



Australian Government
AusAID

Annual program performance report for Nauru 2007–08

NOVEMBER 2008

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Summary

Australia is Nauru's largest donor, providing a total of \$27.4 million in official development assistance in 2007–08, and has played a central role in providing essential services and driving sustainable economic reforms in Nauru. The bulk of Australian assistance is delivered under a Memorandum of Understanding (MOU) with additional assistance provided through other bilateral and regional programs and other government departments such as the Australian Federal Police. The current MOU (MOU V) was renewed in July 2008 and expires in June 2009.

When the current Australian aid program to Nauru commenced in 2005 many sectors were in crisis. These sectors have now stabilised, enabling resources to be focused more on developing and implementing sustainable rather than reactive development activities. Nauru still faces considerable challenges and constraints to its long-term economic sustainability and is likely to require significant donor assistance for the foreseeable future.

Nauru's National Sustainable Development Strategy (NSDS) guides, to a large extent, current donor and domestic development programs and Australian assistance. However, there are currently no formal sector wide designs for Australian assistance and no agreed joint country strategy in place. Due to this the Australian program of assistance to Nauru lacks clearly targeted objectives and a performance framework to monitor aid effectiveness resulting in a limited strategic focus and making it difficult to assess the impact of Australia's aid program. To address this AusAID proposes that the whole aid program be independently reviewed before the end of 2008 and a new joint Nauru–Australia strategy developed within the framework of the proposed Pacific Partnership for Development due to be signed in June 2009.

A significant aspect of Nauru and Australia's relationship changed recently with the closure of the Australian Offshore Processing Centre on 31 March 2008. The centre provided an economic stimulus to Nauru through employment and consumption of goods and services on the island. Australia has provided additional assistance to Nauru to help address the immediate economic impact arising from the closure of the centre.

The key development objectives for the Nauru program relate to economic and financial management reform, health, education and utilities. The fact that these sectors were in crisis before Australian assistance is not fully reflected in the statements of the objectives, which has caused some aspects of the statements to be unrealistic in a short timeframe. The achievements of the program have been assessed by looking at the impact of aid initiatives in the absence of a formal performance framework. As this is the first annual program performance report for Nauru it was more practical to look at the program achievements in the period 2005–08.

MAJOR RESULTS

Major results of Australian assistance are:

- > improved economic and financial management, resulting in much better delivery of basic services and increasing international engagement
- > better management of utilities, resulting in more reliable delivery of basic power and water services for the Nauruan community
- > enhanced access to basic education through more effective management, planning and infrastructure focused on providing a safe and sanitary learning environment
- > improved community access to reliable health services through better planning, resourcing and infrastructure.

MAJOR CHALLENGES

Nauru faces many inherent challenges to economic and social development.

- > The country requires political stability and continued support for a sustainable reform agenda.
- > Its small size and geographic isolation means there are limited opportunities for economic development other than through phosphate mining and fisheries.
- > Its reliance on fossil fuels for power and water supply is expensive and makes the sector vulnerable to fuel price shocks.
- > The transition to a more sustainable cost-recovery system requires skilled management.

RATINGS OF THE NAURU PROGRAM IN ACHIEVING THE OBJECTIVES

Objective	Rating
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	■ (green)
Assist with shifting services toward greater emphasis on primary health and preventive measures in order to place these on a more sustainable long-term footing	■ (amber)
Improve basic education and technical and vocational skills to develop an appropriately structured education system and skills base to meet Nauru's future needs	■ (amber)
Reform the institutional arrangements for the delivery of power and water services	■ (amber)

Note: ■ denotes the objective is on track to be fully achieved within the timeframe. ■ denotes the objective will be partly achieved within the timeframe.

- > Suitable education and employment opportunities are required to develop the skills required for the domestic and international labour markets.
- > The country has a high prevalence of non-communicable diseases, including diabetes, which is linked to a reliance on food imports.
- > Its level of debt is unmanageable.
- > The reliability and management of the communications infrastructure needs to be improved.
- > Private sector development faces constraints such as a complex landowner system, limited banking facilities and limited access to credit.

