

Clear Horizon

Nauru Public Sector Management Review- Report

Prepared for the Australian High Commission in Nauru

29 October 2018



Design. Evaluate. Evolve.

Clear Horizon Consulting
129 Chestnut Street, Cremorne VIC 3121
T +61 3 9425 7777
www.clearhorizon.com.au



Contact Details

Clear Horizon Contact	Client Contact
Byron Pakula	Angus Hinton
Principal Consultant	Second Secretary Development Cooperation
Clear Horizon Consulting	Australian High Commission Nauru
129 Chestnut Street, Cremorne VIC 3121	MQ45 NPC Oe, Aiwo District, Republic of Nauru
Telephone: (03) 9425 7777	P: +674 557 3380 Ext 207
E: byron@clearhorizon.com.au	E: Angus.Hinton@dfat.gov.au

Document review and authorisation

Version	Date distributed	Issued to	Comments
1	31 July 2018	Angus Hinton	For review and comments
2	4 Oct 2018	Angus Hinton	For review and approval
3	29 Oct 2018	Angus Hinton	For approval

Lead Author	Paula Uluinaceva
Project Director	Byron Pakula
Internal Contributors	Samiha Barkat
External Contributors	
Last Saved	18/12/2018 2:10 PM
Clear Horizon Reference No.	CH17-210

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Acronyms

ADB	Asian Development Bank
AIP	Aid Investment Plan
ANS	Assessment of National Systems
APPR	Aid Program Performance Report
AQC	Aid Quality Check
DAC	Development Assistance Committee (OECD)
DFAT	Department of Foreign Affairs and Trade
DF	Development Fund
DoF	Department of Finance
FMIS	Financial Management Information System
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoA	Government of Australia
GoN	Government of Nauru
GESI	Gender and Social Inclusion
HR	Human Resources
ICT	Information and Communications Technology
IMF	International Monetary Fund
KRQ	Key Review Questions
M&E	Monitoring and Evaluation
MELF	Monitoring Evaluation Learning Framework
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NFMRA	National Fisheries and Maritime Resources Authority
NRO	National Revenue Office
NSDS	Nauru Sustainable Development Strategy
NTF	Nauru Trust Fund
NUC	Nauru Utility Corporation
OA	Operating Account
OCO	Oceania Customs Organisation
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
PACTAM2	Pacific Technical Assistance Mechanism2
PAD	Ministry of Finance- Planning Aid Division
PAF	Performance Assessment Framework
PFM	Public Financial Management
PFMR	Public Financial Management Reform Roadmap
PFTAC	Pacific Financial Technical Assistance Centre
PITAA	Pacific Islands Tax Administration Association
PSM	Public Sector Management
PSR	Public Sector Reform
RPC	Regional Processing Center
RoN	Republic of Nauru
SPC	Secretariat of the Pacific Community
ToR	Terms of Reference
WB	World Bank

Executive Summary

Introduction

Australia supports the objectives of a socially stable and economically resilient Nauru that has effective and accountable public sector management and invests in nation-building infrastructure, and quality education and health services. Australia has invested in Nauru's overall public financial management (PFM), particularly in budgeting, revenue collection and planning.

The primary delivery mechanism of Australia's investments in PFM continues to be provision of skilled personnel to fill senior management roles in the Nauru Ministry of Finance (MoF) through the Pacific Technical Assistance Mechanism 2 (PACTAM2). PACTAM2 advisers have led: treasury management; development planning and aid coordination; budget preparation and execution; reform of the customs system; and have supported implementation of Nauru's first tax system, including the introduction of a new business tax in 2016-17. Australia is also contributing to the Nauru Trust Fund (NTF), which is a collaboration between Australia, Nauru, Taiwan and the Asian Development Bank (ADB).

This strategic review was scheduled between February to June 2018 and reviewed the Department of Foreign Affairs and Trade's (DFAT) Public sector management (PSM) investments in Nauru with a focus on Public Financial Management.

Background

PFM lies at the heart of a strong and enabling public sector environment. It seeks to achieve: (i) fiscal discipline in ensuring that the Government of Nauru (GoN) is able to sustain its needs (expenditures) from its means (revenues) in the long run; (ii) better allocation of resources towards priority needs; (iii) proper utilisation of resources for its intended purposes in the right manner; and (iv) stronger accountability and transparency from those dealing with public resources. A stronger PFM system allows GoN to deliver on its core functions and responsibilities as captured in the National Sustainable Development Strategy (NSDS 2005-2025) of Nauru.

The objectives of this review were to undertake an in-house end-of-term review of the DFAT-funded Nauru public sector management (PSM) investment to help guide DFAT's future programming decisions. The review was limited to investments made since 2014, including current initiatives.

Overall Findings

The review assessed DFAT's PSM investments in Nauru against an agreed set of key review questions (KRQs), structured around DFAT's Aid Quality Check (AQC) and the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) criteria including (i) relevance, (ii) effectiveness, (iii) efficiency, (iv) monitoring and evaluation and (v) cross-cutting issues. Some key findings are summarised below.

The review indicate that DFAT's support to the GoN has been highly relevant to GoN's objectives as articulated in the Nauru Sustainable Development Strategy (NSDS) 2005-2025. DFAT's investments in PSM have strengthened the core functions of GoN's financial management systems in treasury, customs, national revenue office and planning and aid which directly addressed GoN's long term goal of fiscal stability and responsibility. To bed down reforms made over the past years, continuation of support through the existing areas of PACTAM2 will be critical.

In terms of the effectiveness of DFAT's support, the review team notes that the Australian Government have contributed immensely to the strengthening of financial management capacity and economic governance of Nauru by supporting the implementation of long term structural changes to GoN's finances and the economy with the introduction of the employment services tax, gaming tax and business tax.

DFAT's investment into the NTF is a substantial part of its PSM interventions which coupled with the PACTAM2 support have bolstered GoN's revenue earning capacity significantly.

Findings from the review further indicate that existing mechanisms for coordination between DFAT-Nauru and GoN are limited and could be further improved. Meetings are currently ad hoc in nature, and both governments could benefit from regular coordination meetings. There is also scope for DFAT to step-up engagement and dialogue with other regional technical assistance agencies working in PSM like ADB, OCO, PFTAC and SPC. The review team recommends that the proposed PSM Advisor to DFAT Nauru further explore and build on this area.

The current PSR investment does not have an overarching theory of change (ToC) and monitoring and evaluation (M&E) framework and uses the performance assessment framework (PAF) to compile data against milestones and targets. As the PSM Advisor develops a consolidated sector strategy for DFAT for the PSR Program, the strategy should incorporate a simple ToC and M&E Framework to support efficient data collection, analysis and reporting. And lastly, given the complexities in incorporating cross-cutting issues into the PSR portfolio, at present, DFAT's investments are not directly influencing GoN actions in this area.

Detailed findings per criteria

Relevance – Overall Rating – Good (5/6)

Findings from the review indicate that overall the projects supported by DFAT were highly relevant to GoN's objectives. **DFAT's investments in PSM in the review period have focused on the core functions of GoN's financial management system in the Divisions of: Treasury, Customs, National Revenue Office and Planning and Aid (PAD).** In this regard, the investments directly addressed GoN's long term goal of fiscal stability and responsibility through: (i) the broadening of the revenue base and collection of more revenue; (ii) a transparent budget preparation process that has improved alignment of budget allocation to GoN policy priorities; (iii) monitoring and review of the NSDS; (iv) stronger management of government expenditures and revenue at the operational levels. The Review Team recommends that DFAT's policy objectives for PSM in its Aid Investment Plan (AIP) are further articulated to better align them with the intended outcomes of NSDS policies. Subsequently, these could be translated into the outputs of DFAT's interventions (as spelled out in the terms of references of PACTAM2 posts) in the current areas of PSM.

PACTAM2 interventions in the current areas of Treasury, Customs, National Revenue Office (NRO) and Planning and Aid (PAD) should continue as they are at critical stages of reforms. To bed down (reform) change improvements in the last four years continuation of the existing areas of PACTAM2, the continuation of support will be critical. However, these reform changes could be embedded further with additional specialised technical inputs drawn from DFAT and/or regional and multilateral agencies' (Asian Development Bank (ADB), Pacific Technical Assistance Centre (PFTAC)) technical assistance modalities. Strong complementarities exist between existing PACTAM2 modalities and these alternative options, and these should be explored, to bolster support to GoN.

In addition to current PSM interventions, the other pertinent issues for PSM identified through this review include HR management, procurement, ICT and Statistics. To this end, detailed consultations with GoN and relevant donor agencies could be pursued to develop a PSM Sector Strategy that builds on DFAT's comparative strengths in PSM and is complemented by other existing support and modalities.

The current approach to the existing level of PACTAM2 in-line and advisor positions in PSM should continue in the short to medium term without any change, given its relevance to GoN's needs and the varied local counterpart capacity.

Effectiveness – Overall Rating – Adequate (5/6)

DFAT has contributed immensely to the strengthening of financial management capacity and economic governance of Nauru, in accordance with the NSDS 2005-2025. For example, the NRO has implemented long term structural changes to GoN's finances and the economy with the introduction of three taxes: the employment services tax; gaming tax and business tax. The broadening of the GoN's revenue base was reinforced by PACTAM2 advisory support in Customs and (up to 2016) National Fisheries Maritime Resources Authority (NFMRA). These have bolstered GoN's revenue earning capacity significantly, which, coupled with the strengthening of Customs, Treasury and PAD, have now put Nauru on better footing to address some of its development challenges.

The Review Team notes that the size of DFAT's investment into the Nauru Trust Fund (NTF) is a substantial part of its PSM interventions, which presents opportunities as a leverage to secure more commitment from GoN on progressive PSM and fiscal reforms in the medium term.

The implementation of the new Financial Management Information System (FMIS) has reaped strong benefits at operational (receipting and payments) and reporting levels, but can still be improved with the posting of all Operating Account (OA) transactions together with the Development Fund (DF) directly into the system. Currently all OA transactions are directly posted into the accounts payable module in the FMIS whereas the DF still has some way to go to get to that stage. Having both the OA and DF integrated into the FMIS will help with real time reconciliation, accounting and reporting of the status of both GoN and all donor-funded transactions. The development of the internal control framework and the design of a supporting training program will go a long way in addressing these capacity issues in the short-term.

To further embed the reform improvements achieved through DFAT's support in the Department of Finance, an elaboration of the draft PFM Reform Roadmap¹ (PFMR) may be required, as this could articulate in a well sequenced manner key reform actions over the immediate, medium and longer term. This will help DFAT strategically position its PSM interventions, through its aforementioned PSM strategy, according to its comparative advantages and in line with the PFMR's priorities. The key theme will be to consolidate reform gains thus far to enable institutional strengthening by: moving towards centralising FMIS systems, improving the implementation of NSDS priorities through the budget, establishing strong financial controls with the required training, and reforming the procurement system.

Efficiency – Overall Rating – Adequate (5/6)

Review findings indicate that all relevant departments, supported by PACTAM2 Advisers, have delivered on their core deliverables within budgets and the stipulated timeframes, which can also be observed through the increase in revenue collections by NRO, Customs and Fisheries. However, more evidence could be collated through better information requirements in the Adviser Progress Reports (APRs) and perhaps with more substantive inputs from local counterparts during annual adviser assessments. The revision or updating of the draft PFMR is essential in this regard, as it would link up clearly the core deliverables of the PACTAM2 positions with reform actions, outputs and outcomes for their departments.

The findings of the PEFA assessment also serves as a yardstick for the pace and sequence of reforms, as it can be laid out in the draft PFMR, wherein the areas that were rated low, with recommended actions were as follows: (i) budget documentation – mapping to GFS format and inclusion of service delivery information; (ii) procurement and internal controls; (iii) development of a fiscal strategy; (iv) bringing up to date the backlog of annual financial statements due for audit and legislative scrutiny.

The recommendations of the Review of the Operating Account by Stanton International Consultants, which highlighted recurring weaknesses in its management, should be also be considered in the draft PFMR.

The review identified the need for technical support, through the work of the proposed PSM Advisor to strengthen the integration of PSM in the framework of NSDS implementation and coordination.

¹ ADB supported GoN to develop the draft PFM Reform Roadmap. This document is still a work in progress at the time of this review.

