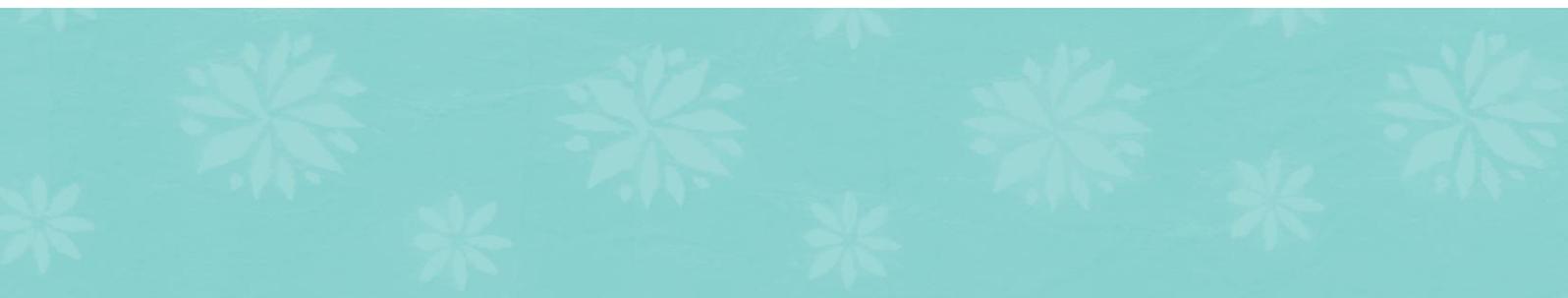




Australian Government  
AusAID

# Annual program performance report: Nauru 2008–09

July 2009



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# Abbreviations

<b>ADB</b>	<b>Asian Development Bank</b>
<b>APPR</b>	<b>annual program performance report</b>
<b>GoN</b>	<b>Government of Nauru</b>
<b>MOU</b>	<b>memorandum of understanding</b>
<b>NCD</b>	<b>non-communicable disease</b>
<b>NSDS</b>	<b>National Sustainable Development Strategy</b>
<b>OECD</b>	<b>Organisation for Economic Co-operation and Development</b>

# Executive Summary

Australia remains Nauru's largest donor, having provided an estimated total of \$29.1 million in official development assistance in 2008–09. Most Australian assistance is delivered through single-year memorandums of understanding (MOUs); the remainder is provided through AusAID's bilateral and regional programs and other Australian Government agencies (primarily the Australian Federal Police). The current MOU (MOU V Amendment One) was renewed in July 2008 and expires in June 2009 (note: this report considers only programs undertaken during the 2008 calendar year). The Pacific Partnership for Development with Nauru will lead to a longer term MOU arrangement consistent with AusAID's approach with other partner countries.

By 2005, most sectors in Nauru were in crisis. Since that time, reform-minded governments, with support from Australia and other donors, have helped to stabilise most sectors and in some cases make tangible improvements. The early improvements noted in the 2007 annual program performance report (APPR) have now largely been consolidated, particularly in public financial management, fisheries, education, and law and order. While there are prospects for improvement in areas such as health and utilities, Nauru and its development partners will continue to face considerable challenges in meeting Nauru's development aspirations. The global economic crisis is already having an impact and is putting the spotlight on longstanding concerns about economic sustainability. Even with a return to more favourable global economic conditions, Nauru and its development partners accept that the country will require substantial donor assistance for the foreseeable future.

Nauru's National Sustainable Development Strategy (NSDS) guides Government of Nauru (GoN) and donor programs. However, with the notable exception of the education sector, there has been limited action since the last APPR in developing sector-level planning aligned to the NSDS. The move to longer term planning under the Partnership for Development is expected to provide more scope to work with the GoN on structured implementation of the NSDS while opening up more contemporary aid delivery options for Australia and other donor partners. An independent review of the Australian aid program to Nauru (between 2005 and 2008) has helped to consolidate lessons learned and to provide a frame of reference for the development of new directions for the program.

## Major results

Australian assistance contributed to the following results in 2008–09:

- > Nauru delivered its fourth consecutive budget surplus.
- > By mid-2008, Nauru was no longer on any international register related to corrupt banking practices. The formal wind-up of the Bank of Nauru has commenced. These are important precursors to the establishment of normal banking functions in Nauru for the first time since 2001.

- > Implementation of the debt management strategy continued. Some \$264 million in internal debts (debts between government entities) was formally written off.
- > As of April 2009, Nauru was generating electricity using its own generators and fuel procured by the GoN under its own fuel purchasing arrangements (for the first time since 2005).
- > Regular neonatal clinics monitoring early childhood development milestones, nutrition and immunisation were established, achieving 100% coverage of all relevant vaccines.
- > At 4.2 per 1000 live births, the under-5 mortality rate in Nauru is now comparable to the rates of some developed countries, including Japan.
- > Nauru's infant mortality rate has more than halved, from 44.1 per 1000 live births in 2002 to 20.72 per 1000 live births over the 2005–08 period.
- > Secondary school attendance and completion rates have risen from 5% in 2006 to 32% in 2009. Primary school attendance rates show a more modest increase over the same period, from 76% to 81%.
- > A 34% increase in fisheries revenue was achieved by more efficient management of licence revenue collection (without increasing the number of licences issued).
- > Daily clean water production (via reverse osmosis) increased from 30% to 80% of capacity.