Australian development assistance is constrained by a number of factors:

- > an absence of sector wide designs for initiatives, clearly targeted objectives, monitoring and evaluation frameworks, and data collection systems resulting in a limited capacity for strategic engagement and a number of ad-hoc and reactive activities
- > short funding cycles, which constrain longer term planning, budget management and expenditure prioritisation
- > a lack of suitable local resources and personnel—local or expatriate.

Country performance

ECONOMIC, POLITICAL AND SOCIAL DEVELOPMENT

Nauru relies on donor support; approximately 60 per cent of its budget is contributed by donors. Nauru's 2007–08 budget was around \$35 million, which included revenue from fisheries of around \$6 million and about \$1 million from phosphate royalties. Australia is the largest donor, although New Zealand and Taiwan make significant contributions.

The Asian Development Bank (ADB) estimates current gross domestic product per person in Nauru to be around \$2500, down from almost twice that much over the previous 15 years. There is no evidence of absolute poverty in Nauru; however, there is low household income and limited employment opportunities, resulting in generally modest-to-poor living standards.

During the past four years Nauru has had a reform-minded government that has worked well with Australia and other donors to implement reforms. Prior to this, Nauru's international reputation was damaged, as it was believed to be involved in selling investor passports and in money-laundering activities.

Recent analysis shows that secondary phosphate reserves can be viably mined for up to 30 years. It has been reported that Nauru may also derive a sustainable income from the sale of aggregate, which is a by-product of secondary phosphate mining. In 2007–08 there was substantial capital investment to facilitate secondary phosphate mining. Further substantial investment, such as port infrastructure and new production facilities, will be required in the medium term for Nauru to support its export strategy. The effective management of mining operations and revenues in the best interests of the Nauruan community represents a challenge for the Government of Nauru.

Nauru also derives income from the sale of fishing licences and there is some potential for development of value-adding activities such as canning fish.

Nauru does not have resources other than minerals and fish products to sell in international markets. Domestically there is a lack of private sector opportunities because of the small market, low incomes, poor access to credit, poor infrastructure, skills shortages and complex landownership systems. There is little information on the significance of remittances, but there is anecdotal evidence of some remaining pockets of individual wealth.

Nauru relies on food imports as there is very limited domestic food production. This is due largely to limited arable land as a result of environmental damage from primary phosphate mining in past years. There is an opportunity to increase domestic food production if land rehabilitation programs, which complement secondary mining activities, are successfully implemented.

A debt management strategy prepared with Australian assistance in 2006 shows Nauru has external public debts of around \$371 million and other internal debts of \$265 million. The strategy further notes that Nauru's economy is capable of sustainable servicing of only \$46 million of debt.

With Australian support, basic services are improving such that a recent report sponsored by the Pacific Islands Forum Secretariat on banking options for Nauru noted that:

... donor support in the health and education sectors has seen good progress in improving the quality and quantity of service delivery such that standards are considered adequate and improving.

The same report goes on to conclude that commercial banking operations are again financially viable in Nauru.

ECONOMIC REFORMS

With support from the Australian funded 'in-line' finance team, considerable progress in economic and governance reform has been realised. Nauru's international reputation is improving in recognition of key achievements including:

- > its removal from the money laundering blacklist of the Financial Action Task Force
- > the delivery of three successive balanced and fiscally responsible national budgets
- > the restructuring of state-owned enterprisers toward more commercially focused operations
- > the restructuring of the public service and the introduction of wage cuts
- > the introduction of legislation abolishing offshore banks
- > the introduction of a comprehensive debt management strategy.

Key donors and businesses are seeking to re-engage and, in some instances, expand their aid programs. For example, the European Union recently expanded its profile in Nauru and the ADB is negotiating re-engagement. Western Union recently established a business outlet in Nauru dealing in cash transfers and may establish a bill payment facility in the future.

