

## Nauru Public Sector Management Review MANAGEMENT RESPONSE

### Project Summary

Project Name	<b>Nauru Public Sector Reform Partnership</b>		
AidWorks number	INI943 (09B164 and 15A371)		
Commencement date	1 July 2014	Completion date	30 June 2020
Total Australian \$	AUD6,300,000 in ODA and AUD15,000,000 to the Nauru Trust Fund		
Delivery organisation(s)	DFAT		
Implementing partner(s)	PACTAM2, Nauru Intergenerational Trust Fund		
Country/Region	Nauru		
Primary sector	Public Sector Management		
Project objective/s	<p>The Nauru Public Sector Reform Partnership supports implementation of Government of Nauru strategies for public sector reform, improved economic governance and financial management. It focuses on:</p> <ul style="list-style-type: none"> <li>· strengthening the capacity of central agencies to deliver and manage national budgets that are aligned with national development policies and plans;</li> <li>· developing and implementing policies that reduce fiscal risks and improve revenue generation, including from state-owned enterprises (SOEs);</li> <li>· improving communication between the Government of Nauru and the community on policy development and implementation progress; and</li> <li>· improving collection and management of development statistics, to inform policy and measure progress against key development outcomes.</li> </ul>		

### Introduction

In 2018, DFAT commissioned a strategic review of its public sector management (PSM) investments in Nauru, with a focus on public financial management within the Nauru Aid Program. The purpose of the review was threefold:

- (i) **Prove-** To assess the effectiveness of the Australian government's current approaches to PSM programming in Nauru;

## Nauru Public Sector Management Review

### MANAGEMENT RESPONSE

- (ii) **Improve** - To recommend future strategic investment approaches and priorities for the Nauru Public Sector Reform portfolio. This will include advice on aid modalities, an investment decision making criteria and input into a forward looking high-level theory of change for DFAT PSM investments in Nauru;
- (iii) **Knowledge** - To identify key strengths, weaknesses, and opportunities in the public sector, to help support and develop the overall public financial and economic management and standards of governance in Nauru.

The review addressed the following criteria: relevance, effectiveness, efficiency, monitoring and evaluation, and cross-cutting issues (gender, disability and climate change).

The Review Team, from Clear Horizon, comprised two specialists – a PFM specialist and an M&E specialist.

The review methodology included

- (i) a desktop review of background documents;
- (ii) semi-structured key informant interviews;
- (iii) site visits;
- (iv) an in-country mission to Nauru;
- (v) a preliminary findings briefing delivered at the end of the in-country mission; and
- (vi) a summit workshop in June 2018 to present, discuss and finalise the review findings.

#### Boundaries

Given the context and scope of Australia's PSM support in Nauru, the review is limited to DFAT PSM investments since 2014, with a focus on the technical assistance aid modality (PACTAM2 program) utilised by DFAT and the areas of support provided by this modality. Essentially the review focuses within the scope of PFM and related technical assistance in the NTF.

#### DFAT's response to the evaluation report

DFAT considers the evaluation to be of a good quality. It sufficiently addressed the questions on the Terms of Reference and Subsequent Evaluation Plan. The evaluation identified a number of areas to focus further improvements to DFAT-supported investments, particularly around monitoring and evaluation (M&E) and gender. While DFAT agrees with the majority of recommendations made in the report, we recognise and respect the Government of Nauru's mandate and role in delivering public financial management services to the people of Nauru.. Australia's support to the public financial management sector in Nauru works to assist the Government of Nauru to deliver these services, and not to substitute it. Australia will, however, work to implement these recommendations to the extent possible through the investments it funds, and

**Nauru Public Sector Management Review**  
**MANAGEMENT RESPONSE**

work with the Government of Nauru to ensure better delivery of DFAT-funded public financial management investments, across all the key areas of Relevance, Efficiency, Effectiveness, Monitoring and Evaluation and Cross Cutting Issues.