## Major challenges

The achievement of development outcomes in Nauru remains constrained by a number of inherent factors, which were outlined in last year's APPR:

- > Nauru's prospects for long-term economic viability remain unclear. While there are some prospects for modest growth in the medium term, extreme levels of debt, vulnerability to external shock and reliance on imported goods and services bring Nauru's sustainability into question. Gaining a clear understanding of Nauru's prospects for sustainability will be important to planning and programming.
- > The impact of the global economic crisis on Nauru's narrow revenue base through reduced phosphate prices and diminishing demand has the potential to undermine confidence in the GoN if balanced budgets cannot be maintained, basic service delivery suffers or phosphate royalties are not paid to government or landowners. The biggest challenge for the GoN will be maintaining cash flow as the year unfolds. There is significant potential for increased unemployment. The most pronounced impact is likely to be felt by expatriate i-Kiribati and Filipino workers who have no local support networks if jobs are lost. There is a risk of capital flight and emigration by local business owners.
- > The transition from single-year MOUs to longer term planning is an opportunity to improve planning and budgeting for both Nauru and Australia, but will require change management, particularly in relation to program design, budgeting and personnel management.
- > Sex-disaggregated data collection and analysis of development outcomes remains unacceptably poor, given the small size of the population. Moves to policy-based budgeting will continue to be constrained until the GoN and donors are able to produce and use better data.
- > Attracting good-quality personnel to work on the program remains a major challenge for both the GoN and Australia.

- > It is necessary to manage expectations about the nature and extent of Australian support for Nauru in a post–offshore processing centre environment under a Pacific Partnership for Development.

## Main management consequences

- > Major design work, including a clearer focus on cross-cutting themes such as gender and anti-corruption, enhanced monitoring and evaluation and improved sex-disaggregated data collection, will be required in all sectors as the program moves from single-year MOUs to longer term planning under the Partnership for Development.
- > Review to evaluate the appropriateness of current AusAID management arrangements based on the new approaches to aid delivery under the partnership should be undertaken.
- > Under the Pacific Partnership for Development it is proposed that the Australian in-line finance team currently staffed by Australian Government officials be transitioned to an AusAID-managed contractor model. This will increase the pool of available expertise to fill these positions, providing greater scope to match specific skills to the duty statements of the positions.
- > There is an ongoing need to balance capacity building with the provision of in-line personnel and contractors, based on a common understanding of the long-term future for Nauru.
- > To gain the maximum benefit from Australian and other donor investments in Nauru, it will be important to ensure that the approach is coherent and that other donor contributions are appropriate.
- > Joint assessments of GoN financial systems need to be managed to allow a clear path towards greater use of partner systems.
- > AusAID should initiate an independent review on long-term sustainability of service delivery.
- > A social impact assessment is needed to gain a thorough understanding of the potential impacts of the reform agenda on vulnerable groups, including women and children, the poor and non-indigenous community members. The analysis will also help inform development of a gender action plan aimed at maximising the benefits of the reform agenda for both women and men in the community.
- > We will continue to monitor the impacts of the global recession on employment and government revenue, and work with the GoN and other donors to stabilise cash flows, maintain employment prospects and promote local business activity. Careful staging of construction works by AusAID and the Australian Federal Police on the island will help to ensure ongoing employment opportunities for skilled and unskilled labour.

# Country performance

## Economic, political and social development

Nauru relies on donor support; approximately 60% of its budget is contributed by donors (around 40% of this is from Australia). Nauru's 2008–09 budget was around \$55 million (a \$20 million increase on the previous year). Australia is the largest donor, although Taiwan also makes significant contributions (approximately US\$9 million).

The Asian Development Bank (ADB) estimates current gross domestic product per person in Nauru to be around \$2500, although the figures range from \$2000 to \$3500 depending on the source. Nauru is one of the highest per capita official development assistance recipients in the world, despite the OECD categorising Nauru as an upper-middle income country. There is no evidence of absolute poverty in Nauru; however, low household income and limited employment opportunities result in generally modest-to-poor living standards.

For the past four years, Nauru has had a reform-minded government that has worked well with Australia and other donors to implement reforms. In 2007–08, there was substantial capital investment to facilitate secondary phosphate mining, based on analysis which showed that secondary phosphate reserves could be viably mined for up to 30 years. Nauru also has potential to generate income from the sale of coral aggregate, a by-product of secondary phosphate mining. Further investments in port infrastructure and phosphate production facilities will be required to support the re-establishment of mining.

Given the massive external debt levels already being carried by the GoN (over \$500 million, according to the 2008–09 budget), it will be a challenge to find creditors willing to finance the capital works needed to get mining operations up and running. The debt management strategy (prepared with Australian assistance in 2007) notes that Nauru's economy is capable of sustainably servicing only \$46 million of debt. The GoN has delivered its fourth consecutive balanced budget, but there will be mounting pressure on budget priorities as revenue streams and local employment options come under increased pressure from the global economic crisis.

Securing reliable purchasers of phosphate as global demand slumps will have a major impact on revenue in the immediate future. The effective management of mining operations, both now and in the long term, is a major challenge for the GoN.

Nauru also derives income from the sale of fishing licences, and increased revenues now being collected are a notable improvement since the previous APPR. As a result of more efficient and effective management of the licence regime (supported by Australian technical assistance) and favourable changes in the US\$–A\$ exchange rate, revenue from licences will almost double to \$10 million in the 2008–09 financial year. The increase occurred without a major increase in the number of licences being issued – a positive economic and sustainable resource management outcome.

Internally generated revenue remains constrained by the small market, low incomes, limited access to credit, poor infrastructure, skills shortages and complex landownership systems.

There is little information on the significance of remittances – an information gap we will work with the GoN to close, given the NSDS priority to diversify its revenue base. Agreement this year to expand the National Secondary School project (supported by Australia) to include feed-in accreditation to the Australia Pacific Technical College has real potential to develop internationally transferable skills and opportunities to earn income off-shore. The GoN's increased focus on transferable technical skills is further evidence of concrete government moves to promote greater self-reliance in the population, lack of which has been a major impediment to past development efforts.

Nauru continues to rely almost entirely on imported food. There is little information on progress towards the NSDS goal of increasing consumption of locally grown food, but anecdotal evidence suggests that some progress is being made (albeit on a small scale). Broader land rehabilitation programs, which complement secondary mining activities, are not yet taking place, which limits the ability to move to larger scale intensive farming.

