



Nauru Aid Program Performance Information 2014-15


Summary


Australia's development cooperation program in Nauru supports the objectives of a socially stable and economically resilient Nauru that has a functioning and accountable public sector; critical infrastructure; and provides quality health and education services to enable Nauru's community to take up economic and labour mobility opportunities. In 2014-15 Australia provided \$27.1 million in Official Development Assistance (ODA) to Nauru – equivalent to 23 per cent of the Government of Nauru's budget of A\$115 million. Australia is Nauru's major development partner. The Asian Development Bank (ADB) and regional institutions are active in Nauru and the Government of Nauru is in the process of becoming a member of the World Bank and International Monetary Fund.


Performance Against Strategic Objectives

Objectives	Previous Rating	Current Rating
1. More effective Public Sector Management	Amber	Green
2. Investing in Infrastructure	Red	Amber
3. Supporting Human Development (health and education)	Amber	Amber

Note:

 Green. Progress is as expected at this stage of implementation and it is likely that the objective will be achieved. Standard program management practices are sufficient.

 Amber. Progress is somewhat less than expected at this stage of implementation and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

 Red. Progress is significantly less than expected at this stage of implementation and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

Reporting period:

Key positions within the Government of Nauru were again filled with Australian funded PACTAM advisers in February 2014, with appreciable improvements in key aspects of public sector management. Advisers were placed into in-line positions in the Ministry of Finance as Deputy Secretaries for Treasury, Revenue and Customs, and a tax adviser. Their management, expertise and advice contributed to the development of the Nauru Government's 2015 budget and increased revenue from the implementation of a new tax system.

Advisers also supported customs reforms and the implementation of the Financial Management Information System (FMIS). The Government engaged an Independent Procurement Agent but the contract has since been terminated for performance reasons. An interim agent has since been appointed and Australia will help the Ministry of Finance to tender for a new procurement agent.

The Government of Nauru succeeded in establishing a Bendigo Bank agency in Nauru and is now paying public servant salaries into Bendigo Bank accounts. The low expenditure of funds in a Nauru Government Operational Account holding Australian aid funding for budget support remained a concern, with a balance of around \$13 million in June 2015. However,

a review of the account and remedial action has commenced and, with support, Nauru Government systems will continue to be used to manage grant funds provided for the health and education sectors.

The utilities sector (power and water) significantly improved under the management of the PACTAM¹-supported CEO of Nauru Utilities Corporation (NUC). Critical maintenance and upgrades funded by Australia resulted in more reliable electricity supplies. The CEO was successful in attracting other donor funding to upgrade power generation and distribution capacity. The Department of Immigration and Border Protection installed new water desalination and water storage capacity that greatly enhanced water supply capacity.

With Australian support, delivered through the Pacific Region Infrastructure Facility, a pre-feasibility study was completed for the essential redevelopment of the 110 year old Aiwo Port. A port design option will be further developed in early 2016 to investment project design stage by the Asian Development Bank.

The Ministry of Education continued to implement an ambitious strategic plan to improve the quality of education outcomes in Nauru. This included a program to provide diploma and bachelor level qualifications for Nauruan teachers at the University of New England. In December 2015, 20 students will graduate with a diploma and continue to study for bachelor degree. A new cohort of 15 students commenced studies for a diploma in 2015. Following delays, the design of a 'Learning Village' progressed and is nearing completion. It will include a new University of the South Pacific campus, library and training rooms. A pre-qualification tender for construction was successfully conducted. Triennial reviews of the education and health sectors were conducted in 2013-14, but new data was not available for these sectors for the 2014-15 period.

A significant outcome for the health sector included finalisation of plans for the redevelopment of the Republic of Nauru Hospital. This was complemented by the placement of a health policy adviser and hospital operations manager into the Ministry of Health through the PACTAM program. The Ministry of Health utilised Australian funds to finalise a new health sector strategy and NCD strategy, which were approved by Cabinet.

Despite the serious need to improve the management of non-communicable diseases, this priority did not advance as planned in 2014-15. The health strategy implementation also was constrained as around 55 per cent of the \$9 million budget was spent on overseas medical referrals. Australian budget support to the health sector was utilised for pharmaceutical purchases, as well as for staff training and employment of additional staff.

A water tanks project, part of an Adaptation to Climate Change program was behind schedule. DFAT provided additional support to address implementation issues. The project is now progressing.

Under the Pacific Women Shaping Pacific Development program, the first Nauru Country Gender Plan (2014-16) was developed. A Gender-based Violence Counsellor commenced in November 2014, working across government including police, health, education and home

¹ PACTAM is the DFAT program the Pacific Technical Assistance Mechanism

affairs agencies to design and implement processes to improve support for survivors of family and sexual violence. In January 2015, the Ministry of Home Affairs established a gender violence and child protection division, with Australian assistance.

Progress towards Performance Benchmarks in 2014-15

Aid objective	2014-15 benchmark	Rating	Progress in 2014-15
<u>Infrastructure:</u> Reliable and cost effective provision of essential infrastructure and services	Stage one of RoN Hospital redevelopment is complete by July 2015.	Partly Achieved	Stage One not finished by July 2015, but now progressing well, expected completion by February 2016. Delays due to Government of Nauru acceptance of offer (occurred in August 2014) and endorsement of the Plan (May 2015).
<u>Human Development – Health:</u> A cost effective health system which delivers improved health outcomes	Improved management of NCDs along the whole continuum of care	Partially achieved	Work in the health sector focused on the hospital redevelopment, placement of two PACTAM advisers and recruitment of additional Ministry of Health staff. An NCD Strategy was prepared but more needs to be done to address NCD diagnosis and management.
<u>Human Development – Education:</u> Improving the quality and access to primary and secondary education	Government of Nauru has developed and implemented strategy to reduce truancy rates in schools	Partially Achieved	This GoN-led initiative has not been completed due to the availability of the selected consultant. GoN is implementing a financial incentive program for primary school aged children through the 2015-16 budget.
<u>Operational:</u> Increased number of programs adequately addressing gender equality considerations	80 per cent of programs adequately addressing gender issues	Achieved	The 2014-15 Aid Quality Check found that all (100%) of programs were adequately addressing gender issues.