DFAT's detailed response to the recommendations of the Review team appears in the table below:

**Nauru Public Sector Management Review**  
**MANAGEMENT RESPONSE**

Recommendation	Response	Explanation and Proposed Actions	Timeframe	Responsibility
<b>SHORT TERM RECOMMENDATIONS</b>				
<b>Relevance</b> <b>1.</b> DFAT engage a PFM specialist to develop a PSM Sector Strategy that aligns DFAT's investments with the latest version of the NSDS. The PFM specialist could: <ul style="list-style-type: none"> <li>a. support the development of a technical assistance (TA) strategy for PSM. Provide technical guidance on the PACTAM2 program, review advisor work plans for relevance to PSM, ToRs, etc.; and</li> <li>b. provide guidance on how to engage with the alternative TA modalities such as the PFTAC, Secretariat of the Pacific Community (SPC), ADB etc.</li> </ul>	<b>AGREED</b>	<p><b>DFAT accepts this recommendation without reservation.</b></p> <p>DFAT acknowledges the highly technical nature of PMF investments and agrees that a specialist PFM adviser would provide valuable expert skills to supplement the existing skills of both A-based and Locally Engaged staff working on the Nauru development program.</p> <p>The PFM adviser would also provide advice to Nauruan Government authorities and embedded technical advisers on the most relevant mechanisms offering alternative technical assistance through regional bodies and international financial institutions.</p>	2019	DFAT
<b>2. Effectiveness</b> <i>Support ADB and PFTAC in elaborating a Public Financial Management Roadmap</i> , including clarification of priority reform actions  <b>3.</b> <i>Improve donor coordination.</i> This might include DFAT working with GoN and other alternative mechanisms to jointly agree on broad areas of funding support.	<b>AGREED</b>	<p><b>DFAT accepts this recommendation without reservation.</b></p> <p>DFAT will continue to advocate, alongside regional partners, for Nauru to develop a Public Financial Management Roadmap, to assist with aligning Nauru's priority reform actions.</p> <p>DFAT will continue to work with Nauru's Planning and Aid Division to strengthen donor coordination in Public Financial Management. This would not only enable clarity and more efficient planning by relevant government agencies, but would also support improved reporting to donors.</p>	2019 onwards	DFAT PAD (Nauru) Finance (Nauru)
<b>4. Efficiency</b> <ul style="list-style-type: none"> <li>a. Provision of specialist short-term TA support to Treasury to scope a training program and deliver training on the Financial Instructions</li> <li>b. Treasury and PAD to put in place formal mechanisms to foster collaboration.</li> </ul>	<b>AGREED</b>	<p><b>DFAT accepts this recommendation without reservation.</b></p> <p>DFAT would be prepared to provide targeted support through specialist short-term technical assistance to support Treasury to scope and deliver training on the Financial Instructions.</p> <p>While a mechanism to foster collaboration would need to be developed and driven by the Government of Nauru, DFAT would be prepared to provide targeted support.</p>	2020	DFAT PAD (Nauru) Finance (Nauru)

**Nauru Public Sector Management Review**  
**MANAGEMENT RESPONSE**

Recommendation	Response	Explanation and Proposed Actions	Timeframe	Responsibility
<b>MEDIUM TERM RECOMMENDATIONS</b>				
<b>5. Effectiveness</b> <ul style="list-style-type: none"> <li>a. Following the scoping of a training program and recommendations from the TA, formalise and adopt capacity development programs for financial management and planning in-service qualifications across GoN</li> <li>b. Remapping of budget and chart of accounts to Government Financial Statistics</li> <li>c. Explore possibilities of having DFAT's future contributions to Nauru Intergenerational Trust Fund pre-conditioned on further PFM reform actions that reinforce DFAT interventions in PSM through PACTAM2. This could also consider other intervention options like general budget support in collaboration with ADB and GoN.</li> </ul>	<b>AGREED IN PART</b>	<p><b>DFAT accepts this recommendation in part.</b></p> <p>DFAT would be prepared to support stronger training, specialist technical assistance support and embedded capacity development programs in central government agencies.</p> <p>Compilation of Government Financial Statistics Chart of Accounts is on the Pacific Financial Technical Assistance Centre (PFTAC)'s current pipeline for assistance to Nauru, scheduled to roll out in 2019. DFAT would support continued engagement by Nauruan Government agencies with specialist regional technical support mechanisms. Assessment of the efficacy of these programs could form part of the role performed by any PFM specialist DFAT contracts.</p> <p>Under the memorandum of Understanding (MOU) between the Governments of Australia and Nauru on the Intergenerational Trust Fund for Nauru Australia has committed to contributing \$2.5 million each year to the Fund provided Nauru makes contributions to the Fund in accordance with the MOU. DFAT does not support imposing additional conditionality on our contributions as it would not be consistent with the commitments Australia has made in the MOU. However, DFAT will consider other intervention options like general budget support in collaboration with the ADB and Government of Nauru.</p>	2019 onwards	DFAT PAD (Nauru) Finance (Nauru)
<b>6. Monitoring and Evaluation</b> Develop a theory of change and a Monitoring and Evaluation framework for the new PSM Sector Strategy.	<b>AGREED</b>	<p><b>DFAT accepts this recommendation without reservation.</b></p> <p>The PFM Adviser's role would be, in part, to develop a holistic strategy for DFAT's PFM investment in Nauru, and to map strategies for transition.</p> <p>DFAT agrees that robust monitoring and evaluation strategies are key to ensuring progress towards a more strategic PFM investment in Nauru.</p>	2019 onwards	DFAT PAD (Nauru)