## Economic reforms

The Australian-funded 'in-line' finance team continues to provide critical support to the implementation of the GoN's finance reform agenda. Over the past 12 months, there has been further consolidation of reforms and some new achievements, for example:

- > The formal winding up of the Bank of Nauru began, although the GoN is still struggling to attract commercial banking operations.
- > Price control legislation prepared with Australian assistance was introduced and is now governing pricing arrangements for commodities such as rice and fuel.
- > A Consumer Price Index was developed. Monthly reports are prepared by Nauru's Bureau of Stats and Ministry of Finance.
- > Good progress was made in implementing Nauru's debt management strategy, including ongoing negotiations with some creditors (rather than litigation) and the payment of some outstanding debts. Some debts were successfully written off; for example, successful internal negotiations led to the waiving of \$264 million in internal debt, such as debts between state-owned enterprises.
- > The Utilities Bill, a key step in the transition of utilities (currently an SoE) to a private commercial entity, was drafted.
- > Stronger financial delegation arrangements were established to ensure that the most appropriate delegate signs off expenditure.

## Progress toward Millennium Development Goals

On the major Millennium Development Goal indicators, Nauru's own formal reporting suggests that Nauru is on track to meet targets, with the exception of environmental sustainability, although reliable statistics to confirm this assessment are not available for many targets.

A more detailed examination of progress highlights several areas of concern, particularly with non-communicable disease (NCD) rates (among the highest in the world), high rates of sexually transmitted infections, school attendance rates (which, while improving, are still very low), poor levels of academic attainment, and widespread nutritional deficiencies among children. These lagging areas will be the focus of discussions on the Partnership for Development between Nauru and Australia.

Improved sex-disaggregated data collection and analysis will also be a priority, as prioritisation of funding, technical assistance and policy formulation by the GoN and development partners is constrained by the current paucity of evidence on development outcomes.

## **Nauru's National Sustainable Development Strategy**

Development of individual sector plans as foreshadowed in last year's APPR has been slow, but good progress has been made in some areas. The strategic plans for utilities reform and education are now being implemented, and the sector plan for health is under development. The current fisheries institutional strengthening initiative will involve the development of a new strategic plan.

The upcoming Partnership for Development priorities will be drawn as much as possible from the NSDS goals and targets. The challenge will be how progress against those targets will be measured, as one of the weaknesses of the NSDS has been in its implementation (or, more specifically, monitoring of its implementation and progress towards targets). Currently the NSDS lacks a monitoring and evaluation framework. By aligning our priorities more explicitly with the NSDS, we will be able to also directly assist the GoN to collect and analyse NSDS progress information, which will benefit both the GoN and Australia in determining impacts and allocations of future funding and technical support.

The NSDS is ambitious and relies heavily on as-yet unrealised revenue from phosphate sales. The strategy is currently being updated to take account of reform progress to date and the evolving global economic climate.

## **Australian and other donor assistance to Nauru**

Australia is Nauru's most significant donor. Aid is provided under a memorandum of understanding, with limited additional support provided through the bilateral and regional aid programs. Support through other Australian agencies, including the Australian Federal Police and the Attorney-General's Department, brought total Australian aid flows to an estimated \$29.1 million in 2008–09.

Nauru's other major bilateral donors are Taiwan, New Zealand and the European Union. Multilateral and regional organisations active in Nauru include the World Health Organization, the United Nations Development Programme, the Secretariat of the Pacific Community and South Pacific Applied Geosciences Commission. Following payment by AusAID of Nauru's Asian Development Bank (ADB) loan arrears, the ADB is also re-engaging with Nauru. Approximately \$3 million is available for Nauru over the next few years. This is likely to go towards infrastructure support, which will probably include improvements to Nauru's port facility. Nauru also receives modest levels of assistance from a range of other partners, including Japan, South Korea, India, Turkey and Cuba.

Nauru's capacity to coordinate donor support is limited but improving. Australia will seek to lead improvements in this area by more explicitly aligning with GoN strategies and delivery mechanisms. We hope that this will improve GoN confidence to lead development coordination efforts more broadly.

Most assistance (including much of Taiwan's) is now reflected in the GoN budget and supporting documents, which provide a generally clear picture of what donors are working on. There are some notable exceptions, particularly Taiwan's Grass Roots Community

Development Fund. However, even those are now subject to some form of acquittal and accountability within the GoN system.

Greater cooperation is likely in the coming year, including with the United Nations bodies on health (non-communicable diseases, sexually transmitted infections), New Zealand on education, the European Commission on energy, and the ADB on infrastructure and support for the productive sectors.

A greater focus on program-based approaches should be pursued where existing sector capacity and planning warrant such approaches. Opportunities for delegated delivery should also be explored. For example, it may be appropriate for AusAID to manage contributions from, say, the European Union to promote greater use of renewable energy as part of a broader program-based approach to utilities reform.

# What are the results of our aid program?

## **Objective 1: Through economic and financial management reform, assist with the transition to changed livelihoods and improving management and delivery of key services such as health and education to the Nauruan community**

This objective is drawn from language in the MOU between Nauru and Australia and does not fit well with the NSDS goals or strategies. As a consequence, there is also a disconnection from the aid activities being delivered. In practice, work on this objective is focused on improving financial governance and budget management. The impacts on delivery of key services are seen more as an ‘enabling’ outcome than as objectives that can be measured in their own right (those impacts are dealt with more explicitly under the other objectives). Because of the difficulties created by the objective’s current wording, the upcoming Partnership for Development objectives will be more specific and targeted.

### Rating



The objective will be partly achieved within the timeframe (to June 2009).

### Assessment of results and performance

There were impressive achievements in this sector during 2008–09, although they were more modest than achievements in 2007–08. Key objectives for the period included maintaining Nauru’s ongoing fiscal stability; producing a balanced budget; establishing a national procurement policy and supporting legislation; restructuring selected state-owned enterprises (SOEs), including RoNTEL (the telecommunications authority); and finalising improved and simplified financial reporting regimes for SOEs and government. Against overall good progress, some elements of the program were not fully realised, including the preparation and submission of certified financial reports from key SOEs; and the rollout of the MYOB training program to government.