The 2013-14 APPR set four performance benchmarks for 2014-15. Of these only the gender-related benchmark was fully achieved, and further improvements on gender equality are being pursued. For infrastructure the benchmark was completion of Stage 1 of the hospital redevelopment. Commencement was held up due to the need for easible design options and agreement on a preferred option by Government of Nauru and Australia. There was good progress on power generation and water supply by Nauru Utilities Corporation.

The health and education sectors did not fully expend funds allocated to implementation of their strategic plan objectives. Vacancies at senior levels of relevant government ministries late in the financial year impeded progress. The Ministry of Education lost the support of their adviser to the Secretary in June 2015. The Ministry of Health benefited from the commencement of a health policy adviser and a hospital operations adviser late in the financial year. The appointment of a new Director of Public Health will facilitate greater progress on non-communicable disease (NCD) care in 2015-16.

Mutual Obligations

The 2013-14 mutual obligations were the development of human resource planning, attracting a commercial bank to establish a branch in Nauru and improving the Government of Nauru's financial reporting. These were partially met. Australian assistance (through the ADB) helped the Government of Nauru undertake preparations for the establishment of an agency of the Bendigo Bank. The government commenced paying public servants directly into staff accounts at the bank.

Public financial management and financial reporting was improved through implementation of the Financial Management Information System (FMIS). FMIS was rolled out from Ministry of Finance to line agencies, user manuals were prepared and relevant staff undertook training. Australia provided technical assistance and funded training to enable more modules to be implemented and functionality of the system to be improved. This enabled whole of government financial statements to be produced for 2013-14 and ready for audit by the Auditor General.

With help from Australia, the Government of Nauru had recruited and used an Independent Procurement Agent, in line with the Procurement Act. However, subsequently the Independent Procurement Agent was terminated for non-performance. Another agent will be engaged through international tender with technical support from Australia.

Program Quality and Partner Performance

The *Aid Quality Check* ratings for 2014-15 were generally consistent with the *Quality at Implementation* reports for 2013-14. While the relevance of the program was adequate to good, the program's effectiveness and efficiency was rated as in need of improvement, primarily due to the loss of key advisers and management of the Government of Nauru's Operational Account. Sustainability and gender equality elements of programs were rated adequate. Monitoring and evaluation can be improved.

The Government of Nauru was the key delivery partner for most of Australia's development cooperation program. The PACTAM mechanism, provided 10 advisers into in-line or sectoral advisory positions in the government, making up about 10 per cent of the program. The Government of Nauru Ministry of Finance generally implemented key activities as planned and made good use of PACTAM Advisers. Health and Education sectors made reasonable progress but utilisation of the operational account (budget support) was problematic.

DFAT continued to undertake regular audit reviews of transactions made through the Operational Account. Successive audits since 2009 and two investigations into potential fraud identified instances of weak administration but no misappropriation.

In 2014-15, DFAT undertook two audits. They found a range of administrative and technical accounting anomalies, pointing to capacity constraints in the Ministry of Finance over this period. Placement of the three PACTAM advisers in Deputy Secretary roles within the Ministry helped address these issues and improve the capacity of the Ministry.

Management Responses

An *Aid Quality Check* for 2014-15 found most of the management responses from the previous year have been satisfactorily implemented, including recruitment of a hospital operations adviser, introduction of an independent procurement agent, and consolidation of

the program's focus with support for operations of power and water infrastructure being redirected to support for nation building infrastructure such as the hospital redevelopment.

In response to the 2014-15 APPR, the following management actions will be undertaken.

- To reduce the risks associated with budget support a review of the Assessment of National Systems will be conducted by mid-2016. This may be conducted in conjunction with Pacific Financial Technical Assistance Centre (PFTAC) and Asian Development Bank's Public Expenditure Financial Accountability (PEFA) assessment.
- DFAT has contracted, in consultation with the Planning and Development Division of Nauru's Ministry of Finance, an independent accounting company to provide two accountants to undertake a detailed 'clean-up' of the Operational Account in October 2015. This will take into consideration recommendations of previous audit reports and help to establish which line items are finished, in-progress or in abeyance. This will help develop a strategy for reducing the account balance from previous financial year contributions, and create the space and certainty in order to confidently program the 2015-16 contributions for health and education.
- DFAT will continue to provide additional technical support to address implementation issues with the Household Water Tanks project.
- Following agreement at officials level in September 2015, a new Deputy Secretary for Planning and Development in the Ministry of Finance will be recruited through PACTAM. This will help improve the coordination between the Government of Nauru budget and development partner financing, and the linkages between Government of Nauru development planning and budgeting.
- Under the Government of Nauru's Procurement Act an Independent Procurement Agent must be in place and must manage all procurements over \$3000. Following the termination of the Independent Procurement Agent, the Government of Nauru, with DFAT's assistance, will shortly issue an international tender for a new procurement agent.
- To strengthen monitoring and evaluation of the program a Performance Assessment Framework will be developed by early 2016.