Given the challenges facing Nauru, a continued strong focus on reform will be needed to ensure the benefits of progress to date are realised over the longer term.

PROGRESS TOWARD MILLENNIUM DEVELOPMENT GOALS

There is insufficient data to accurately assess Nauru's progress toward the Millennium Development Goals. There is evidence of Nauru meeting some of the health goals, but performing poorly in relation to education, particularly in terms of attendance by students. In relation to the health sector, Nauru performs poorly against indicators such as life expectancy because of poor-quality health services and high levels of diabetes and other non-communicable diseases.

NAURU'S NATIONAL SUSTAINABLE DEVELOPMENT STRATEGY

In 2005 Nauru launched its NSDS, developed after a period of intensive public consultation. While widely recognised as ambitious and heavily dependant on as yet unrealised revenue from phosphate mining, the NSDS has been received positively by the broader donor community. Progress toward development of individual sector plans as foreshadowed under the NSDS has been slow. A strategic plan for utilities reform was developed in 2006 with the assistance of both the ADB and Australia. Recently strategic plans for both health and education sectors were produced.

The NSDS outlines Nauru's development strategy for the period 2005–25 and pursues: 'a future where individual, community, business and government partnerships contribute to a sustainable quality of life for all Nauruans'. To reach this vision, the NSDS outlines the following five goals:

- 1 Stable, trustworthy and fiscally responsible government
- 2 Enhanced social, infrastructure and utilities services
- 3 An economy based on multiple sources of revenue
- 4 Rehabilitation of mined out lands for livelihood sustainability
- 5 Development of domestic food production.

Australian assistance supports these goals. A new strategy for Australian engagement with Nauru beyond June 2009 should align, as much as is practicable, with key priorities and objectives outlined in the NSDS.

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 Department of Immigration and Citizenship brought total Australian aid flows to \$27.4 million in 2007–08.

Nauru's other significant donors include Taiwan and New Zealand. Nauru's 2007–08 budget identified grant funding from Taiwan of around \$4.6 million in 2007–08 and a further \$1.3 million from New Zealand. Nauru also benefits from modest contributions through donors and institutions such as the European Union, India, Japan, the World Health Organization, the United Nations Development Programme, the Secretariat of the Pacific Community and South Pacific Applied Geosciences Commission. Nauru has been a member of the ADB since 1991; however, until recently it was the ADB's only loan defaulter and subsequently had no access to direct ADB assistance. The ADB and the Government of Nauru are now re-engaging as a result of Australian assistance to clear Nauru's membership arrears.

Australian assistance focuses on improving economic sustainability through economic and financial management and governance reforms, and through support for improved basic education and health care systems, improved availability and reliability of key infrastructure services, and enhanced public sector capacity.

The ADB's Country Economic Report for Nauru, November 2007, notes:

Aid has been used effectively to refurbish utility infrastructure, the port, and health and education facilities, as well as to increase the provision of health, education and security services, and government administration. Expenditure on Australian 'in-line' officials has been particularly effective. The increased capacity of the economy in recent years provides some grounds for optimism for the future.

THE NAURU-AUSTRALIA COMPACT OF SETTLEMENT

An important aspect of the contemporary relationship between Nauru and Australia stems from the Nauru–Australia Compact of Settlement, finalised in 1993 as an out-of-court settlement where Australia provides financial compensation for phosphate mining prior to 1967. The settlement is administered separately from other elements of Australian support for Nauru. Its funding has been critical to advancing Nauru's secondary phosphate and land rehabilitation programs and is an important part of future economic and developmental aspirations. Funds from the settlement were the primary source of funding for the substantial capital investment program in 2007–08 required for secondary phosphate mining.

What are the results of the Nauru aid program?

OBJECTIVE:

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

RATING

■ The objective is on track to be fully achieved within the timeframe (June 2009).