Since the introduction of the Australian-funded in-line finance team in 2005 (comprising the Secretary of Finance, Economics Advisor and Budget Advisor), the GoN has delivered successive responsible budgets, showing modest surpluses and demonstrating sound expenditure prioritisation and revenue forecasting. All government expenditure is now managed by the Ministry of Finance via the Australian in-line finance team, and arrangements are in place to have donor funding recorded in the national budget where appropriate (the 2008–09 budget was substantially drafted by a GoN official mentored by in-line officials). A debt management strategy has been finalised and is being progressed, and \$264 million in internal debts (debts between government entities) are being formally written off.

There has been significant streamlining of the public service in Nauru, including a restructured wage system and rationalisation of staff numbers. However, capacity to deliver broader public sector reforms remains constrained by limited skills and lack of relevant tertiary qualifications among public servants. New legislation has been drafted to facilitate the establishment of commercial banking arrangements, operational insurance services and pricing control. A price control board has now been formally established, as has a consumer price index, which is reviewed monthly. Work has commenced to formally wind up the Bank of Nauru, including the establishment of a section in the GoN Finance Ministry to manage debts. Nauru's Public Works Department has been dissolved and re-established as a quasi-private sector body operating under a business plan prepared with Australian technical assistance. A telecommunications sector plan has been developed, and the privatisation of the Nauru telecommunications sector will start soon. A births, deaths and marriages database has been established, which will help to resolve land ownership questions and bring many other benefits. The GoN realised a 34% increase in fisheries revenue in 2008–09, due to enhanced revenue collection systems and the impact of beneficial exchange rates.

These achievements have contributed to Nauru's ongoing fiscal stability (a significant achievement in its own right), better service delivery (including improved access to reliable power and water services), quality health care and effective education services. However, the achievements reflect considerable donor assistance. The recruitment of a human resources adviser will support the next step, which is the identification and training of local personnel to take on key senior roles, a process that may take a further 5–10 years.

Sustainability remains a problem for the public services sector as a result of limited capacity at the middle levels of the public service, although significant inroads have been made through better systems, procedures and policies for improving institutional capacity. However, a good stream of qualified and skilled local personnel is now starting to return from various scholarship programs, which should improve prospects for reduced reliance on relatively expensive expatriate personnel in the long term.

The improved financial environment in Nauru has also been recognised by the international community: the Financial Action Task Force has removed Nauru from its black list for money laundering; the United States Financial Intelligence Unit has declared that international transactions involving Nauru no longer demand enhanced monitoring arrangements; and the ADB has re-engaged with Nauru.

### Estimated expenditure

In 2008–09, approximately \$2.2 million (around 8%) of the \$29.1 million in official development assistance to Nauru was committed to initiatives related to this objective.

## **Objective 2: Assist with shifting services toward a greater emphasis on primary health and preventive measures in order to place these on a more sustainable long-term footing**

This objective is drawn from language in the MOU between Nauru and Australia. It does not properly take into account that, at that time, the health system was in crisis and Australian assistance was needed to respond to the crisis as a priority. As a result of assistance, the sector has now stabilised and there is an opportunity to focus on sustainable primary health care initiatives.

## Rating



The objective will be partly achieved within the timeframe (to June 2009).

## Assessment of results and performance

There has been some progress in the health sector under the guidance of Australian-funded personnel, including the Secretary for Health, the Strategic Health Planner and the Health Educator. However, improving health sector management and achieving demonstrable improvements in health outcomes remain two of the most challenging and demanding tasks for the aid program and for the GoN. Objectives relating to the development of a health sector strategic plan have not been realised, budget prioritisation still overemphasises tertiary care, and infrastructure spending cannot be shown to be responding to strategic planning.

Work in Nauru's health sector in 2008–09 included providing key personnel overseeing management, planning and service delivery in the sector, developing infrastructure, procuring pharmaceuticals and materials, and supporting the enactment of key legislation to address NCD risk factors including a new Tobacco Bill. According to the World Health Organization's 2007 NCD risk factor report, Nauru has very high rates of smoking: 49.7% for men and 56% for women. A one-stop shop for diabetes control has been established, along with a major televised health promotion campaign on obesity, which also includes reference to alcohol abuse and domestic violence.

Repairs and refurbishments of critical infrastructure have taken place, including security upgrades to both hospital sites, provision of sanitary facilities, and improvements to the oxygen plant housing. Other Australian assistance supported the provision of a new dental clinic, described by an independent infrastructure adviser as possibly the best dental clinic in the Pacific. However, we lack information about the quality of dental services provided for the community through this new facility. The clinic was built using local expertise and was constructed on time and within budget, although work quality required close monitoring.

The commencement of a revised drug purchasing system is expected to lead to lower recurrent costs for purchases (similar reforms for equipment purchasing are also now in place). An updated training needs analysis and Education Services Plan (along with provision of contemporary training aids and refurbishment of the Health Education Room) have been completed. Early indications are that these investments are leading to improved nurse aide development training, basic life support training, infection control training, and trained nurse medication and drug calculation training.

Regular neonatal clinics have been established and are monitoring early childhood development milestones, nutrition and immunization (100% coverage of all relevant vaccines has been achieved). According to Ministry of Health figures, the under-5 mortality rate in Nauru (4.2 per 1000 live births) is now comparable to rates in some developed countries, including Japan. Ministry of Health statistics also show that the infant mortality rate for Nauru has improved from 44.1 per 1000 live births in 2002 to 20.72 per 1000 live births over the 2005–08 period. Clearly, there have also been improvements in data collection.

Australia funds three in-line positions in the Nauru health system: the Secretary for Health and Medical Services and two new positions (the Strategic Health Planner/Project Manager and the Health Educator). The new positions were created to improve strategic planning and implementation, education and training services for health workers and the local management of activities funded by Australia, including infrastructure and systems development. The Director of Nursing position, which was previously filled by an expatriate funded by AusAID,

has been filled by a local Nauruan, which reflects well on the capacity-building efforts of the Ministry of Health.