Monitoring and Evaluation – Overall Rating – Adequate (4/6)

The development of the aforementioned proposed strategy for DFAT for the Public Sector Reform Program, should include a theory of change and an M&E Framework, supported by PAF indicators. The current Public Sector Reform (PSR) investment does not have an overarching theory of change and monitoring and evaluation (M&E) framework and have been using the performance assessment framework (PAF) to compile data against milestones and targets. Performance monitoring and reporting for PACTAM2 Advisers is considered adequate. Scope Global, who manage the contract for PACTAM2, lead 360 performance reviews for Advisers which include soliciting feedback from the Adviser's supervisor, staff and DFAT. Reports are then finalised and endorsed by both DFAT and GoN. These reports show progress of Advisers against agreed targets/milestones.

Cross-cutting Issues – Overall Rating – Adequate (4/6)

DFAT's investment in PSM do not directly influence GoN actions nor deal with these policy issues despite bilateral commitments to do so and GoN policy statements. However, PACTAM2 positions in PAD and Treasury could be playing a more proactive role in fleshing out the practicalities of these policies and how they could be better implemented through the machineries of GoN.

Disaster recovery strategies for all four departments should be made a deliverable of the ToRs of all the PACTAM positions i.e. presuming that gender violence, child protection and disability safeguards are already included as part of PACTAM contract templates.

Recommendations for the PSM sector

There are a number of key recommendations based around the main review findings under the five criteria of assessment. These can inform the objectives of DFAT's future support to PSM in Nauru.

(i) Short-term

Relevance

- 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:
 - 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
 - provide guidance on how to engage with the alternative TA modalities such as the PFTAC, Secretariat of the Pacific Community (SPC), ADB and others.

Effectiveness

- Support ADB and PFTAC in elaborating a Public Financial Management Roadmap , including clarification of priority reform actions
- Improve donor coordination. This might include DFAT working with GoN and other alternative mechanisms to jointly agree on broad areas of funding support. This would not only enable clarity and more efficient planning by GoN but would also support improved reporting to donors.

Efficiency

- Provision of specialist short-term TA support to Treasury to scope a training program and deliver training on the Financial Instructions
- Treasury and PAD to put in place formal mechanisms to foster collaboration.

(ii) **Medium-term**

Effectiveness

- 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
- Remapping of budget and chart of accounts to GFS
- Explore possibilities of having DFAT's future contributions to NTF 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.

M&E

- Develop a theory of change and an M&E framework for the new PSM Sector Strategy.

Cross-cutting

- Leverage findings and recommendations from DFAT's gender audit which will identify ways to incorporate gender into PSM programming

(iii) **Long-term**

Efficiency

- Implement operational improvements to procurement processes; DFAT to leverage ADB review on GoN procurements systems
- Scope requirements for gender-responsive budgeting.

M&E

- Given limited M&E capacity at DFAT Post, explore opportunities for staff to gain additional expertise in monitoring and outcomes reporting.

1 Background

1.1 Context

As one of the world's smallest and most remote countries, Nauru consists of a single island of 21 square kilometres. It has a central plateau with most of the population (of 10,084 in 2016²) living on the perimeter strip on the coastal edges of the island. Phosphate mining, which was the mainstay of the economy since the 1900s, collapsed in the late 1990s due to the decline in phosphate prices and poor management of the Nauru Phosphates Royalties Trust. This crippled its economy in the late 1990s - early 2000s and led to economic recovery efforts that were supported by the Pacific Regional Assistance to Nauru, a regional response program from 2004 to 2009.

During this period Nauru's economy was also boosted by the initial phase of the Australian Government Regional Processing Centre (RPC) on the island from 2004 - 2008. Following its closure in 2008, Nauru experienced recessions and stagnant growth until 2013 when the current phase of the RPC reopened. Nauru's gross domestic product (GDP) grew by 20 percent annually between Fiscal Year (FY) 2011-14 due to a boost in phosphate mining, trade and service sectors related to the RPC and ensuing rapid population growth. However, GDP declined to 3 percent in FY2015 due to problems with the seaport that affected phosphate exports before rebounding back to 10% in 2016 as a result of increased government spending, robust service sectors (RPC related) and repairs done on the seaport³. The value of RPC-related services is now estimated to be at around 35 per cent of GDP and RPC-related revenues include: visa fees, withholding employment and services taxes on expatriates, and other taxes on trade and services.

Despite Nauru's improved economic performance, the country is facing a raft of challenges in sustaining growth and ensuring fiscal sustainability over the medium term. The RPC is expected to scale down and primary phosphate deposits are almost depleted, with below-surface mining requiring substantial investment. The medium-term impact of the RPC scaling down is uncertain and will depend on the magnitude and timing, and any additional support that Nauru might receive to compensate for revenue shortfalls⁴. Nauru is also facing challenges common to small islands with its very narrow production base, isolation, high cost of public goods, very poor state of infrastructure, and climate change. Nauru is classified as a fragile state by the ADB⁵.

Nauru joined the International Monetary Fund (IMF) and the World Bank (WB) in April 2016. The country has no central bank, and uses the Australian dollar as legal tender. Nauru's economy was mostly cash-based with no banks operating in the country until Bendigo Bank agency opened up in June 2015. The agency provides basic financial services on behalf of Bendigo Bank Australia to support financial inclusion, and adheres to the Australian-standard anti-money laundering and counter-terrorism financing requirements. On the infrastructure front, despite setbacks with the poor state of the seaport infrastructure, notable improvements have been achieved by the Nauru Utility Corporation (NUC) which compared to four years ago now generates and supplies power and water to the entire island at lower cost and with increased revenue, resulting in a more financially sustainable operation.

In regard to public sector management, Nauru has benefitted from the increased and targeted technical assistance support from DFAT, being the biggest provider, to key functions within GoN that underpin strong governance, education, health, infrastructure, human resource development and fiscal management.

² Secretariat of the Pacific Community. National Minimal Development Indicators. 2016

³ Republic of Nauru- Staff Report for 2017 Article IV Consultation, IMF

⁴ Republic of Nauru- Staff Report for 2017 Article IV Consultation, IMF

⁵ Republic of Nauru- Staff Report for 2017 Article IV Consultation, IMF

1.2 Overview of DFAT Nauru's Investments in Public Sector Management

Australia is Nauru's major development partner. In the period of review (2014-18) Australia provided \$22.4 million in overseas development assistance (ODA) to Nauru which is 17 per cent of the Government of Nauru's budget expenditure of \$144 million. Furthermore, DFAT has also injected \$15 million into the NTF in the last 4 years as its contribution to fiscal sustainability in the future. The total balance of the fund now sits at \$78 million which includes GoN and other donor contributions.

DFAT has three key objectives for the Nauru development program: 1) more effective public sector management; 2) investment in infrastructure and 3) supporting human development- health and education, while gender is mainstreamed throughout all programs. DFAT is supporting Nauru to strengthen its public sector by developing financial management and economic governance capacity for Nauru to maximise the benefits of available revenue and manage critical human development infrastructure. From 2014-2018, DFAT provided \$6.1 million in ODA towards the PSM investment.

DFAT's initial PSM program was based on the recommendations of the 2010 and 2012 Assessment of National Systems (ANS). The program involved the provision of skilled personnel to fill senior management roles in the Ministry of Finance (MoF), Chief Secretary's Office and NFMRA through PACTAM2.

This has evolved to its current scope with the benefit of the most recent (2016) ANS and now comprises the roles of Deputy Secretaries for Treasury; Customs; NRO and PAD. In addition to these in-line positions, technical advisory roles were also provided to NRO and Customs. These positions are responsible for delivering and managing Nauru's national budget, expenditures and cash flow, revenue collection, debt management, public accounts, national development planning and aid coordination. In this regard, they also play a key role in safeguarding the administration of Australian development funding through GoN national systems.

Principal components of this initiative include: (i) the execution of budget reforms to improve the transparency and presentation of GoN's budget policies and estimates; (ii) implementation of FMIS across the Nauru public sector to increase the rigour of financial administration and budget implementation; and (iii) strengthened revenue collection in order to take advantage of the increased economic activity associated with the operation of the RPC and to put government budgets on a more sustainable basis in future - this has been effected by modernising the Customs Service and introducing Nauru's first taxation system. DFAT supports the achievement of these objectives with the provision of funds through the OA to support relevant activities under Treasury, NRO, Customs and PAD. PACTAM2 advisers have led budget preparation and execution, worked on the reform for the customs system and have supported implementation of Nauru's first tax system, including the introduction of a new business tax in 2016-17. Australia is also contributing to the NTF, which is a collaboration between Australia, Nauru, Taiwan and the ADB This review covers DFAT's public sector investments since 2014, with a particular focus on its interventions on PFM reforms.

2 Objectives

2.1 Purpose

The purpose of this review is to undertake an in-house end-of-term review of the DFAT-funded Nauru Public Sector Reform investments and aid modalities to support strategic planning for future investments into the sector within the Nauru Aid Program. The review will provide DFAT with three deliverables:

- (i) **Prove** - *To assess the effectiveness of the Australian government's current approaches to PSM programming in Nauru;*
- (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 will address the following criteria: relevance, effectiveness, efficiency, monitoring and evaluation and cross-cutting issues.

2.2 Methodology

The Review Team, from Clear Horizon, comprised two specialists – 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 planned for June 2018 to present, discuss and finalise the review findings.

The desktop review was undertaken to inform the review plan and to develop KRQs. The review provided a strong foundation for the evidence which reinforced in-country consultations. Semi-structured key informant interviews were undertaken with a range of stakeholders, allowing respondents the flexibility to discuss other relevant issues. The full list of people interviewed is outlined in *Annex C – List of People Interviewed*. Interviews were undertaken in person in Nauru as well as via phone and email before and after the review mission.

A two-week in-country mission was undertaken in May 2018 to conduct interviews with key stakeholders. Data was examined using qualitative analysis for key criteria, as listed above, and categorised by KRQs and sub-KRQs (see *Annex A- Key Review Questions*). The evidence collected was used to evaluate each investment against the review criteria based on the rating scale as outlined in *Table 1* below. Further detail of how each investment was evaluated against the review criteria is outlined in *Annex F – Strength of Evidence Rubric & Rating Scale*.

Rating	Score
Very Good	6
Good	5
Adequate	4
Less than Adequate	3
Poor	2
Very Poor	1

Table 1 – Rating Scale

At the end of the in-country mission, the Review Team conducted a preliminary findings briefing with DFAT and the Minister of Finance, Honorable David Adeang, to present the initial evidence and to validate and co-develop preliminary findings. A summit workshop was held with Clear Horizon GoN representatives and DFAT in June 2018. At the Summit Workshop, Clear Horizon worked with DFAT to finalise the key findings and recommendations from the review.

2.3 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.

3 Review Findings

3.1 Overall Findings

The review assessed DFAT's public sector investments in Nauru against an agreed set of KRQs, structured around DFAT's AQC and the OECD DAC criteria including (i) relevance, (ii) effectiveness, (iii) efficiency, (iv) monitoring and evaluation and (v) cross-cutting issues.

3.2 Relevance

Strength of Evidence:	Strong	Overall Rating:	Good (5/6)
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Key Review Question 1.1 (KRQ): Given the objectives of DFAT and the GoN in the public services management sector, to what extent are existing initiatives relevant?

a. To what extent does Australia's current investments support GoN's priority objectives in public sector management, as intended in the NSDS?

GoN's overarching policy document (NSDS) set high level policy goals which have been confirmed by the latest NSDS Consultations Report. In its finding and conclusions, the Report noted: *"There is an underlying concern about the potential implication of the closure of phosphate mining and the Regional Processing Centre. There was concern on the economic opportunities provided in the NSDS, as the roadmap for Nauruans to achieve a better future.....Closer linkage between NSDS and sectoral priorities is important, and translated into the Departments' Annual Operating Plans (AOP). Ongoing awareness of the NSDS including its monitoring should continue at all levels for more informed action and better understanding of the development issues facing Nauru...."*

Australia's AIP and the PAF provide more specific objectives in pursuit of the GoN's policies with its focus on strengthening public financial management capacity and governance. A clearer articulation of GoN's specific policy objectives on fiscal stability and broadening the revenue base is to be anticipated from the current updating exercise of the NSDS. Australia's objectives as per AIP and PAF have been also been linked to and annualised in GoN's budget documents and ministries' annual operational plans. There is however perhaps a need to articulate better and have more clarity around the links of Australia's specific policy objectives and its ensuing programs and activities, to GoN's high level policy goals as per upcoming revised NSDS.

Achievements made since 2014 in the areas of PFM have been the building blocks for the AIP's subsequent years' milestones in 2016/17 and 2017/18. The extent to which these milestones directly contribute to NSDS and GoN budgets documents' policy goals and objectives can be clarified and better linked between the PAF and the GoN department budgets and their annual operational plans.