**Nauru Public Sector Management Review**  
**MANAGEMENT RESPONSE**

Recommendation	Response	Explanation and Proposed Actions	Timeframe	Responsibility
<b>7. Cross-cutting</b> Leverage findings and recommendations from DFAT's gender audit that will identify ways to incorporate gender into PSM programming.	<b>AGREED</b>	<p><b>DFAT accepts this recommendation without reservation.</b></p> <p>DFAT has engaged a Gender Adviser to provide specialist technical assistance across the range of its development investments in Nauru. The Gender Specialist has already provided advice to guide assessments of existing programs and will be integral to the design and development of several investment designs in train across 2019 and 2020.</p> <p>DFAT is supporting the Government of Nauru to establish its Gender Mainstreaming Unit and will continue to provide targeted technical and other assistance, including supporting stronger gender-inclusive programming in PSM.</p>	2019	DFAT PAD (Nauru)

**LONG TERM RECOMMENDATIONS**

<b>8. Efficiency</b> <ol style="list-style-type: none"> <li>a. Implement operational improvements to procurement processes; DFAT to leverage ADB review on GoN procurements systems</li> <li>b. Scope requirements for gender-responsive budgeting.</li> </ol>	<b>AGREED</b>	<p><b>DFAT accepts this recommendation without reservation.</b></p> <p>As outlined in the most recent Assessment of National Systems (2016), DFAT agrees procurement processes in Nauru are complex and recognises the challenges presented by government procurement systems in ensuring value for money delivery of aid funds. DFAT will continue to work with relevant agencies to strengthen procurement processes, in line with accepted international standards.</p> <p>DFAT funded a technical adviser to develop comprehensive (and practical) guidelines for Nauru Government procurements.</p> <p>DFAT has engaged with and provided support to ADB (including the procurement guidelines) during its review of government procurement systems.</p> <p>DFAT will continue to work closely with both ADB and the Government of Nauru to progress any agreed reforms.</p> <p>DFAT will consider supporting scoping for gender-responsive budgeting, subject to interest from the Government of Nauru.</p>	2019 onwards	DFAT PAD (Nauru) ADB Finance (Nauru)
--	---------------	---	--------------	---

**Nauru Public Sector Management Review**  
**MANAGEMENT RESPONSE**

Recommendation	Response	Explanation and Proposed Actions	Timeframe	Responsibility
<b>Monitoring and Evaluation</b> Given limited Monitoring and Evaluation capacity at DFAT Post, explore opportunities for staff to gain additional expertise in monitoring and outcomes reporting.	<b>AGREED IN PART</b>	<b>DFAT accepts this recommendation in part.</b> DFAT agrees that strong, comprehensive monitoring and evaluation systems are important in all its development programs but does not agree there is limited monitoring and evaluation capacity at its post. Building monitoring and evaluation capacity will remain a priority across all aspects of Australia's development investments in Nauru.	2019 onwards	DFAT