A key factor limiting outcomes in the health sector is the difficulty in identifying suitable personnel to fill key positions. This is a problem for Nauru across all sectors of government, so it is critical that succession planning is undertaken at very early stages of any new deployment. Contributing to the shortfall is the Ministry of Health's apparent inability to identify suitable candidates for health sector related scholarships. AusAID's scholarship officer will work with the Health Ministry during 2009 to help improve the standard of applications.

Another significant issue is the need for the aid program to take a stronger approach to activity monitoring and reporting. An advisory body such as a technical advisory group may offer the kind of technical monitoring and reporting that AusAID and the GoN could benefit from.

### Estimated expenditure

In 2008–09, approximately \$2.1 million (around 7%) of the \$29.1 million of official development assistance to Nauru was committed to initiatives related to this objective.

## **Objective 3: Improve basic education and technical and vocational skills to develop an appropriately structured education system and skills base to meet Nauru's future needs**

This objective is drawn from language in the MOU between Nauru and Australia. The first part of the objective statement, 'improve basic education and technical skills', is being achieved. However, the second part ('an appropriately structured education system and skill base to meet Nauru's future needs') will not be achieved in 2008–09. While improvements in this area continue to be made, the timeframe and the state of the education sector before the current aid program to Nauru began in 2005 make it unrealistic to expect achievement of the goal.

### Rating

 The first part of the objective, 'improving basic education and technical skills' is on track to be fully achieved within the timeframe (to June 2009).

### Assessment of results and performance

Under the leadership of the Australian-funded Director of Education, progress and achievements in the education sector in 2008 -09 were considerable. Key objectives included improvements to data collection, production of a quality strategic plan and supporting legislation, greater numbers of skilled teachers, and introduction of improved infrastructure, including water and sanitation in every school. However, less progress has been made on building up a capable senior management structure comprising local personnel, including for the role of Director Education for 2009–10 and beyond. This is likely to take some years to achieve, and so does not seriously affect the rating for 2008 - 09.

The education sector four years ago was in a dire state. Rates of absenteeism among students and teaching staff were extremely high, enrolment numbers were falling rapidly, community attitudes to education were poor, physical infrastructure was dilapidated to the point of being a health and safety hazard, educational outcomes were deteriorating, teacher training was limited and the curriculum did not match Nauru's needs.

An anecdotal assessment of Australian assistance shows that a great deal has changed, as there is now much improved access to basic education and more community engagement in the school system. According to Nauru's Department of Education, school attendance increased from 63% in 2006 to 67% in 2007. Primary and secondary school completion rates increased by 5% and 27%, respectively, from 2006 to 2009. According to reporting from the Director of Education, teacher attendance has also improved.

Australia supports the education sector mainly by providing key personnel and funding infrastructure projects. New Zealand is also a significant donor and primarily supports teacher training and curriculum development. The GoN mostly funds teacher salaries and school supplies. The Australian-funded Director of Education has been responsible for the successful coordination of activities funded by the GoN and donors and in developing a five-year strategic plan for the education sector. Australia is working closely with the GoN to develop and implement the strategies in the plan. Under the Pacific Partnership for Development, this may involve formalising a sector-wide approach. Australia is especially interested in assisting Nauru to develop technical and vocational education and training, which is critical to skills required for the domestic and international labour markets. It will be important to develop information systems to report on both qualitative and quantitative aspects of initiatives.

Under the direction of the Australian-funded Director of Education, additional qualified teachers have been recruited from overseas; a teacher training, leadership and mentoring program has been introduced, a new program of technical and vocational education and training has been introduced; an early childhood education curriculum and a locally prepared primary education curriculum with locally relevant content have been introduced; the One Laptop Per Child initiative has been successfully piloted; and primary and infants schools have undergone major refurbishment using local labour to address safety and sanitation concerns.

As with most other areas of donor engagement in Nauru, the key constraint on future development is the lack of suitably qualified and skilled local personnel to take on key roles such as the Director of Education, although ongoing training of staff is occurring. As a result, there will be a need for further high-level advisory assistance that is more deliberately focused on developing the managerial and professional capacity of the Department of Education.

The Director of Education has overseen improvements in administrative capacity through the training of 43 office staff and the appointment of a buildings coordinator and a statistics officer. These roles have led to better arrangements for building maintenance and better collection of information for planning and decision making. The development of data-gathering systems to inform future policy and funding priorities is advancing, and already some statistics are available and informing decision making.

A major component of AusAID's work in the education sector is the \$10 million redevelopment of the Nauru Secondary School. The school will be ready for use in 2010 and will include technical and vocational education facilities that will enable Nauruan students to qualify for entry into the Australian Pacific Technical College. Those facilities will be the first of their kind on Nauru, and the AusAID-funded construction project will be the first to incorporate recognition of climate change in the design. Furthermore, the community's engagement in the project points to an improving community attitude to education. Equally, the shift in emphasis by the GoN to achieving both academic and TAFE-delivered vocational education and training outcomes is a positive and constructive policy move. However, ongoing recurrent funding for maintenance and operations of the school will need to be available through future budgets to ensure continued benefit for the community.

In collaboration with the GoN, AusAID chose a community participatory approach to deliver the new secondary school as a considered alternative to more traditional and less risky delivery through a commercial building contract. The expected benefits of this approach are now being realised through increased local employment, skill development and local ownership of the buildings. With the global financial crisis now affecting the local economy, the local economic stimulus provided by community engagement with school construction is broadly welcomed.

Australia continues to fund Australian Regional Development Scholarships. Twenty-nine Nauruans are currently studying at universities in Asia and the Pacific. Nauru accesses 8–10 Regional Development Scholarships annually, focusing on skills required for Nauru's future. Eight students completed their courses in 2008; seven returned to Nauru and are all currently employed in their field of study, and one continued with further studies. Nauru has also been offered nine Australia Pacific Technical College scholarships to date – six to the school of Automotive, Construction, Electrical and Manufacturing and three to the School of Tourism and Hospitality. Nauru also had one Australian Leadership Awards Scholar in 2008–09.