Subsequently, the ToRs for PACTAM2 advisors should explicitly reflect some of the finer linkages that may be currently lacking or not obvious in the terms of reference like the balance between capacity building and capacity substitution or supplementation.

NSDS review by PAD will also flesh out emphasis on developing alternative sectors to drive the economy like fisheries and the potential for the ports infrastructure development to more efficient port services to facilitate economic activities like fuel transshipment services. To this end, the PACTAM2 support in PAD will provide technical support in fleshing out more sector specific implementation strategies with clear milestones and timelines. Interviews with PAD indicated this as an area of increased emphasis but this will need to be corroborated by the NSDS 2018-2030 when it is finally endorsed and released.

b. How is investing in public sector management in Nauru in Australia's national interest?

According to the Aid Investment Plan, Australia's assistance to Nauru is part of its broader economic and diplomacy efforts to promote prosperity and security in the Pacific region. It is in Australia's interest to support an economically resilient Nauru that has the tools and capacity to effectively manage its resources so that Nauru as a whole can benefit from economic and labour mobility opportunities. Further, a stronger public sector management environment in Nauru serves Australia's interest by: i) contributing to fiscal stability, which helps ensure that the core functions of government are maintained and essential services are delivered; ii) Instilling more accountability and transparency in the use of public resources; iii) facilitating broad-based economic growth beyond the resource sector and the RPC.

These have been effected through two main modalities: 1) Direct contributions to the NTF which has brought the balance of the fund to more than \$78 million currently; 2) Technical advisory support to the principal functions of the MoF. These are directly attributed to PACTAM2 support in the areas of:

(a) Treasury Division (Deputy Secretary): this role has been instrumental in ensuring that aggregate fiscal discipline is achieved i.e. expenditures are kept within revenue levels and that the expenditure allocations in the budget are aligned to policy priorities and service delivery outcomes;

(b) Planning and Aid Division (Deputy Secretary): the principal responsibilities include aligning government expenditure policies to the policy objectives in the NSDS and DFAT's AIP. These also entail NSDS monitoring, and ensuring that the DF and DFAT's OA are in line with GoN priorities;

(c) Customs Division (Deputy Secretary and former Advisor): These positions have provided the technical guidance, advice and input to: (i) help bring GoN closer to international best practices for Customs Control; (ii) tighten enforcement and compliance; and (iii) implement trade facilitation. The incumbent Deputy Secretary deeply laments the loss of the former Advisor due to unsubstantiated allegations and urges the reinstatement of that position to provide the technical and operational support to his role. Customs continue to be a key component of GoN's revenue base;

(d) National Revenue Office (Deputy Secretary and Advisor): These two positions have been critical to the development of the tax reforms and its implementation in Phase 1 and 2. The roll out of the employment services tax and the revenue administration act and its operationalisation has been remarkable for a country having it for the first time ever in its history. The coming into effect of the business tax has added to the workload, but so far the operational level collections have surpassed expectations. Local counterparts attested that the NRO has been integral to the achievement of a stable and sound economy through the highly regarded technical inputs and valued mentoring of these two positions.

c. Which areas of the public service would be most strategic for DFAT to support and why? This includes existing and potentially new areas.

DFAT support in the existing public sector areas of Treasury, PAD, Revenue and Customs should definitely continue in view of the early stages of newly developed systems and mechanisms. This pertains to the: (i) tax system (ii) recent investments in the FMIS; (iii) drafting of the financial instructions and internal controls; (iv) the NSDS monitoring and implementation mechanism; and (iv) consolidation of Customs systems – operations, enforcement and modernisation.

The IMF Report notes that tax and public financial management reforms are critical to help control spending and support the needed fiscal adjustment. The report commended the good progress made in building the tax system, including the introduction of employment and services tax and business tax, and improvement in customs and tax administration. It emphasized that ensuring consistent implementation of the new tax system would help mobilise revenues and encouraged broadening the tax base over the medium term. (IMF Article IV Report 2017)

To bed down (reform) change improvements in the last four years, continuation of the existing areas of PACTAM2 support will be critical:

- Customs - additional technical support, albeit short term but more targeted could be considered, with twinning arrangements to be explored with Australian Customs and Border Control;
- PAD – extend technical support for National Statistics Office with the emphasis that the new Deputy Secretary should have the required competency and experience in statistics. In this regard, complementary short-term technical assistance can be explored through seeking relevant TA resources available under regional agencies such as SPC and the Pacific Financial Technical Assistance Centre (PFTAC);
- A common concern from PACTAM2 advisors relates to the precarious state of Government IT network system and its shortcomings in terms of breakdowns and slowness of access. This will be mitigated to some extent by proposed plans to include an additional advisor with FMIS and systems background under the new structure in Treasury. But in the longer term, DFAT should consider the need to further consolidate and interface or integrate the systems in Customs and NRO with the FMIS. This will not only protect the value of DFAT investments in these areas but also generate wider efficiency gains and synergies with other information systems such as the human resources (HR) payroll, health and education database systems.
- An additional area that should be considered is the development of the in-house training capability in Treasury, which will ensure that a steady stream of finance and non-finance officials are sufficiently trained in the basics of prudent financial management, integrating the FMIS modules (budget and accounts payables) with the newly developed financial instructions (internal controls).

Potential new areas of support

The Review Team also briefly looked at other potential areas for DFAT support, however given the timeframe and scope of the review, the team was not able to delve deeper into each topic. In addition to current interventions in the Department of Finance- Customs, PAD, Treasury and NRO, the other pertinent issues for PSM identified through this review include-HR management, procurement, ICT and Statistics.

Discussions with DFAT-Nauru highlighted the opportunity costs of supporting new areas in the short term through in-line PACTAM2 advisors. New areas of assistance may require discontinuing PACTAM2 support in existing departments. Given the current stage of reforms and progress in Customs, Treasury, NRO and PAD, it would be premature to withdraw that support. Critical gains and momentum acquired over years of support may not be sustained at this stage without ongoing PACTAM2 assistance.

Areas such as human resource management, ICT, statistics and procurement would be better pursued in a collaborative manner with GoN and other donors involved in this space i.e. by tapping into alternative modalities such as SPC, PFTAC and the ADB. If funding allows, possible DFAT interventions in broader PSM areas like HR reforms could be pursued in conjunction with other donors involved in this space. However such expansion needs to be preceded by a clear policy commitment by GoN to a longer term strategy.

The anticipated PFM Adviser to DFAT could explore these areas further through detailed consultations with GoN, PFTAC, SPC and the ADB to develop a PFM Sector Strategy that builds on DFAT's comparative strengths in PSM and is complemented by other existing support and modalities.

d. Which areas of the public service no longer requires DFAT support and can be transitioned to GoN?

The current areas of support remain relevant to GoN's priority of having a fiscally stable and responsible government and it is also in Australia's interest that Nauru strives towards prosperity and security in the

region. Through PACTAM2 Advisors, the change improvements in PFM reforms in the areas of customs, tax, treasury and planning provides the base enabling framework for Nauru's fiscal stability. It enhances government's ability to deliver services and invest in infrastructure and alternative economic opportunities. A stronger revenue base has been established with the implementation of employment and business tax, and the modernisation of the customs regime is in line with international practices.

On the expenditure side, the budget formulation process has been refined over the years to improve its transparency and alignment to NSDS and government priorities. The execution of the budget is also being addressed by fully utilising the capabilities of the FMIS like the accounts receivables, budgeting and reporting modules. The approval of the new Financial Instructions will also have to be made compatible in the FMIS and this will require in-house systems support and a dedicated training capability.

Key Review Question 1.2 (KRQ): To what extent is the PACTAM2 program the most appropriate modality for achieving public sector outcomes for GoN?

a. What other modalities of providing sustainable public-sector management support to GoN exist outside of PACTAM?

PFTAC, SPC, OCO and ADB provide alternative modalities that should be carefully considered to reinforce and fill the gaps that exist in the current PACTAM2 program in PSM. These agencies are conduits of technical assistance funded by bilateral and multilateral donors, with DFAT being a major if not the biggest funder of these programs. There is room for further discussions with these agencies on how best to leverage their technical assistance to support emerging or perennial capacity and technical gaps in the areas highlighted in earlier sections.

PFTAC has a programmed schedule of technical assistance in various areas and some of these are already being engaged by the MoF. ADB through its substantive country program of around USD\$50m has a host of regional and bilateral technical assistance to support the preparation and implementation of its program components⁶. Under ADB's intervention in PSM it includes economic affairs management, public expenditures and fiscal management.⁷ The intervention involves an earmarked budget support program that is triggered by completion of policy reform actions by GoN in pursuit of economic, fiscal and PFM objectives. In this regard, procurement is considered to be a lagging area that can be addressed with ADB's comparative advantages and its budget support leverage can be more effective. The review findings indicate that procurement can be more efficiently managed by GoN given that it is currently done through four separate channels which is not considered the most effective option.

The list below highlights areas that may be supported by these alternative and complementary modalities and / or through PACTAM2:

- Tax regime – coming into effect of the employment services tax and business tax, and sustaining the minimum level of administrative competency required – PACTAM2 is currently taking the lead role in this but occasionally receives technical support from the Pacific Islands Tax Administrators Association (PITAA) which could continue in the area of compliance and administration.
- Customs – strengthening IT capability; and supporting enforcement and compliance and on-the-job training – through existing OCO support and the proposed renewal of twinning arrangements with Australian Customs and Border Control who are best placed to support Customs.
- PAD – providing more clarity in the elaboration of NSDS policy priorities over the short to medium to long term in the development of its implementation strategy - PAD with support

⁶ Work plan FY18: May 2017-April 2018. PFTAC Website (<https://www.pftac.org/content/PFTAC/en1/reports11.html>). 2017

⁷ ADB. Country Operations Business Plan 2017-19, ADB Website (<https://www.adb.org/documents/nauru-country-operations-business-plan-2017-2019>). October 2016.

from PACTAM2 should continue to take the lead role in this. ADB may be able to provide some support with this as part of its country strategy or through its regional programs.

- Treasury – embedding the FMIS and its links with NRO and Customs systems; fleshing out the instruments of internal controls i.e. drafting of the financial instructions and development of a training regime in Department of Finance - PACTAM2 with the inclusion of the new Advisor to be placed under the newly proposed Corporate Services section in Treasury.
- Statistics – reviewing and assessing capacity to deliver core functions - SPC provides technical support in this area, and more specific technical support could be requested from PFTAC.
- Procurement regime – reviewing and recommending sequence and pace of reform changes towards internationally accepted practices and standards - ADB have the technical capacity to support and advice on procurement-related matters.
- Elaboration of the PFMR, including the OA, audit recommendations and integrating of DF transactions into FMIS - ADB is well placed to support this, complemented by DFAT's intervention through Stanton International.

Support through PACTAM2

It is the Review Team's recommendation that, at this time, DFAT continue to fund Deputy Secretaries and select Advisors in the existing departments who are working closely with local counterparts to embed the reform changes made thus far. Over time it may become more apparent which key junior positions within the various departments would require expatriate expertise due to the lack of available local capacity, for instance the positions filled by expatriates in Treasury (e.g. Chief Accountant).

Deputy Secretaries provide a critical institutional leverage for DFAT through having in-line positions at senior levels who have the mandate to make high-level decisions at both the operational and technical levels and influence policy changes. Advisors provide targeted technical support that complement the role of the Deputy Secretary, and allow the Deputy Secretary to maintain a level of quality for managing operational, policy and administrative matters. Advisors are not in-line positions, and as such, may have limited ability to directly execute institutional or operational changes. Further, Advisors or junior in-line positions may not have the same level of influence required to bring about necessary reforms at the departmental levels.

b. Considering alternative modalities, is PACTAM2 the most appropriate modality to achieve the desired outcomes? Describe the major strength and weaknesses of alternatives modalities.

PACTAM2 provides a necessary modality of support to GoN in terms of the focus and areas of assistance and the level and range of skills/expertise it brings with it to these areas. The issue is more to do with examining the range of alternative modalities that do exist with DFAT and through its funding support to the various technical assistance agencies in the region. The broad message from this review appears to be the need for sharpening the focus of PACTAM2 with the complementary support of these alternative modalities to consolidate the reform gains made in the last few years and to also lock-in some of the critical elements that will bring about more stability to these transformational changes.