ESTIMATED EXPENDITURE

In 2007–08 approximately \$3.5 million (around 12 per cent) of the \$27.4 million of official development assistance to Nauru was committed to initiatives related to this objective.

ASSESSMENT OF RESULTS AND PERFORMANCE

This objective is drawn from language contained in the memorandum of understanding between Nauru and Australia and does not marry exactly with the actual focus of aid activities. Therefore the analysis regarding the achievement of this objective is based on the economic and financial management and reform aspects of the objective statement rather than the delivery of key services, which are the focus of the other objectives.

Since the introduction of the Australian-funded in-line finance team in 2005, comprising the Secretary of Finance, Economics Advisor and Budget Advisor, the Government of Nauru has delivered successive responsible budgets, showing modest surpluses and demonstrating sound expenditure prioritisation and forecasting. All government expenditure is now managed by the Ministry of Finance via the Australian in-line finance team, and arrangements are now in place to ensure donor funding is recorded in the national budget where appropriate. Improvements in the transparency of procurement methodologies have been realised in areas such as diesel fuel and pharmaceutical purchases. Australian-funded MYOB training for key state-owned enterprises is making progress toward reliable financial reporting for the first time in many years in some instances.

There has been significant streamlining of the public service in Nauru, with a restructured wage system and rationalisation of staff numbers. New legislation has been drafted to facilitate the establishment of commercial banking arrangements, operational insurance services and pricing control. 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 debt management strategy has been finalised and is being progressed.

These achievements have contributed to much better service delivery for Nauru's community with improved access to reliable power and water services, quality health care and effective education services, although it is important to note that the achievements reflect considerable donor assistance. The recruitment of a human resource advisor should support the next steps, which is the identification and training of local personnel to take on key senior roles, which may take a further 5–10 years. Sustainability remains a problem for the public services sector, although significant inroads have been made in terms of improved systems, procedures and policies for improving institutional capacity. However, a good stream of qualified and skilled local personnel is still not available and it can be difficult and relatively expensive to get suitable expatriate personnel.

The improved financial environment in Nauru has been recognised by the international community. This is evidenced by the Financial Action Task Force's removal of Nauru from its black list for money laundering and the US Financial Intelligence Unit's declaration that international transactions involving Nauru no longer demand enhanced monitoring arrangements.

OBJECTIVE:

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

RATING

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

ESTIMATED EXPENDITURE

In 2007–08 approximately \$2.7 million (around 9 per cent) of the \$27.4 million of official development assistance to Nauru was committed to initiatives related to this objective.

ASSESSMENT OF RESULTS AND PERFORMANCE

This objective is drawn from language contained in the memorandum of understanding between Nauru and Australia and does not properly take in to account that the health system had been in crisis and that Australian assistance had needed to respond to this 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.

Work in Nauru's health sector in 2007–08 included providing key personnel, developing infrastructure, procuring pharmaceuticals and materials, and progressing major strategic planning exercises, including a strategy to address non-communicable diseases.

Arguably the most significant and tangible outcome in this sector has been the successful flood mitigation works, which have improved the access to and the quality and reliability of health services for the entire Nauruan community. As a result of the work Nauru's

major hospital complex has remained free of flood waters and associated damage and hygiene issues that have plagued the facility on a regular basis since its construction. This work was funded by the Australian Department of Immigration and Citizenship.

Other Australian assistance for new infrastructure includes a new pharmacy building, which will improve storage and stock control to avoid wastage of unused drugs, and a new medical laboratory to improve pathology services in Nauru, leading to savings from not having to use overseas services. These buildings were constructed by local builders and were on time and within budget; however, work quality required close monitoring. A new dental clinic is now being constructed. Australia has also funded the development of a scope of works for refurbishing the Republic of Nauru Hospital and tender documents are being prepared.

Australia funds three in-line positions in the Nauru health system. They are the Secretary for Health and Medical Services, and two new positions—the Strategic Health Planner/Project Manager and the Health Educator. The latter 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. AusAID experienced some difficulty recruiting a replacement for the Secretary for Health and Medical Services, which meant the position was vacant for several months. 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.