Another significant constraint on improved attendance and educational outcomes is linked to poor nutrition and the quality of food available to young pupils. Nauru's Director of Education advises that introducing a school food program may be a valuable way to improve enrolment and retention rates, while at the same time improving the poor nutrition currently experienced by young Nauruans. Australia plans to discuss the introduction of a school feeding program with the GoN as part of ongoing planning discussions for 2009–10. A school feeding program should contribute to improved educational outcomes as a result of better attendance rates and to improved health outcomes from higher nutritional standards.

### Estimated expenditure

In 2008–09, approximately \$6.2 million (around 21%) of the \$29.1 million of official development assistance to Nauru was committed to initiatives related to this objective.

## **Objective 4: Reform the institutional arrangements for the delivery of power and water services**

This objective is drawn from language in the MOU between Nauru and Australia. The analysis of the achievements under the objective distinguishes between reform and service delivery. To date, achievements in service delivery have been significant, but the focus needs to be on implementing sustainable reforms.

### Rating



The objective will be partly achieved within the timeframe (to June 2009).

### Assessment of results and performance

While progress and achievements in this sector during 2008–09 were positive, particularly in service delivery, progress towards the implementation of cost recovery and demand management and the introduction of more diverse energy sources did not fully meet expectations. Key objectives for the year also included the finalisation of the refurbishment program for fixed generators; identification and training for a skilled local to take over the maintenance program for water desalination equipment; improved fuel management planning;

and the introduction of a strong public awareness campaign aimed at reducing energy consumption.

The current utilities program focuses on maintaining basic power and water services, which rely on expensive diesel-powered generators and reverse-osmosis desalination equipment (diesel purchases account for a very significant proportion of the Nauruan annual budget). A cost-recovery mechanism for household consumption has yet to be introduced, but cost-recovery arrangements for commercial entities and government have been successfully initiated and are expected to deliver modest profits in coming months. A user-pays cost recovery system for households is expected to be rolled out in 2009–10, although it will be important to fully understand its potential impact on vulnerable groups to inform staged and appropriate rollout, exemption programs and subsidy arrangements. Cost recovery for utilities will be a sensitive issue for the Nauruan community after generations of free government-supplied energy and water services. Early and willing acceptance by the community is unlikely, and transition to full cost recovery is likely to take several years. The transition will need to be balanced with significant public education and awareness programs on the broader benefits of a self-sustaining power and water service.

In the longer term, we need to continue to develop a more sustainable utilities policy as reforms are implemented. Reforms will need to maintain a focus on cost recovery while safeguarding the access of those without the means to pay, as well as on greater use of sustainable energy instead of fossil fuels. Australia funds the in-line Chief Executive Officer of Utilities to implement Nauru's Utilities Strategic Plan (prepared with Australian and ADB support). The plan focuses on depoliticising utility services, moving towards user pays and cost recovery, reducing dependence on non-renewable energy sources, implementing demand management and public awareness campaigns, and introducing necessary legislative and policy changes to implement such reforms. Along with the strategic plan, the CEO also oversaw the development of the first-ever Utilities Annual Plan in 2008–09. The annual plan has been approved by the GoN and is supported by a \$2.1 million costed budget. Finally, the Utilities Bill currently under development will facilitate the transition of utilities to a private commercial entity.

The most significant achievement in service delivery in Nauru's utilities sector has been the return to relatively reliable and stable services. As of April 2009, Nauru was generating electricity on its own generators for the first time since 2005, and with fuel procured by the GoN under its own fuel purchasing arrangements. The Australian-funded Power Station Manager has overseen refurbishment work on Nauru's fixed power generation and water desalination assets, and has managed the procurement and commissioning of more efficient power generators from Australia. The manager's work has improved the reliability of energy services and desalination equipment so that they are capable of delivering a 24-hour service. However, until adequate demand management strategies and user-pays systems are in place, the cost in fuel for 24-hour operation is beyond Nauru's resources.

Fuel security has improved since the manager's arrival. In the past, up to 20% of Nauru's diesel supplies were unaccounted for at any given time. Better security arrangements, stock control and monitoring have resulted in negligible amounts being unaccounted for. Improved operations and management at the power station have resulted in better work practices and personnel training, less absenteeism and fewer occupational health and safety problems.

Daily clean water production (via reverse osmosis) has increased from 30% to 80% of capacity. Anecdotal evidence suggests that community attitudes to power and water services are improving as reliability and access improve, but there is still strong community resistance to cost-recovery or user-pays systems. That resistance will be difficult to overcome, and political

will be necessary to pursue this critical element of utilities reform. AusAID will need to continue to engage with the GoN and other development partners to develop and implement pragmatic policies. It will also be important for Nauru to develop strategies to manage the rising cost of fuel.

Long-term availability of qualified personnel remains problematic, as does the limited effect of personnel capacity-building efforts to date (many of those sent overseas for training have taken up employment in Australia). The establishment of a small trade school at the power station is resulting in some improvement in local trade skills relevant to power and water services.

Progress has been made in improving Nauru's telecommunications system, including the recent development of a funded telecommunications sector plan for Nauru. Implementation, including the privatisation of the telecommunications sector, is to start soon. The planned restructuring of Nauru's telecommunications authority (Rontel) has not yet occurred. The GoN has recently gone to tender for the provision of mobile telephone services on the island. As a result, a commercial services provider is expected to begin operations in the coming financial year. Developments in the telecommunications sector will need to be carefully monitored to ensure equitable, sustainable and commercially viable services for the community and government in the longer term.

### **Estimated expenditure**

In 2008–09, approximately \$5.1 million (around 17%) of the \$29.1 million of official development assistance to Nauru was committed to initiatives related to this objective.

## What is the quality of our aid activities?

Assessments of the quality of activities at implementation indicated mixed results, although improvements were noted in all sectors against last year's results. The Nauru Program has responded well to emerging demands and priorities. However, it is difficult to assess the quality-of-implementation arrangements due to the lack of sector-specific design material, including activity-specific statements of objectives. However, a recent review of the relevance, effectiveness and efficiency of Australian assistance to Nauru in the period from 2005 to 2008 concludes that:

Without Australian development assistance between 2005 and 2008 Nauru's standard of living would have declined significantly. This is a testament to the effectiveness of the support provided. Nevertheless, the nation remains highly vulnerable in a number of areas.