These alternative modalities serve a more complementary role to the existing long-term advisory support modality of PACTAM2, and are short-term, targeted and specialist in nature. Short-term technical assistance does need a certain level of in-house technical capacity to sustain the implementation and operationalisation of their TA outputs as part of the functions and responsibilities of the host or recipient departments. In this regard, for countries with low in-house capacity like Nauru the presence of long-term in-house technical support is critical, and both serve complementary roles in the provision of technical assistance to the organisations they serve. Another advantage is that such short-term TA can be more appropriate for sensitive and unpopular reform measures like procurement and civil service restructuring, because they can be perceived as external agents coming in to make changes to the organisation which the in-house advisor and local counterparts have to implement and sustain in the longer term. Whilst they

implement and impart specialist outputs, short-term TAs will require contextual information about the organisation and the political economy that prevails, which is where their interaction with local counterparts and in-house advisors will be critical.

Having made the above observations, the review notes that the appropriate combination of Deputy Secretary versus Advisors and (or) Advisors versus junior in-line positions will vary from department to department depending on the state of reform, local counterpart capacity and organisational structure in each department. For instance, it became apparent during the course of the review that PAD's local counterpart capacity was much higher compared to other departments. The need to fund junior in-line positions would have to be reviewed closely with GoN and PACTAM2 Advisors to ascertain the level of capacity available and the expertise required from elsewhere. Currently GoN engage expatriate Advisors directly in several departments (Justice, Treasury and HR). Depending on the specific position and GoN funding availability, this option should first be explored with GoN which would further promote sustainability and has the potential to reduce reliance on development funding.

3.3 Effectiveness

Strength of Evidence:	Moderate	Overall Rating:	Adequate (5/6)
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Key Review Question 2: To what extent has DFAT support led to strengthening of financial management capacity and economic governance (in accordance with Nauru's National Sustainable Development Strategy 2005 - 2025) of MoF?

a. To what extent have inline personnel and PACTAM2 Advisors (Treasury, PAD, Customs, NRO) been effective?

Effectiveness of TAs can be assessed at outcome and output levels in most organisation settings where clear strategies, objectives, outputs and functions/inputs exist and guide its operations and functions. This is however often not always clear in a public sector setting like GoN whereby the outputs of a particular function cannot necessarily be identified with or attributed to its own inputs and resources, but may also include the intermediate inputs or efforts of other departments or ministries. These are not always quantifiable, measurable and attributable in its theoretical sense.

However, the closest equivalent that can be assessed in terms of PACTAM2 inputs are the outputs or deliverables of the Divisions that they are assigned to. Findings from the review indicate that these core deliverables are closely aligned with the individual ToR outputs of PACTAM2 Advisors. It provides a framework for assessing contribution of the PACTAM2 support towards the achievement or progress of these outputs and deliverables.

The review findings indicate, that the achievement of various individual PACTAM2 Advisor outputs were necessary conditions or inputs required for the achievement of higher-level Ministry of Finance milestones. More detail can be found in Annex B, Evidence Matrix, but some key highlights include:

- NSDS Review and drafting of NSDS 2018-2030 led by PAD;
- Sustained or growing revenue collections in Customs and NRO despite a fluctuating Nauru's macroeconomic performance in 2015-2016 – this is a reflection of the sustained effort pursued and lead by PACTAM2 advisors in these Divisions;
- Treasury's role in the refinements in budget policy and estimate presentation over the years from 2014-2018;

- Preparation of the GoN's annual financial statements by Treasury for audit and submission to Parliament for scrutiny, has been updated and is now only lagging 2-3 years. This is to be compared to the lack of financial statements for more than 20 years up to 2013;
- Implementation of FMIS and its capabilities to manage revenue collections and expenditure payments and produce reports have been enhanced over the years since its inception in 2011.

Nauru Trust Fund

The Review Team notes that the size of DFAT's investment into the NTF justifies a review focused solely on the NTF with specific expertise on managing and investing through trust funds.

That said, it is important to recognise the intent of the NTF (from both GoN and donor perspectives) and the evolution of related donor-supported programs. We note that the existing level and areas of PSM support by DFAT directly reinforces the purpose of the NTF in providing capacity substitution and advisory support to GoN to stabilise its finances by: (i) generating sustainable revenue – through NRO and Customs; (ii) ensuring GoN allocates and spends adequate resources on core functional responsibilities (operations and NSDS commitments) – through PAD and Treasury; (iii) ensuring GoN meets its long-term investments like NTF contributions and long term infrastructure development – through NTF and other grant assistance that DFAT provides, such as its committed contributions to the Ports infrastructure project which will be channelled directly to ADB to administer on its behalf.

The MoU for the NTF (which governs the responsibilities of GoA, GoN and other donors) clearly spells out contribution arrangements by the various members. It is a condition under the MoU that the GoA will only contribute to the fund if GoN contributes according to the agreed amounts specified therein. DFAT's future contributions to NTF could be pre-conditioned on further PFM reform actions that reinforce DFAT interventions in PSM through PACTAM2. This could also take into consideration other intervention options like general budget support in collaboration with ADB-GoN.

Under paragraph 5 part one of the MoU, it states that: *"The purpose of the fund is to provide a source of revenue to the Republic of Nauru post 2033, or at a time sooner..., for investments in education, health, environment and infrastructure. The fund will help to smooth out windfall income streams in the medium term and replace all or part or supplement questionable future revenue"*. The MoU further notes that when the Fund matures or reaches a certain stage, the agreed components of revenues generated from NTF investments can only be distributed to certain areas such as health, education, infrastructure and environment which has the potential of reducing the level of development aid funds required in these sectors.

b. To what extent is the Financial Management Information Systems (FMIS) providing greater rigour in budget implementation and payment systems?

The evidence made available shows that the FMIS's capability to generate reports at various levels is quite robust. The type of reports it produces in terms of flows of GoN finances at operational level as well as the sub-aggregate levels attest that the FMIS is able to provide information at all levels that GoN can use to better control budget execution, in particular the payments system. However the fundamental issue remains with the lack of capacity of front-end users at operational level in Treasury and in-line Departments.

The PEFA assessment report points out that these capabilities may not be utilised as effectively as possible at the operational levels and in terms of reporting. For instance, expenditure arrears, procurement management and internal controls are showing low ratings and this can be attributed to the lack of application or understanding of FMIS capabilities by users at Treasury.

Furthermore, the PEFA report is a self-assessment report that still needs to be peer reviewed by its sponsors (PFTAC), hence the rating is more likely to be on the optimistic side and needs to be considered carefully. Key areas that confirm earlier findings and should be addressed based on these PEFA findings

are: (a) budget documentation – to be aligned to functional and economic classifications under Government Financial Statistics standards prescribed by IMF for governments as internationally accepted best practice; and include information on service delivery; (b) execution and control – procurement management; internal control; training; (c) fiscal policy framework – development of a fiscal strategy; (d) accountability - preparation of annual financial statements; and legislative scrutiny of budgets and annual financial statements

c. To what extent has the investment increased capacity sustainably?

Core application systems (FMIS, NRO and Customs) and operational (financial management and planning) processes are up and running in the Divisions under Department of Finance. The capacity to keep this running effectively still rests largely with the PACTAM2 advisors and expatriates. Weak capacity still prevails with local counterparts in most areas, with some exception in PAD. Overall local counterpart technical and human resources (HR) capacity still falls short of the levels required to take over from current PACTAM2 filled in-line positions.

That said, and recognising the limitations of PACTAM2 in building capacity sustainably, the systems and mechanisms that have been put in place through the PSM are contributing to institutional strengthening overall in a significant way. The development of the internal control framework with the Financial Instructions, supported by the FMIS manuals, and the design of a complimentary training program will go a long way in addressing these capacity issues in the short-term.

3.4 Efficiency

Strength of Evidence:	Moderate	Overall Rating:	Adequate (5/6)
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Key Review Question (KRQ) 3: To what extent is the investment efficiently using Australia's resources to achieve the outcomes?

a. To what extent were core deliverables of the PACTAM2 supported departments completed within stipulated timeframes and budgets?

Review findings indicate that all relevant Divisions had delivered on their core deliverables within budgets and the stipulated timeframes. These included the following:

- **Planning and Aid Division** – completed NSDS Review Consultations in late 2017 and submitted report to National Development Planning Committee by April 2018 as per scheduled timeline. Updated NSDS 2018-2030 was not made available. NSDS monitoring mechanisms in place and AOP templates refined for 2018/19 Budget.
- **Treasury** – 2014/15 -2017/18 Annual Budget prepared and passed in time for operation in the fiscal year. Development Fund reports submitted to Parliament on quarterly basis; monthly budget reports made available; and mid-year budget reports submitted but not always within following quarter. Annual accounts being brought up to date.
- **Customs** – Collections have been on track with projections. Core functions operational throughout, but technical bottlenecks (PC Trade and IT network) have had interim measures put in place which should ensure continuation of operations, pending more permanent solutions. Training is a major part of core deliverables and these have been regularised as part of core operations.
- **National Revenue Office** – Collections have surpassed projections for all taxes since coming into effect. All tax legislations currently in effect are being administered by core NRO resources

and PACTAM support. Training and capacity building have been regularised as part of core functions of the office

The Review of the Operating Account by Stanton International Consultants however showed some perennial weaknesses in the management of the account's operations by PAD and Treasury. This should be considered in the context of the draft PFMR overall public financial management strategy which should include actions to address the Stanton Review as well as the areas of low performance highlighted by the 2016 PEFA Self- Assessment Report.

b. To what extent did skilled inline personnel, PACTAM Advisers, GoN counterparts and DFAT have the right skills and experiences to efficiently undertake the activities?

Evidence provided from anecdotal accounts from relevant interlocutors points to the need to address this at three levels:

- PACTAM2- A recommendation from the Review Team is to underscore soft skills (leadership and capacity development, people skills, etc) during ToR development and recruitment of PACTAM2 advisers in addition to the technical competency areas. As the PSM program evolves in terms of the scope and depth of PFM and fiscal policy reforms that PACTAM2 positions are involved in, it will call for a wider skill set and relevant experiences from these PACTAM2 in-line positions in executing the reforms in a cohesive manner across central ministries and departments across GoN. As key in-line positions in the Department of Finance they will be in the forefront of implementing these reform actions for GoN. These will entail more policy dialogue and consultations at the strategic level. Outside PSM there are some scheduled consultations at sector and program level which DFAT leads, given its in-country presence, in sectors like health, education, energy and gender. Consultations on PFM are usually done with PFTAC and relevant partners when the former has missions on island, and likewise ADB on infrastructure when they conduct their missions.
- GoN local counterpart staff- the review indicates that there is a big gap in technical capacity in local counterparts. There are also issues around staff absenteeism and truancy which need to be addressed for the public sector to perform effectively. This is a whole-of-government issue and needs to be led by the GoN. For example, the HR management team in the Chief Secretary's Office is developing and trialling certain HR management strategies which could further support capacity development across the public service as a whole.
- DFAT-Nauru- DFAT have a small team to manage the PSR portfolio and could benefit from additional technical support in the areas of public financial management and public-sector reform. One avenue could be to engage an external PSM expert to provide ongoing technical assistance, or to link in with DFAT-Canberra and regional and bilateral programs lead by PFTAC and ADB. In view of a possible scenario to leverage DFAT contributions into NTF or other interventions like budget support, there is room for improving the engagement of donors with substantive investments in PSM at a more strategic level. This should focus on enhancing in-country technical assistance in support of the policy goals of GoN and DFAT's interests. The DFAT PSM initiative can further strengthen GoN-donor (DFAT) relationships through existing dialogue mechanisms at the policy and sector levels and could also include in that dialogue, regional technical assistance agencies who are working in PSM like ADB, OCO, PFTAC and SPC. The anticipated engagement of the PSM Advisor for DFAT Nauru can further explore this area, given Post's current limitations in managing additional coordination engagements. Key deliverables of the proposed advisor could be, inter alia:
 - Serving as conduit on programming and technical issues relating to PFM between GoN and DFAT post, including dialogue on reform conditions for general and sector budget support.
 - In addition to providing technical assistance, the PSM Advisor could explore ways to improve coordination mechanisms and to increase GoN buy-in for critical reforms using

complementary measures such as twinning arrangements and holding a PFM symposium⁸, similar to the one held in Tonga in September 2018. The Tonga symposium was designed to increase government commitments to PFM reforms. A symposium or a roundtable of a similar nature would bring relevant regional bodies together to secure a common understanding, and to gain further GoN commitment to critical reforms moving forward.

Existing Coordination Mechanisms

PACTAM2- consultations between PACTAM 2 Advisors/Deputy Secretaries and the Secretary of Finance usually entail operational briefings. Consultations with the Minister and Deputy Secretaries are at the behest of the Minister, and depend on the issues at hand, for example, there are regular budget consultations during the final stages of budget preparation. DFAT Nauru also hold meetings with PACTAM2 Advisors as and when needed.