Australian support in areas of strategic planning and resource management frees up Nauru's own resources to cover staff salaries, providing some certainty for budget-planning purposes. The Ministry of Health's National Strategic Plan and Operational Plan including standard treatment guidelines have been developed. Plans are under way to strengthen the administrative support, maintenance and contract management functions. An organisational restructure is being undertaken and is progressing well. More efficient and cost-effective referral processes are now in place and increased numbers of specialist and general medical practitioners operating in Nauru have resulted in better access to care and treatment generally.

A key factor limiting outcomes in the health sector is the difficulty in identifying suitable personnel to fill key positions. This is an issue for Nauru across all sectors of government so it is critical that succession planning is undertaken at very early stages of any new deployment. 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 Government of Nauru could benefit from.

A well-received strategy to address non-communicable diseases has been developed and has begun to be implemented in collaboration with the World Health Organization. The plan focuses on surveillance, prevention and management of major lifestyle-related

conditions in Nauru. HIV-related programs are funded through the Secretariat of the Pacific Community.

Health statistics for Nauru are limited. This is being addressed through the development of a health information system. Anecdotal evidence suggests there have been modest improvements in areas of patient control such as admission procedures and discharge times since Australian assistance was initiated. This suggests some systemic improvements, although it is likely to be another 12–24 months before accurate data will be able to inform an assessment of any improvements in community health outcomes. This applies particularly to preventive initiatives aimed at reducing the very high prevalence of non-communicable diseases.

Australian support for procuring pharmaceuticals and medical consumables remains a necessary component of the aid program. Local capacity to manage pharmaceutical procurement and logistics is improving. The development of standard treatment guidelines and a review of all pharmaceutical systems will realise further improvements in ordering schedules, stock control and storage procedures.

OBJECTIVE:

IMPROVE BASIC EDUCATION AND TECHNICAL AND VOCATIONAL SKILLS TO DEVELOP AN APPROPRIATELY STRUCTURED EDUCATION SYSTEM AND SKILLS BASE TO MEET FOR NAURU'S FUTURE NEEDS

RATING



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

ESTIMATED EXPENDITURE

In 2007–08 approximately \$4 million (around 14 per cent) of the \$27.4 million of official development assistance to Nauru was committed to initiatives related to this objective.

ASSESSMENT OF RESULTS AND PERFORMANCE

This objective is drawn from language contained in the memorandum of understanding 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’ is not a realistic objective, given the timeframe and the state of the education sector prior to the commencement of the current aid program to Nauru in 2005.

The education sector three years ago was in a dire state. There were extremely high rates of absenteeism among students and teaching staff, 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 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 per cent in 2006 to 67 per cent in 2007. There are also higher numbers of teachers attending schools.

Australia mainly supports the education sector by providing key personnel and funding infrastructure projects. New Zealand is also a significant donor and primarily supports teacher training and curriculum development. The Government of Nauru 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 Government of Nauru and donors and in developing a five-year strategic plan for the education sector. Australia plans to work closely with the Government of Nauru to develop and implement the strategies in the plan. 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 an additional nine qualified teachers have been recruited from Papua New Guinea and Fiji, 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 content of local relevance have been introduced, 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 to future development is the lack of suitably qualified and skilled local personnel to take on key roles in the future. A local individual has been identified and is currently being mentored to potentially take over the position of Director of Education some time within the next 2–3 years. However, 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 appointment of a buildings coordinator and a statistics officer. These new roles should lead 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 \$8.5 million redevelopment of the Nauru Secondary School. The school will be ready for use in 2009. The community's engagement in the project points to an improving community attitude toward education.

Australia continues to fund Australian Regional Development Scholarships. Currently 28 Nauruans are studying at universities in Asia and the Pacific. Nauru accesses 8–10 Regional Development Scholarships annually, focusing on skills required for Nauru's future. Nauru has also been offered 9 Australia Pacific Technical College scholarships to date.