The review also found that most of the delivery methodologies being employed for Nauru, including on-budget support (cash transfers) and use of in-line personnel, were both appropriate and relevant to Nauru's circumstances. However, the review found the traditional bilateral project approach (as employed for the Nauru Secondary School reconstruction project) to be less effective than other options and to lack broad community support. We believe that this assessment reflects early community discontent with the managing contractor's performance in engaging the community, rather than lack of support for the community-based construction approach. Some personnel changes and subsequent recasting of the community construction approach employed by the project seem to be generating much higher levels of community support and engagement on the project.

Of the initiatives assessed, all were making satisfactory progress towards their objectives and most were satisfactory in their implementation progress, monitoring and evaluation. The sustainability of initiatives was generally less than satisfactory, due largely to the limited availability of personnel and institutional capacity more broadly. The exception was in institutional and governance reforms, where significant progress in structural and procedural reform has increased the likelihood of sustained benefit. Sustainability has also been affected by a deliberate focus on provision of key personnel within ministries and SOEs, rather than on capacity building and institutional reform in some sectors. This has been partly due to the precedents in aid delivery flowing from the presence of the Offshore Processing Centre, which has placed the focus on immediate improvements to the reliability of service delivery rather than on longer term reform, institutional strengthening and strategic planning.

Factors preventing higher quality scores are considerable and include the following:

> **Short funding cycles and lack of sector-wide designs**

Longer funding cycles would facilitate longer term planning by both governments and would provide more certainty for the GoN in budget planning. Longer term sectoral initiatives responding to sector-specific design and objective statements would enable more

adequate monitoring of quality and outcomes. Current arrangements contribute to the Nauru Program being administratively cumbersome.

> **Lack of capacity to implement reforms**

The lack of suitable local or expatriate personnel and resources to fill and fund key positions and reforms in all sectors continues to be a problem, and from time to time creates delays in program and policy implementation or development. Early succession planning is critical for all positions, particularly if funding cycles continue to be short-term.

> **Limited monitoring and evaluation framework**

While there have been improvements in physical monitoring arrangements and reporting in most sectors, the lack of formal and agreed monitoring and evaluation frameworks limits the program's ability to achieve and reliably assess the quality of outcomes. Reliable sex-disaggregated performance data would enable changes and improvements to be effectively and reliably monitored. Data collection arrangements to support an agreed monitoring and evaluation framework should be included in the designs of all initiatives.

> **Lack of reliable sex-disaggregated development data**

Because of Nauru's small size, both negative and positive impacts of external drivers, such as development assistance programs or international economic factors, can be swift, significant and readily observed. This results in considerable amounts of anecdotal evidence underpinning policy, planning and funding priorities. In turn, this has led to a reliance on 'observational' evidence rather than hard data. In the context of current international approaches to aid delivery, the lack of hard data to support evidence-based policymaking presents a potential risk to future funding levels. The Bureau of Statistics and key line agencies such as education and health will be targeted for support under the Pacific Partnership for Development.

> **Greater partnership with the Government of Nauru to enhance aid management**

AusAID has demonstrated that using the systems of partner governments has considerable advantages in local capacity building, administrative effectiveness, and reform and development outcomes. Joint risk management and monitoring arrangements could further improve implementation and outcomes.

> **Contingency planning to respond to external factors**

Unreliable and irregular transport links to and from Nauru, as well as local political developments and landowner issues, have occasionally caused considerable delays to the implementation and progress of activities. Contingencies should be considered at all stages of program planning to accommodate such developments as far as they can be reasonably predicted.

## QAI summary

While progress has been strong over the past 12 months, scores for 2008–09 (Table 1) were generally a little lower than scores for 2007–08. This is largely due to the very low starting point from which the 2007–08 achievements were measured. Scores for 2008–09 reflect the higher expectations of stakeholders and the failure in most sectors to fully meet those expectations, even though the achievements were significant.

**Table 1: Quality at implementation**

Initiative	Achieving objectives	Implementation progress	Monitoring and evaluation	Sustainability
Economic and Financial Management Reform	4	4	3	4
Health	4	3	2	2
Education	4	5	5	5
Infrastructure/Utilities	4	5	4	4
Satisfactory (4, 5 and 6)				
6	Very high quality			
5	Good quality			
4	Adequate quality; some work to improve needed			
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			

## What are the management consequences of this assessment?

The previous MOU arrangements under which the program operated required a strong Canberra-based presence, able to respond to predominantly demand-based programming (ad hoc payments for GoN recurrent costs) and contract-intensive programming (many AusAID-managed personnel contracts). The move from annual MOUs to a conventional long-term development relationship under the Pacific Partnership for Development will require changes to AusAID's management of the Nauru Program.

For example, the partnership will require the designing of initiatives for the first time in Nauru (the Nauru Secondary School project was the first 'project' in Nauru but is essentially an infrastructure refurbishment). This will facilitate the inclusion of objectives relating not only to key sectoral outcomes, but also to cross-cutting themes such as gender, anti-corruption and environment for the first time. This is also an opportunity to build the Nauru Program with program-based approaches specifically in mind, as there is no legacy 'project mindset' to overcome. The change to more directly engaging in the GoN's policy development will require a more appropriate in-country profile to support program development and policy work over the period of transition (the \$15 million per year Nauru Program has one Australia-based position, while the similarly sized Kiribati Program is supported by two Australia-based positions, one Development Program Specialist position and six overseas-based positions).

Under the Pacific Partnership for Development, it is proposed that the in-line finance team currently staffed by Australian Government officials will transition to an AusAID-funded contractor model. This approach will expand the pool of available expertise and provide greater opportunity to match specific skill sets with duty statements for the relevant positions.