Broader coordination- Consultations on PFM are usually done with PFTAC and relevant partners when the former has missions on island. For other PSM initiatives (outside of DFAT), it appears that coordination with donors is largely driven by the demands of each project or program. There is room for improving the engagement of donors with substantive investments in PSM at perhaps a more strategic level. This should focus on enhancing in-country technical assistance in support of the policy goals of GoN and DFAT's interests. The DFAT PSM initiative can further strengthen GoN-donor (DFAT) relationships through existing dialogue mechanisms at the policy and sector levels and could also include in that dialogue, regional technical assistance agencies who are working in PSM like ADB, OCO, PFTAC and SPC. The anticipated engagement of the PSM Advisor to DFAT Nauru can further explore this area, given that currently Post's ability to manage additional coordination engagements may be limited. A PSM Symposium, like the one held in Tonga, may be one way to kick-start this engagement.

3.5 Monitoring and Evaluation

Strength of Evidence:	Strong	Overall Rating:	Adequate (4/6)
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Key Review Question (KRQ) 5: What would the preferred structure of the program, performance expectations and monitoring and evaluation look like?

a. To what extent are the current reporting and M&E arrangements suitable considering the DFAT standards?

The current PSR investment does not have an overarching theory of change and M&E framework and uses the Performance Assessment Framework (PAF) to compile data against milestones and targets.

Performance monitoring and reporting for PACTAM2 Advisers is considered adequate. Scope Global who manage the contract for PACTAM2 lead 360 performance reviews for advisers which include soliciting feedback from the Adviser's supervisor, staff and DFAT. Reports are then finalised and endorsed by both DFAT and GoN. These reports demonstrate progress of Advisor's against agreed targets/milestones. However, DFAT would benefit from ongoing technical PSM advice in reviewing PACTAM2 advisor work plans ToRs, etc. owing to the highly technical nature of the PACTAM2 support.

The Review Team recommends DFAT to develop a strategy for the Public Sector Reform Program, along with a theory of change and an M&E Framework moving forward. Having a broader structure of M&E would

⁸ <https://www.pasai.org/news-blog/2018/9/11/strengthening-pfm-for-better-service-delivery-the-pfm-symposium-in-tonga-4-6-september-2018>

also be beneficial and it would include PAF indicators. The use of the PAF should be continued, albeit with periodic revisions of the outcomes and benchmarks/milestones, as the NSDS 2018 -2030 is adopted and progress is made against them. This would complement the current reporting by PACTAM2 advisers, and does not need to be overly complex. An overall sector strategy would help provide DFAT information on progress against the various components within the PSR investment (trade, customs, NRO, PAD and any new focus areas) and demonstrate how they are contributing to the overall PSR portfolio of work. Furthermore, the strategy would help DFAT with prioritisation of future activities and support evidence-based decision making. Given that there is limited M&E capacity at Post, DFAT should explore opportunities for staff to gain additional expertise in monitoring and outcomes reporting.

3.6 Cross cutting issues

Strength of Evidence:	Strong	Overall Rating:	Adequate (4/6)
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Key Review Question 6 (KRQ): To what extent has the investment identified opportunities to address:

a. Gender

Available evidence and interviews with PACTAM2 advisors revealed that:

- For initiatives instigated through by PACTAM2 personnel these have been largely done by default or through their own initiatives, and not through any deliberate policy of GoN.
- Statements made by Minister Scotty in international fora do not necessarily convey a formally adopted policy position by GoN but in most cases still requires formal ratification of Cabinet; let alone the fleshing out of policy details and its implementation
- It remains to be seen how gender issues will come across in the updated NSDS 2018- 2030, i.e. whether it gains more prominence in the updated strategy
- PAD sought to be more proactive in terms of gender, but Treasury appeared to take a reactive approach.

b. Social Inclusion (Youth, Children, Elderly and Disability)

The public service through PACTAM2 personnel do not have direct work avenues, except for the Deputy Secretary PAD, to address these important social issues. However, there may be room for their participation by extension of their job responsibilities, for example in Customs.

c. Climate change

The review found that there was not much direct reference to climate change and disaster risk management except for disaster responses generally and within each agency. However, disaster recovery strategies for all these Divisions could be made a key part of the PACTAM2 Adviser ToRs.

4 Lessons Learned and Considerations

Public Sector Management:

1. There is a lack of a public sector wide reform agenda which would be a vital link to PFM in seeking performance improvements across the civil service.
2. The Chief Secretary's Office, which is the mandated Department, appears to be lacking a strong policy commitment and a clear direction on public service reforms. Currently, reforms are being pursued at the procedural level, which starts and ends at administrative processes without any practical changes that lead to substantial behavioural changes that can raise work expectations in terms of regular attendance, etc.
3. Areas such as HR management, ICT, statistics and procurement would be better pursued in a collaborative manner with GoN and other donors involved in this space i.e. by tapping into alternative modalities such as SPC, PFTAC and the ADB. Further, wider public sector management issues like HR management and reforms, would need to be part of a broader and longer-term public sector reform agenda for GoN.
4. The GoN-wide IT infrastructure and program network has not been robust enough to be able to manage the increasing load of hosting the core application programs managed within the Department of Finance like the FMIS, PCTrade (Customs), and NRO revenue systems. This was a common issue strongly raised by all interlocutors from those Divisions. It is now seen to be impeding these systems from achieving their potential or even undermining its basic core functions.
5. The review findings indicate that cross-cutting policies are not systematically prioritised across the public service, and points to the lack of clear statements of policy intent by GoN on these critical issues. Anecdotal evidence suggests that gender violence is relatively high in Nauru and the increasing number of people living with disabilities as a result of amputations and blindness stemming from the high incidence of NCDs (diabetes) are increasingly becoming an issue.

PFM Specific:

6. The dearth of local counterpart technical capacity required to support and embed the next round of reform changes will be an ongoing concern for Nauru. There are a multitude of challenges to building local technical capacity in GoN, and addressing those from a systemic issue will be beyond the scope of the current DFAT modality of PSM support. GoN will need to make a policy commitment and provide strong leadership to tackle this issue.
7. The new unit envisaged in Treasury should be well resourced to deal with a multitude of critical issues at the same time, and these include consolidating the FMIS, getting the internal controls functioning and training Treasury personnel. This should also entail mainstreaming the Operating Account and Development Fund into the FMIS from the point of posting transactions from the journals to the ledgers, therefore enabling the timely flow of reliable information for accounting and reporting purposes.
8. Principal users of their respective revenue systems in NRO and Customs will need to have an agreed understanding with Treasury's requirements of the FMIS, as the ultimate central authority of all government revenue and expenditure information flows. Treasury's requirement will be driven by its responsibilities in regards to daily cash flow management, revenue monitoring, expenditure controls and the necessary reporting needed for the purposes of executive management, the minister and subsequently Cabinet. The interface therefore needs clear specifications of these information requirements and the necessary intermediary (mapping) tools that will enable the smooth flow of information between these systems. This will also ensure that Treasury's information requirements will not necessarily affect the ability of these systems to meet internal management demands for information within NRO and Customs.

9. Most interlocutors within the Treasury and PAD lamented the lack of collaboration between the two Divisions and highlighted the prevailing “working in silos” atmosphere between the two departments. According to some key informants, this is seen to have undermined the coordination and collaboration required between the Divisions in the budget preparation and execution stages. Both Deputy Secretaries would need to manage this closely and identify mechanisms to elicit a more cooperative and collaborative working environment between the two divisions.
10. Procurement, as it stands, is considered high-risk as it does not follow a governance structure and mechanisms which ensure that procurement decisions are based on principles of transparency, value for money, economy, fairness and accountability. Currently there is no way of verifying whether procurement decisions are in compliance with its regulations. The procurement regime in its current form, with 4 separate avenues of uncoordinated tender processes, with no overarching oversight and compliance mechanism, can be exposed to discretionary decisions which can go largely unchecked. This can seriously impede the quality of expenditures by GoN. Addressing these issues will require strong political will to effect operational, policy or structural changes in the procurement regime. A collaborative effort amongst partners such as ADB, PFTAC and DFAT, and GoN can help provide some political and policy leverages to review the current procurement process.

5 Recommendations for a future PSM strategy for DFAT

A future DFAT strategy should continue to provide the wider enabling institutional framework for sustainable and lasting public financial management reforms to occur and to achieve its overriding objectives of:

- (a) Securing fiscal stability in Nauru – whereby government revenue sources, including grants, are in the long run sufficient to meet the operational and long term needs of government;
- (b) Ensuring that GoN is able to allocate its budgetary resources according to policy priorities that ensures sufficient resources are provided for service delivery, health, education, infrastructure, economic development, and law and order;
- (c) Public resources being used for its intended purposes in a prudent manner;
- (d) Those charged with making decisions and managing public resources are transparent and accountable to the public for those responsibilities.

To this end, the Review Team provides the following recommendations:

(iv) Short-term

Relevance

- 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:
 - 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
 - provide guidance on how to engage with the alternative TA modalities such as the PFTAC, Secretariat of the Pacific Community (SPC), ADB and others.

Effectiveness

- Support PFTAC and ADB in elaborating GoN's PFMR, including clarification of priority reform actions
- Improve donor coordination. This might include DFAT working with GoN and other alternative mechanisms to jointly agree on broad areas of funding support. This would not only enable clarity and more efficient planning by GoN but would also support improved reporting to donors.

Efficiency

- Provision of specialist short-term TA support to Treasury to scope a training program and deliver training on the Financial Instructions
- Treasury and PAD to put in place formal mechanisms to foster collaboration.

(v) Medium-term

Effectiveness

- 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
- Remapping of budget and chart of accounts to GFS
- Explore possibilities of having DFAT's future contributions to NTF 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.

M&E

- Develop a theory of change and an M&E framework for the new PSM Sector Strategy.

Cross-cutting

- Leverage findings and recommendations from DFAT's gender audit which will identify ways to incorporate gender into PSM programming

(vi) Long-term

Efficiency

- Implement operational improvements to procurement processes; DFAT to leverage ADB review on GoN procurements systems
- Scope requirements for gender-responsive budgeting.

M&E

- Given limited M&E capacity at DFAT Post, explore opportunities for staff to gain additional expertise in monitoring and outcomes reporting.

Annex A – Key Review Questions

Criteria	Key Review Questions
Relevance	<p>To what extent are existing initiatives relevant to the objectives of GoN and DFAT in public sector management?</p> <ul style="list-style-type: none"> To what extent does Australia's current investments support GoN's priority objectives in public sector management, as intended in the NSDS? How is investing in Nauru's public sector management in alignment with Australia's national interest? Which areas of the public service would be most strategic for DFAT to support, and why? This includes existing or potentially new areas. Which areas of the public service no longer requires DFAT support and can be transitioned over to GoN? <p>To what extent is the PACTAM program the most appropriate modality for achieving public sector outcomes for GoN?</p> <ul style="list-style-type: none"> What other modalities of providing sustainable public sector management support to GoN exist outside of PACTAM? Considering alternative modalities, is this the most appropriate modality to achieve the desired outcomes? Describe the major strength and weaknesses of the alternatives.
Effectiveness	<p>To what extent has DFAT support led to strengthening of financial management capacity and economic governance (in accordance with Nauru's National Sustainable Development Strategy 2005 - 2025) of MoF? / To what extent have there been improvements in national budget development, revenue collection, debt management, public accounts, national development planning and aid coordination?</p> <ul style="list-style-type: none"> To what extent have inline personnel and PACTAM Advisers (treasury, finance, customs, tax, HRM) been effective? To what extent is the Financial Management Information Systems (FMIS) providing greater rigour in budget implementation and payment systems? To what extent has the investment increased capacity sustainably?
Efficiency	<p>To what extent is the investment efficiently using Australia's resources to achieve the outcomes?</p> <ul style="list-style-type: none"> To what extent were core deliverables of the PACTAM supported ministries / departments completed within stipulated timeframes and budgets? To what extent did skilled inline personnel, PACTAM Advisers, GoN counterparts and DFAT have the right skills and experiences to efficiently undertake the activities?
Monitoring and Evaluation	<p>What would the preferred structure of the program, performance expectations and monitoring and evaluation look like?</p> <ul style="list-style-type: none"> To what extent are the current reporting and M&E arrangements suitable considering the DFAT standards, particularly for the Nauru Intergenerational Trust Fund? What would the recommended Theory of Change and M&E Framework include for future DFAT PSM investments?
Whole-of-aid	<p>To what extent has the investment identified opportunities to address</p> <ul style="list-style-type: none"> Gender equality Social inclusion (youth, disability, elderly) Climate change mitigation