Another significant constraint to improved attendance and educational outcomes is hunger. Nauru's Director of Education advises that introducing a school food program may be a valuable way to improve enrolment and retention rates.

OBJECTIVE:

REFORM THE INSTITUTIONAL ARRANGEMENTS FOR THE DELIVERY OF POWER AND WATER SERVICES

RATING



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

ESTIMATED EXPENDITURE

In 2007–08 approximately \$7.3 million (around 25 per cent) of the \$27.4 million of official development assistance to Nauru was committed to initiatives related to this objective.

ASSESSMENT OF RESULTS AND PERFORMANCE

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

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 but there is no cost-recovery mechanism for household consumption. In the longer term a more sustainable utilities policy needs to be developed and reforms implemented.

Reforms will need to focus on cost recovery while safeguarding the access of those without the means to pay, as well as greater use of sustainable energy instead of fossil fuels. Nauru has not yet made significant progress toward utilities reform, although work has commenced. Australia recently recruited an in-line Chief Executive Officer of Utilities to implement Nauru's Utilities Strategic Plan prepared with the support of both Australia and the ADB. The plan focuses on depoliticising utility services, moving toward 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.

Community resistance to user-pays systems will be difficult to overcome and political will is necessary to pursue this critical element of utilities reform. AusAID will need to continue to engage with the Government of Nauru 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.

In terms of service delivery the most significant achievement in the utilities sector in Nauru has been the return to relatively reliable and stable services. 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 additional power generators from Australia. While much of Nauru's energy needs are still met via temporary rental generators supplied and serviced by Australia, the manager's work has improved the reliability of energy services and desalination equipment so 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 arrival of the Power Station Manager. In the past, up to 20 per cent 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 issues.

Long-term availability of qualified personnel remains problematic, as does the limited effect of personnel capacity-building efforts to date. The establishment of a small trade school at the power station is resulting in improved local trade skills relevant to power and water services. In addition, four workers from the power station have won trade scholarships through the Australia Pacific Technical College program.

The introduction of an electricity load-shedding program—16 hours on, 8 hours off—has helped ensure community members can plan for power usage and outage. However, the increased provision of electricity from 12 hours to 16 hours has meant a significant increase in fuel expenditure. Anecdotal evidence suggests community attitudes to power and water services are improving as reliability and access improves but there is still strong community resistance to cost-recovery or user-pays systems.

Efforts to improve Nauru's telecommunications system have not been successful. The Australian-funded wireless telecommunications network (WiFi) has yet to operate and the planned restructuring of Nauru's telecommunications authority (Rontel) has not yet occurred. Lessons to be drawn from the way the WiFi program has been managed both by AusAID and by the Government of Nauru highlight the need for enhanced on-island monitoring arrangements.

What is the quality of AusAID activities in Nauru?

Assessments of the quality of activities at implementation indicated mixed results, although considerable improvements were noted in all sectors against last year's results. The program has responded well to emerging demands and priorities as a result of the considerable flexibility inherent in the current structure. 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.

Of the initiatives assessed, all were making satisfactory progress towards their objectives and most were satisfactory in their implementation progress, and 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.

Issues preventing higher quality scores are considerable and include the following.

> **Short funding cycles and lack of sector wide design**

Longer funding cycles would facilitate longer term planning on the part of both governments and would provide more certainty for the Government of Nauru in budget planning. Longer term sectoral initiatives responding to sector-specific design and objective statements would enable more adequate monitoring of quality and outcomes. This issue also contributes to the program being administratively cumbersome.

> **Lack of capacity to implement reforms**

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

> **Limited monitoring and evaluation framework**

While there have been improvements in both physical monitoring arrangements and reporting in most sectors, the lack of formal and agreed monitoring and evaluation framework limits the program's ability to achieve and reliably assess the quality of outcomes. Reliable 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.

> **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 terms of 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 can be reasonably predicted.