As part of the shift to program-based approaches, donors will need to be pragmatic about achieving a balance between investments in pure capacity building and the provision of in-line personnel and contractors. The depth and extent of Nauru's capacity constraints mean that capacity substitution is often required alongside more explicit capacity-building efforts if basic services are to be maintained in both the short and long terms.

Any moves to use partner government systems will need to take place under a clear framework of risks and risk treatments. The GoN has already indicated a desire to undertake a public expenditure and financial assessment analysis, which will help to give a clear picture of the suitability of GoN financial systems and priority actions to remedy weaknesses.

Closer alignment of our programs and budget to the GoN's own policies and budgeting processes will also help to highlight where data and information gaps lie. Nauru has a poor statistical base, and joint efforts to strengthen collection and analysis will be required to improve both governments' capacity to report on development progress. Support to improve GoN data collection systems will be pursued through regional and bilateral mechanisms.

As the major donor in Nauru, Australia has effectively invested in all sectors to one extent or another. In that context, Australia will need to work with Nauru to enhance donor coordination

to ensure appropriate input from other donors and to ensure that there is coherence in the approach of all donors in order to maximise the benefits. Consideration should be given to the placement of an Australian in-line official within the Aid Management Unit to assist with coordination efforts and to build the capacity of the unit as an institution.

Development of a common understanding between the GoN and its development partners on the long-term future for Nauru will also be a focus for the coming year. AusAID will be leading a multi-donor study on the long-term sustainability of service delivery in small island states, in which Nauru, Tuvalu and Kiribati will be the three focus countries. The study will assist the GoN to develop its long-term strategic vision for the country.

It will be important for all stakeholders to develop a clear understanding of the flow-on effects of a successful reform agenda for all members of the community. Good social impact analysis should inform the planned rollout of reforms. A sound understanding of broad social impacts will help to inform development of a gender action plan aimed at ensuring that activities undertaken maximise benefits and mitigate disadvantage for both woman and men.

## **Impact of the global recession**

The key impact of the global recession on Nauru is its effect on global phosphate pricing and demand. Recent reforms in the fisheries sector have significantly improved fisheries revenue, and there is no expectation that revenue will drop off again. With reduced phosphate revenue, landowner and government royalties payments will be diminished or not paid at all, creating significant potential for job losses and reduced business activity, including retail, construction and maintenance programs. Expatriate Filipino, i-Kiribati and Chinese business owners are most at risk, as there are no local support networks if jobs are lost or businesses fail.

While the crisis has not yet affected Nauru to the extent that Nauru is actively seeking targeted donor responses, the potential impacts are significant. It will be critical to continue to monitor the impacts as they develop and work with the GoN and other donors to ensure that the GoN maintains adequate cash flow to deliver services and maintain employment opportunities and business activity. A phased approach to the two major construction projects funded by AusAID and the Australian Federal Police (the Nauru Secondary School and the new Police Headquarters, respectively) will be important to ensure ongoing employment opportunities for skilled and unskilled labour. This approach also provides more and longer term opportunities for skills development for Nauruans.

## **Response to management consequences identified in the 2007–08 APPR**

Management consequences identified in the 2007–08 APPR centred on:

- > lack of program strategy
- > annual rather than multi-year funding/planning cycles
- > broad sectoral focus
- > forms of aid
- > lack of activity design
- > information gaps.

The lack of strategy will be remedied by implementation strategies (and sector plans) developed under the proposed Pacific Partnership for Development and aligned with Nauru's National Sustainable Development Strategy.

With the closure of the offshore processing centre in March 2008 and the subsequent expiry of the associated MOU, there will no longer be a requirement for annual 'negotiations' over aid funding levels and mutual commitments. The establishment of the Partnership for Development offers an opportunity to introduce multi-year funding certainty, making multi-year program and budget planning possible.

The program's broad sectoral focus is likely to remain largely unchanged. However, the Pacific Partnership for Development's more streamlined focus on five priority outcome areas and subsequent implementation planning should make it easier to streamline program activities, giving greater priority to supporting specific agreed program priorities rather than ad hoc requests for assistance.

Last year's APPR called for more diversity in aid delivery approaches in Nauru, including through taking advantage of opportunities to facilitate re-engagement of other donors in order to harness other resources and expertise. Since that time, Nauru's loan arrears to the ADB have been paid out and the ADB has re-engaged with Nauru. AusAID is now partnering with the ADB in work associated with improvements to Nauru's port facility. The ADB is also working on developing a development trust fund for Nauru. Regional initiatives are being drawn upon in areas of governance (for example, regional audit and ombudsman initiatives); fisheries; specialist medical care and medical equipment maintenance; teacher training; and other areas. Significant funds are now channelled through Nauru's own budget system, which has been audited, reviewed and subsequently provided with technical assistance to address areas of weakness. Early agreement has been reached with Nauru to undertake a public expenditure and financial accountability assessment, which will help to determine how appropriate aid mechanisms might be used. Recruitment of additional personnel to fill in-line roles in senior positions in utilities, health and fisheries has been undertaken and is resulting in significant improvements in service delivery, institutional governance and, in the case of fisheries, revenue collection.

Lack of activity design is the central theme behind the bulk of the other management consequences outlined in last year's APPR, such as lack of formalised monitoring and evaluation arrangements; greater use of the GoN's own systems; and lack of focus on gender and other cross-cutting factors. While maintenance of the status quo will be required to some extent under the Partnership for Development, the focus in 2009–10 will be on developing detailed program designs that include better monitoring and evaluation arrangements and take gender and other cross-cutting themes into account, starting with the development of clear implementation strategies.

Support for better sex-disaggregated data collection is starting to fill some information gaps, particularly in the areas of education, health and utilities. However, more support for Nauru's own data collection and management systems will be a priority under the Partnership for Development to better inform budget and programming prioritisation and to help inform the donor community of progress toward goals. Engagement of a local Nauruan to manage the scholarship program and provide some overseas-based services has helped to improve data collection and local administration. Engagement with regional statistical support through the Secretariat of the Pacific Community is also helping to improve data collection and management.