Annex B: Evidence Matrix

EVIDENCE MATRIX – NAURU – Public Sector Reform		
Key question	Overall finding:	
1. To what extent are existing initiatives relevant to the objectives of GoN and DFAT in public sector (i)management?	<p>DFAT’s investments in PSM in the review period have focused on the core functions of GON’s financial management system in the Divisions of: Treasury, Customs, National Revenue Office and Planning and Aid (PAD). In this regard, the investments directly addressed GON’s long term goal of fiscal stability and responsibility through: (i) the broadening of the revenue base and collection of more revenue; (ii) a transparent budget preparation process that has improved alignment of budget allocation to GON policy priorities; (ii) monitoring and review of the NSDS; (iii) stronger management of government expenditures and revenue at the operational levels. Furthermore, DFAT has also injected \$15 million into the Nauru Trust Fund in the last 4 years as its contribution to fiscal sustainability in the future. Total balance of the fund now sits at \$78 million which includes GON and other donor contributions.</p> <p>All the above areas of investment by DFAT during the review period have been relevant to the GoN’s objectives in economic and fiscal management, as outlined in Nauru’s National Strategic Development Strategy (NSDS) for 2005-2025. Recent stakeholder consultations held to establish priorities for the NSDS 2018-2030 (being drafted at the time of this review), revealed that these priorities remain essentially the same, with a clearer focus and articulation of Government’s actions going into the future, in this regard.</p>	
Sub-question	Evidence	Findings
	<i>Strength of evidence rating:</i> Strong (based on Government documents, other donor reports and primary interviews)	Rating: 5/6
a. To what extent does Australia’s current investments support GoN’s priority objectives in public sector management, as intended in the NSDS?	<p>[EVIDENCE 1] – NSDS (2005-2025): Original and Updated 2009 Version. The National Sustainable Development Strategy (NSDS) was prepared in 2004 for the period 2005-2025 and revised in October 2009. It identified a key long-term goal in public sector management as: <i>Stable, trustworthy, fiscally responsible government</i>, which included the following three relevant objectives:</p> <ul style="list-style-type: none">• <i>transparent and accountable governance practices.</i><ul style="list-style-type: none">- With Australia Government support through PACTAM2 adviser, the implementation of budget reforms as part of PFM included more transparent budget formulation processes that are aligned to GoN’s NSDS policies. It also entails the presentation of more and full relevant information in annual budget documents. Accountability and governance practices are also enabled by the FMIS in now churning out the quality of information required for control and reporting purposes The Deputy Secretary Treasury had reflected during interview and in his APR his contributions in this regard. [Source: Interview 12, APR April 2018, page 3]• <i>conducive legislative framework;</i><ul style="list-style-type: none">- As part of the Public Financial Management Act 2013 and Public Financial Regulations 2013, financial instructions are being drawn up as part of internal controls to ensure proper use of resources. Through the PACTAM’s technical support of Deputy Secretary Treasury, he pointed this out in our interview and is also corroborated in his APR as his contributions in this regard. The draft of these documents are still to be received although physically sighted by PFM Specialist during the interview. [Source: Interview 12, APR April 2018, page 4]• <i>development of an economy based on multiple sources of revenue</i><ul style="list-style-type: none">- The direct contributions of PACTAM’s advisor to NFMRA was instrumental in the achievement of TOR objective to continue to assist NFMRA in procedures to monitor fisheries and maximize sustainable economic benefits derived from (largely foreign) fishing on regionally-migratory oceanic fisheries resources in Nauru, in particular the effective day to day operation of the full vessel-days scheme. [Source: Interview 7APR April 2016.]- DFAT provides co-funding transfers in to the Nauru Investment Trust Fund along with other donors. GON injected \$11,935,400 in the 2016-17 Budget and \$10,137,880 in the 2017-18 Budget, which were supplemented by Australia and ADB. [Source: GON 2017-18 Budget. Page 11, Budget Paper 1. 2017]- In the GoN Customs department a global harmonised tariff system was introduced in 2016 and Customs Brokers were trained and the collection of duty taxes increased by millions of dollars. [AQC 2017] <p>Australia’s current investments in PSM include two modalities- PACTAM2 Adviser support to the Ministry of Finance and contribution to the Nauru Trust Fund.</p> <p>[EVIDENCE 2] 2017 NSDS Consultations Report. In December 2017 national stakeholder consultations to had been undertaken, as a precursor to revising the NSDS and updating it for the next iteration (NSDS 2018-2030). The Report highlighted the following key and relevant issues that were raised by stakeholders during the consultations:</p> <p>(a) <i>Cooperation, collaboration and coordination within and across all Government departments</i> - a core role of Planning and Aid Division (PAD) is to link Annual Operating Plans (AOPs) to Budgets and NSDS priorities. PACTAM provided technical support through Deputy Secretary who helped design the AOPs template to be used by all GON Departments as part of their budget submission framework. [Source: Interview 14 and 25, Interviewee 14 APR April 2018]</p> <p>(b) <i>The five pillars of the NSDS need to be more focused and targeted to reflect the importance of education, health and inclusivity for the development of Nauru</i> - PAD’s role in the review process is critical in highlighting the need to improve service delivery standards in health, education and gender inclusive activities. Deputy Secretary PAD provided the technical support and guidance in the development of the draft NSDS and socializing it with key national stakeholders. To date, the draft NSDS is being deliberated at the National Development Planning Committee and scheduled to be published in June 2018. [Source: Interview 14 and 16; Interviewee 14 APR April 2018 and Completion Report May 2018.]</p> <p>(c) <i>At the macroeconomic level it there was a clear recognition of the limitations to mining as an export earner and economic driver, as well as the uncertainties surrounding the future trajectories of the RPC’s activities and its impact on Government revenue. More emphasis on alternative growth sectors like fisheries and agriculture was needed</i> - the direct inputs of PACTAM technical advice has bolstered the work by NRO and Customs in broadening the revenue base and capturing revenue from all economic sectors. The completion of Phase 1 of tax reforms included the implementation of the Revenue Administration Act and Employment Services Act. Both are currently being operationalized with successful outcomes thus far. For both taxes, \$6m collections was realised in its first year from 2014/15 and this had</p>	<p>Australia’s current investments are still considered highly relevant.</p> <p>GoN’s overarching policy document (NSDS) set high level policy goals which have been confirmed by the latest NSDS Consultations Report. In its finding and conclusions the Report noted: <i>“There is an underlying concern about the potential implication of the closure of phosphate mining and the Regional Processing Centre. There was concern on the economic opportunities provided in the NSDS, as the roadmap for Nauruans to achieve a better future.....Closer linkage between NSDS and sectoral priorities is important, and translated into the Departments’ AOPs. Ongoing awareness of the NSDS including its monitoring should continue at all levels for more informed action and better understanding of the development issues facing Nauru....”</i></p> <p>Australia’s AIP and the PAF provide more specific objectives in pursuit of the GoN’s policies with its focus on strengthening public financial management capacity and governance.</p> <p>A clearer articulation of GoN’s specific policy objectives on fiscal stability and broadening the revenue base is to be anticipated from the current updating exercise of the NSDS.</p> <p>Australia’s objectives as per AIP and PAF have been also been linked to and annualised in GoN’s Budget documents and ministries’ annual operational plans. There is however perhaps a need to articulate better and have more clarity around the links of Australia’s specific policy objectives and its ensuing programs and activities, to GoN’s high level policy goals as per upcoming revised NSDS.</p> <p>Achievements made since 2014 in the areas of PFM have been the building blocks for the AIP’s subsequent years’ milestones in 2016/17 and 2017/18. The extent to which these milestones directly contribute to NSDS and GoN Budgets documents policy goals and objectives can be clarified and</p>

	<p>increased to \$11.8 million in 2016-17. As part of Phase 2 of the tax reforms, revenue base has been further broadened by the coming into effect of the Business Profit Tax Act in the 2017/18 fiscal year. [Source: Interview 19 and 30; Interviewees 19 and 30 APRs 2016, 2018]</p> <p>(d) <i>Stable, trustworthy, fiscally responsible government is the first priority, not clear whether how this is progressing. Current practice do not reflect this intention.</i></p> <p>- DFAT's supplementation of the NTF is directly supporting future sustainability of GON's financial position, whilst it also directly supported the work on broadening revenue sources by NRO and Customs. With its technical advisory support in PAD and Treasury in the development of policy frameworks for budget formulation and execution, and the drafting of financial instruments that constitute the control framework that ensure the effective and efficient use of public resources. This will improve the quality of the expenditure side of the budget and its efficiency in achieving the policy objectives of GON.</p> <p>[EVIDENCE 3: 2016 Self Assessment PEFA Report]</p> <p>Considerable improvements in rating were assessed in the areas of: (i) expenditure composition outturn, whereby expenditures for contingencies were mostly drawn from planned contingency reserves; (ii) scope of coverage of financial reports; (iii) medium term expenditure ceilings; (iv) discipline in timeframe for budget preparation.</p>	<p>linked better between the PAF, GoN department budgets and their annual operational plans and the PAF milestones.</p> <p>Subsequently, the TORs for PACTAM2 advisors should explicitly reflect some of the finer linkages that may be currently lacking or not obvious in their terms of relevance like the balance between capacity building and capacity substitution or supplementation.</p> <p>NSDS review by PAD will also flesh out emphasis on developing alternative sectors to drive the economy like fisheries and the potential for the ports infrastructure development to more efficient port services to facilitate more economic activities like fuel transshipment services. To this end, the PACTAM support in PAD will provide technical support in fleshing out more sector specific implementation strategies with clear milestones and timelines. Interviews with PAD indicated this as an area of increased emphasis but this will need to be corroborated by the NSDS 2018-2030 when it is finally endorsed and released.</p>
b. How is investing in Nauru's public-sector management in alignment with Australia's national interest?	<p>[EVIDENCE 1: AIP] <i>"It is in Australia's interest to support a stable and economically sound and resilient Nauru that has the capacity to effectively manage its resources and deliver on key human development needs, and to enable Nauru's community to benefit from economic and labour mobility opportunities. Australia's aid in Nauru forms part of our broader economic and diplomacy efforts to promote prosperity and security in the Pacific region and we pursue an integrated set of foreign, trade and development policies to advance our interests in Nauru"</i></p> <p>DFAT's investments in PSM has significantly contributed to GON's economic and financial stability and resilience through:</p> <ol style="list-style-type: none"> 1) Direct contributions to the NTF which has brought the balance of the fund to more than \$60 million currently; 2) Technical advisory support to the principal functions of the Ministry of Finance can be attested to by the following reference: <p><i>"Fiscal revenue has increased substantially since FY2012 supported by RPC-related revenues, fishing license fees, and increased tax collection, which has been driven by the implementation of employment and services tax and improvement in administrations since 2014. RPC-related revenues (excluding reimbursement of RPC expenses) have been particularly large at about 40 percent of revenues excluding grants starting in FY2016. In the meantime, non-RPC spending also increased substantially, particularly the wage bill as the authorities tried to retain key public employees, although goods and services and social benefits have also increased rapidly. As a result, the non-RPC current balance (non-RPC revenue plus current grants minus non-RPC expenses) deteriorated. Nonetheless, the overall fiscal balance remained in surplus and this has been used to clear arrears, build-up government deposits (cash buffers), and contribute to the trust fund. Total cash buffers and Nauru's trust fund contribution reached nearly 25 percent of GDP in FY2016"</i> [Source: IMF. Republic of Nauru. Staff Report of the Article IV Consultations. 2017.]</p> <p>These are directly attributed to PACTAM2 support in the areas of:</p> <ul style="list-style-type: none"> ➤ Treasury Division (Deputy Secretary): the role has been instrumental in ensuring that aggregate fiscal discipline is achieved i.e. expenditures are kept within revenue levels and that the expenditure allocations in the budget are aligned to policy priorities and service delivery outcomes. ➤ Planning and Aid Division (Deputy Secretary): the principal responsibilities include aligning government expenditure policies to the policy objectives in the NSDS and DFAT's Aid Investment Plan, and ensuring that the alignment is translated to outputs and deliverables that are contributing to intended outcomes. The mechanisms entail NSDS monitoring, and ensuring that the Development Fund and DFAT's Operating Account are in line with GON priorities. ➤ Customs Division (Deputy Secretary): This role has provided the guidance, advice and input to help bring GON closer to international best practices for Customs Control and tightened up on enforcement and compliance, along with trade facilitation. Customs continue to be a key component of GON's revenue base. ➤ National Revenue Office (Deputy Secretary and Advisor): These two positions have been critical to the development of the tax reforms and its implementation in Phase 1 and 2. The roll out of the employment services tax and the revenue administration act and its operationalisation has been remarkable for a country having it for the first time ever in its history. As an in-line position (Source: Interview 12) the Deputy Secretary's role has had to play a strategic, policy and management oversight role, which has been effectively complemented at the technical and capacity building level by the advisor. The coming into effect of the business profit tax has added to the workload, but so far, at the operational level collections have surpassed expectations. Local counterparts had attested that the NRO has indeed been integral to the achievement of a stable and sound economy through the indispensable technical inputs of these two positions. <p>[EVIDENCE 2: AID PROGRAM PERFORMANCE REPORT 2016/17. Nauru. Sept 2017] <i>"The objective of a more effective public sector management was again rated as tracking well or better than expected 2016-17. The investment is the continuation of Australia's multi-year commitment to public sector accountability, providing increased capacity and driving progress on critical reform measures..."</i>. The report touched on all the key outputs delivered by all the functions of the Ministry of Finance which are supported by PACTAM positions. It also highlighted the critical importance of using this technical support to leverage and reinforce collaboration from reinforcing technical advisory support of agencies like PIFTAC, ADB and IMF. The first two agencies are conduits for DFAT's grant funding of specific technical assistance that they provide to member countries in the region like Nauru. Of particular relevance here is the on-going technical assistance and surveillance programs that these agencies provide which DFAT support through PACTAM can benefit from. In the area of PFM reforms, PIFTAC provides on-going support on the development of GON accounting and reporting standards that are compatible with internationally accepted practices. [Source: Interview 24]</p> <p>[EVIDENCE 3: – White Paper - Four Aid Tests]"We ensure that our investments deliver results by using a comprehensive performance system. We report publicly on our effectiveness through the annual Performance of Australian Aid report. When allocating development assistance, we apply four tests:</p>	<p>The goals for promoting effective public sector management are: promoting prosperity, reducing poverty and enhancing stability which satisfy the 4 Foreign Policy White Paper tests for foreign investment.</p> <p>A stronger public sector management environment in Nauru serves Australia's interest by:</p> <ol style="list-style-type: none"> i) Helping maintain fiscal stability, helps ensure that the core functions of government are maintained and essential services are delivered; ii) Instilling more accountability and transparency in the use of public resources iii)Facilitating broad-based economic growth beyond the resource sector and the RPC.

	<ul style="list-style-type: none"> o is this in our national interest? “Australia’s aid in Nauru forms part of our broader economic and diplomacy efforts to promote prosperity and security in the Pacific region and we pursue an integrated set of foreign, trade and development policies to advance our interests in Nauru.” [Aid Investment Plan] o will this promote inclusive growth and reduce poverty? With bigger and broader revenue base, GON has been able to allocate more resources to education, health and community development over the last four years. [GON Budget papers 2014/15-2017/18] o does Australia’s contribution add value and leverage partner funding? Australia’s aid interventions in PSM have directly contributed to GON now being largely compliant with the Global Forum international finance sector standards and also allowed deeper engagement with ADB, which is now the biggest multilateral donor in Nauru. IMF membership was made in 2016 and PIFTAC (the regional IMF technical assistance agency) has been actively engaged in PFM reforms [ADB Country Strategy for Nauru] o will this deliver results and value for money?‑ the following DFAT investments are assessed to be effective or likely to be effective after completion (see section on effectiveness for more information): <ul style="list-style-type: none"> ⇒ Financial management information system - Treasury ⇒ NSDS 2018-2030 - PAD ⇒ Revenue administration in NRO ⇒ PC Trade - Customs ⇒ Management of Development Fund Account and DFAT’s Operating Account ⇒ Health, Education and Infrastructure services being resourced from Development Fund and Operating Account ⇒ Tendering and contracting of the new Independent Procurement Agent <p>[EVIDENCE 4: Department of Finance , GON. Briefing Note 2018-19 Budget Strategy Paper] A major assumption to the 2018-19 revenue projections were the continuation of current levels of RPC activities, in view of the very slow uptake by USA of majority of refugee applications to resettle in the USA and the high likelihood of Manus refugees being transferred to Nauru as a result of Supreme Court decision in PNG. This is a very important indication of the relevance of PACTAM technical input into the resource setting framework that underpins GON’s annual budget policies.</p>	
c. Which areas of the public service would be most strategic for DFAT to support, and why? This includes existing or potentially new areas.	<p>[EVIDENCE 1: NSDS 2017 NSDS Consultations Report.] The Report highlighted the relevant issues that were raised by national stakeholders during the consultations, which will guide the updating of the NSDS and future priorities for the public sector. Below each of these issues, the roles of the PACTAM2 inputs have been highlighted:</p> <p>(a) <i>Cooperation, collaboration and coordination within and across all Government departments</i> The Deputy Secretary (PAD)’s TOR has four pertinent objectives, in which he plays a vital role in strengthening coordination and collaboration across Government:</p> <ol style="list-style-type: none"> 1) <u>Monitoring the performance of the NSDS and its implementation</u> - Deputy Secretary (PAD) led the Division in compiling and consolidating progress reporting on the AOPs as part of the reporting process, using the M&E framework to operationalise the revised NSDS based on issues identified by the findings of the implementation stocktake that it undertook; [interviews 14 and 16, Interviewee APR] 2) <u>Assisting with the review of the NSDS</u> – for which the Deputy Secretary PAD was very much a part of [Interview 14, APR] 3) <u>Improved Aid management</u> – provides guidance and technical advice to PAD staff vetting the requirements for submissions of payments from Operating Account Funds 4) <u>Manage and develop local capacity</u> – last PACTAM advisor was commended for this part of his work [Source: Interview 14] <p>(c) <i>At the macroeconomic level there was a clear recognition of the limitations to mining as an export earner and economic driver, as well as the uncertainties surrounding the future trajectories of the RPC’s activities and its impact on Government revenue. More emphasis on alternative growth sectors like fisheries and agriculture was needed</i> Deputy Secretary NRO (supported by Reform Implementation Advisor) primary role is to: (i) ensure domestic revenue laws are effectively administered; (ii) build capacity of the NRO to collect taxes and other revenues and charges under the existing regime; (ii) oversee implementation of on-going tax reforms. Deputy Secretary Customs’ TOR basically focuses on modernising customs systems and practices, enforcement and compliance and capacity building. These roles are very much oriented in the reform-driven changing environment in the revenue collecting divisions. For NRO Phase 1 (employment services tax in 2014) and Phase 2 (business profit tax in 2017) of the tax reforms still entail the rolling out of the basic forms of tax for the first time ever in Nauru. Interview with the PACTAM personnel in Customs and NRO revealed that the challenge was to bring the efficacy of operations to a minimum level of revenue administration competency before any further advance can be made. Even within the existing tax regime, the changes emanating from tax policy measures is stretching the capacity of both NRO and Customs. These tax policy changes are expected to increase as GON seeks to mitigate any expected fallout of the uncertainties surrounding the continuing existence and the scale of RPC operations in the medium-term. For NRO, most of their revenue systems are stand-alone systems using standard programs like excel and access, with a high degree of manual interface and uploading involved with other systems such as the FMIS and the Customs PC Trade. This is deemed sufficient and necessary at this stage since widely adopted revenue systems are still too sophisticated for local counterparts to adapt their thinking processes, based on their basic understanding of tax administration. (interview with Deputy Secretary NRO and Reform Implementation Advisor) In Customs, the adoption of PC Trade in 2016 has been plagued with technical and system compatibility issues, and needs external assistance. In the interim, manual processes have been used and this requires a high degree of expertise and experience to ensure that Customs operations continue to flow smoothly despite this technical hiccups. Furthermore, after Cabinet approved use of the 2017 Harmonized Tariff format in December, there still remain some legal mechanics that need to be completed to activate the change from the current system. Major changes are: (i) a new tariff structure to make new cars cheap to import and old cars expensive which was done to limit the broken-down vehicles littering the island; and (ii) changes to exemptions have also occurred with Cabinet giving up control on some matters, placing the exemption into the new 2017 tariff system for matters such as goods for government, aid programs, and diplomatic missions. This creates a statutory exemption scheme and a discretionary scheme in line with worlds best practice, which is awaiting the appropriate legal instrument from Justice to commence the new tariff system. Furthermore, dealing with political interference with enforcement and compliance is becoming a drain on Customs management time and resources. [Source: Interview 23 and Interviewee 23 APR April 2018]</p> <p>(d) <i>Stable, trustworthy, fiscally responsible government is the first priority, not clear whether how this is progressing. – observations by public stakeholders during NSDS Consultations</i></p> <ul style="list-style-type: none"> • Deputy Secretary Treasury’s role is quite central to the NSDS objective of having a stable and fiscally responsible government. The management (daily payment and receipting operations) of GON money is very much a core function of the Deputy Secretary Treasury’s role , as well as preparing and executing the budget. The position also oversees the accounting and reporting of government finances, and manages DFAT’s Operating Fund account. [Source: Interviews 12 and 30 Interviewee 12 APR April 2018; 2016 PEFA Self-Assessment Findings] 	<p>DFAT support in the existing public-sector areas of Treasury, PAD, Revenue and Customs should definitely continue in view of the early stages of newly developed systems and mechanisms. This pertain to the tax system, recent investments in the FMIS and the accompanying instructions and internal controls, the NSDS review mechanism and consolidation of Customs systems.</p> <p><i>“Tax and public financial management (PFM) reforms are critical to help control spending and support the needed fiscal adjustment. Staff welcomed good progress in building the tax system, including the introduction of employment and services tax and business profit tax, and improvement in customs and tax administration. Staff emphasized that ensuring consistent implementation of the new tax system would help mobilize revenues and encouraged broadening the tax base over the medium term.....” (IMF Article IV Report 2017)</i></p> <p>To bed down (reform) change improvements in the last four years continuation of the existing areas of PACTAM2 support will be critical, albeit with some slight additions:</p> <ol style="list-style-type: none"> (i) Customs - additional technical support, albeit short term but more targeted could be considered, with twinning arrangements to be explored with Australian Customs and Boarder Control: (ii) PAD – to extend technical support for National Statistics Office with the emphasis that the DS should have the required competency and experience in statistics; (iii) A common concern from PACTAM2 advisors relates to the precarious state of Government IT network system and its shortcomings in terms of breakdowns and slowness of access. This will be mitigated to some extent by proposed plans to include an additional advisor with FMIS and systems background under the new structure in Treasury. But in the longer term, DFAT should consider the need to further consolidate and interface or integrate the systems in Customs and NRO with the FMIS. This will not only protect the value of DFAT investments in these areas but also generate considerable efficiency gains and synergies.

	<ul style="list-style-type: none"> • The Treasury Division is the primarily gatekeeper that controls the inflows and outflows from the nation’s Treasury coffers. In this regard, it also ensures that GON spending are within its means and are indeed used for its intended purposes in the right manner. To reinforce this role, the incumbent had played the lead role in the development and drafting of subsidiary legal instruments (Financial Instructions) to consolidate the control framework that governs the flow and use of GON and donor funds in a transparent and accountable manner. [Source: Interviews 12 and 30; Interviewee 12 APR April 2018; 2016 PEFA Self-Assessment Findings] • The Financial Instructions will fill a huge gap that currently exists between the policy intents of the Public Finance Act 2013 and Public Finance Regulations (Control and Management) 2013, and the intended operational effect. Implementation of these instruments will be another added task to the current workload of the Deputy Secretary Treasury, together with related PFM reform initiatives being driven by ADB in the specific reform measures currently being designed as policy conditions that will underpin ADB’s next round of it earmarked budget support program for GON. In a nutshell, whilst these reform initiatives will help reinforce the objective of stability in the longer term and in a sustainable manner, Treasury will definitely need in-house technical expert support to roll out the implementation of these reforms and its operationalisation. The current level of in-house technical advisory support provided through PACTAM and the GON-funded expatriates are barely delivering on Treasury’s current level of operational and strategic outputs, leave alone the more substantial reform outputs still to be rolled out. [Source: Interviews 12 and 30 ; Interviewee 12; Interviewee 12 APR April 2018; 2016 PEFA Self-Assessment Findings] 	
d. Which areas of the public service no longer requires DFAT support and can be transitioned over to GoN?	<p>[EVIDENCE 1: AID PROGRAM PERFORMANCE REPORT 2016/17. Nauru. Sept 2017]</p> <ul style="list-style-type: none"> • “The objective of more effective public-sector management was again rated as green (progressing well towards its targeted objectives) in 2016-17. The investment is the continuation of Australia’s multi-year commitment to public sector accountability, providing increased capacity and driving progress on critical reform measures..... • PACTAM advisers have led improvements in budget preparation and execution, helped reform the customs system and increase customs revenue (equivalent to 6.8 per cent of GDP), and have supported implementation of Nauru’s first tax system, including the introduction of a new business profits tax in 2016-17. They have also increased the number and compliance of government departments utilising the Financial Management Information System (FMIS) and play a key role in safeguarding the administration of Australian development funding.” • “Australia is also contributing to the Nauru Trust Fund, which is a good example of strong governance, accountability and collaboration between Australia, Nauru, Taiwan and the ADB. Australia contributed \$5 million to the fund this year, and maintains active engagement on its board. The Government of Nauru has maintained its annual contributions, based on a proportion of annual government revenue. The total value of the Nauru Trust Fund grew by \$23.2 million during the period and now exceeds \$58 million. As the fund matures through further contributions and earnings, it will support Nauru’s long-term fiscal sustainability.” • “Reforms continued through close engagement with the ADB, International Monetary Fund (IMF) and its Pacific Financial Technical Assistance Centre (PFTAC). Nauru received its first IMF Article IV Consultation mission in January 2017, which is a major milestone for a developing economy. The Government of Nauru also conducted a Public Expenditure Financial Accountability (PEFA) self-assessment in November 2016, supported by the IMF and co-conducted with a DFAT Assessment of National Systems. Active engagement with the Government of Nauru on the recommendations of these assessments will remain a continuing priority for DFAT in this sector, supported by the in-line PACTAM advisers.” <p>[EVIDENCE 2: IMF ARTICLE IV CONSULTATIONS STAFF REPORT – REPUBLIC OF NAURU. 2017] The report is the output of a biennial economic and fiscal surveillance mechanism that Nauru, as a new IMF-member country, undergoes which points to economic and fiscal structural issues that need to be addressed to ensure macro-fiscal stability short to medium term. The key policy recommendations coming out of the report were:</p> <ul style="list-style-type: none"> ➤ Fiscal policy - Ensure fiscal liquidity and sustainability by maintaining adequate cash buffers and contributing to the NTF. The build-up in savings should start from FY2017 while RPC revenue remains high. <u>Implement tax and public financial management reforms to control spending and support the fiscal adjustment.</u> <u>Strengthen public debt management to ensure fiscal and debt sustainability,</u> and improve access to credit markets. ➤ Climate change - <u>Develop a fiscal policy framework that would enhance economic resilience by integrating climate change strategies in budget planning.</u> Practical approaches should be adopted in the near term to match capital projects already in the pipeline with Nauru’s climate change strategies, meet the climate proofing standards, and incorporate the projects in a multi-year budget plan. ➤ Structural reforms - Successful implementation of structural reforms would promote inclusive growth, economic diversification, and private sector development. The priorities include rebuilding the seaport and energy infrastructure, <u>reforming the state-owned enterprises,</u> developing the financial sector, and addressing health-related challenges. <p>To implement these reform measures, which are at the heart of having a robust and enabling macro-fiscal environment upon which the government’s NSDS policies can be resources and implemented, in-house technical advisory support to the existing Divisions within the Department of Finance will be essential.</p>	
Key question	Overall finding:	
2. To what extent is the PACTAM program the most appropriate modality for achieving public sector outcomes for GoN?	PACTAM2 provides the necessary modality of support i.e. long-term in-country at this stage, given the current state of reforms that have been put in place in the last four years. A slight variation in PACTAM terms of references is needed with more emphasis on relationship and capacity building skills is needed. GON and DFAT are also recommended to fully explore the entire range of short-term specialist TA, available with the agencies noted i.e. PIFTAC, SPC, OCO and ADB.	
Sub-question	Evidence	
	<i>Strength of Evidence Rating:: Strong (based on donor website sources and documents, primary interviews)</i>	Findings Rating: 5/6

a. What other modalities of providing sustainable public-sector management support to GoN exist outside of PACTAM?	<ul style="list-style-type: none">• In our interview with Deputy Secretary of Customs, a significant technical gap they all identified in the current PACTAM advisory setup is the need for support with the whole of Government IT system network and infrastructure, which appears to be failing the core application programs that it hosts for the three Divisions in Department of Finance. Also, he highlighted the need for Customs to have a long-term twinning relationship between GON Customs and Australian Customs and Border Control to help sustain training and capacity building initiatives like specialist skills and knowledge transfer to local counterparts. He also alluded to the need for additional PACTAM2 (technical and short-term) support in Customs, similar to Reform Implementation Advisor’s role in NRO. Scholarships quotas for Departments like Customs were also highlighted as a need given the specialist areas of training required. (Source: Interviews 12 and 23; Interviewee APPR 2018) <p>[EVIDENCE 2: ADB Country Operations Business Plan 2017-19 (website).</p> <p>In Nauru, ADB focuses on transport infrastructure (Ports Development) - USD23.3m; ICT infrastructure, and strategy and policy development – USD15m; renewable energy – USD4m; water and urban infrastructure; - USD3.5m and public-sector management – economic affairs management and public expenditures and fiscal management – USD5.0m. Total indicative resources – USD50.5m. Each of these areas are accompanied with a range of technical assistance modalities that support project preparation or technical areas essential to the objectives of the projects. Two areas of particular relevance here are ICT and public sector management. (Source: Interview 9)</p> <p>[EVIDENCE 3: Pacific Islands Financial Technical Assistance Center (PIFTAC) Technical Assistance Workplan for Nauru and interviews (website) – PIFTAC PFM Advisor]</p> <p>PIFTAC provides a range of short-term technical assistance in various areas. Current pipeline for Nauru includes:</p> <ul style="list-style-type: none">• Government Financial Statistics Compilation and mapping to Chart of Accounts – 2018, 2019• Implement International Public Sector Accounting Standards (IPSAS) Cash accounting – 2018• Improving IPSAS Cash financial reporting - 2019• Review of the progress of the current tax reforms – 2019 <p>PIFTAC also provides technical assistance in the areas of government sector statistics, macroeconomic analysis, public financial management reforms and financial sector supervision.</p> <p>[EVIDENCE 4: Statistics Development Division (SDD), Secretariat of the Pacific Community – website]</p> <p>SDD aims to strengthen the capacity of National Statistics Offices and economic planning agencies of countries in the region. It provides technical assistance and training, and help countries establish good data collection systems to improve quality and quantity of data, indicators and reports to be published. These include technical support to help countries with compiling statistics for population census, household income and expenditure surveys, demographic health surveys and etc. For Nauru, the indicative workplan is as follows:</p> <table><tr><th>PACIFIC ISLAND COUNTRIES</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2022+</th></tr><tr><td>Nauru</td><td>HIES; DHS&MICS; PHC(mini)</td><td>LFS</td><td></td><td>PHC</td><td>DHS&MICS</td><td>HIES (2023)</td></tr></table> <p>HIES – Household Income and Expenditure Survey; DHS – Demographic Health Survey; MICS – Multiple Indicator Health Survey; LFS – Labour Force Survey; PHC – Population Housing Census.</p> <p>[EVIDENCE 5: Oceania Customs Organization (OCO) – website]</p> <p>Provide technical support to Customs administrations to align with international standards and best practices in the areas of: law enforcement and border security; trade management and facilitation; revenue management and institutional strengthening for small customs administration.</p>	PACIFIC ISLAND COUNTRIES	2018	2019	2020	2021	2022	2022+	Nauru	HIES; DHS&MICS; PHC(mini)	LFS		PHC	DHS&MICS	HIES (2023)	<p>PITAC, SPC, OCO and ADB do provide alternative modalities that should be carefully considered for reinforcing and filling the gaps of the current PACTAM2 program in PSM.</p> <p>These agencies are conduits of technical assistance funded by bilateral and multilateral donors, with DFAT being a major if not the biggest funder of these programs.</p> <p>There is room to be further explored for the leveraging of these agencies technical assistance to support these emerging or perennial capacity gaps in the areas highlighted in earlier sections.</p> <p>Deputy Secretary Treasury highlighted the rather messy way procurement is handled in GON with four channels of procurement. This is an area that will require sustained technical support which in the long term will require a centralised procurement system for whole of GON. The procurement regulations is very loose and will need to be tightened up considerably. He expressed the same views for the Treasury Fund Protection Act which needs to be strengthened with more clarity as to what exactly are the discretionary (or boundaries of) the authorities of the Minister of Finance, Cabinet and Parliament.</p>
PACIFIC ISLAND COUNTRIES	2018	2019	2020	2021	2022	2022+										
Nauru	HIES; DHS&MICS; PHC(mini)	LFS		PHC	DHS&MICS	HIES (2023)										
b.Considering alternative modalities, is this the most appropriate modality to achieve the desired outcomes? Describe the major strength and weaknesses of the alternatives.	<p>Evidence: <i>Moderate (based on donor website sources, anecdotes and interviews)</i></p> <p>See evidence for the section above (2a)</p> <p>The key strength of these alternative modalities lies in the high level of specialisation and expertise that they bring with their interventions. They are also have rallying power to muster backup resources (subsequent program and TA support) from sponsoring donor agencies, which is convenient for recipient governments like GoN.</p> <p>Their weaknesses however can be in the lack of contextualisation of their TA interventions given the prevailing environment in Pacific Island countries.</p> <p>(Source: Interview 24)</p>	<p>PACTAM provides a necessary modality of support to Government of Nauru in terms of the focus and areas of assistance and the level and range of skills/expertise it brings with it to these areas. The issue is more to do with examining the range of alternative modalities that do exist with DFAT and through its funding support to the various technical assistance agencies in the region. The broad message appears to be the need for sharpening the focus of PACTAM2 with the complementary support of these alternative modalities to consolidate the reform gains made in the last few years and also lock-in some of the critical elements that will bring about more stability to these transformational changes like:</p> <ul style="list-style-type: none">➤ Tax regime – employment services and business taxes➤ Customs – IT capability; enforcement and compliance➤ PAD – more clarity in the elaboration of NSDS review of policy priorities over the short to medium to long term➤ Treasury – embedding the FMIS and its links with NRO and Customs systems; fleshing out the instruments of internal controls i.e. drafting of the financial instructions and development of a training regime in Department of Finance.➤ Statistics – review and assess capacity to deliver core functions➤ Procurement regime – review and recommend sequence and pace of reform changes towards internationally accepted practices and standards➤ Update of PFM Roadmap and integration of Operating Accounting audit recommendations														

		<p>These alternative modalities serve a more complementary role to the existing long-term in-house advisory support modality of PACTAM to GON, and are short-term and specific or specialist in nature. In the region, they can and have filled in critical gaps in the areas in public sector management that they specialise in. These short-term technical assistance do however need a certain level of technical capacity in-house to sustain the implementation and operationalisation of their TA outputs as part of the functions and responsibilities of the host or recipient departments. In this regard, for countries with low capacity like Nauru the presence of long – term in-house technical advisory support is critical therefore serving complementary roles in the provision of technical assistance to the organisations they serve. Another advantage is that such short-term TA can be more appropriate for sensitive and unpopular reform measures like procurement and civil service restructuring, because they can be perceived as more of external agents coming in to make changes to the organization which the in-house advisor and local counterparts have to implement and sustain in the longer term. Whilst they implement and impart specialist outputs, short-term TAs will require contextual information about the organisation and the political economy that prevails, which is where their interaction with local counterparts and in-house advisors will be critical.</p>
Key question	Overall finding:	
<p>3. To what extent has DFAT support led to strengthening of financial management capacity and economic governance (in accordance with Nauru’s National Sustainable Development Strategy 2005 - 2025) of MoF?</p>	<p>DFAT has contributed strongly to the strengthening of financial management capacity and economic governance of Nauru, in accordance with the NSDS 2005-2025. National Revenue Office have implemented immense transformational changes with the coming into effect of three taxes: the employment services tax; gaming tax and business profit tax. The broadening of the GON’s revenue base is being reinforced by the work DFAT supported in Customs and National Fisheries Maritime Resources Authority (up to 2016). This has bolstered GON’s revenue earning capacity in a huge way, which coupled with the strengthening of Customs, Treasury and PAD have now put Nauru on better footing to be able to address some of the key development challenges.</p> <p>That said, there are on-going issues that need to be addressed in the immediate to longer terms and these need to be laid out in a strategic manner that allows GON to lock-in the reform gains hitherto and incrementally build its technical and institutional capacity towards a more robust and resilient framework that will enable fiscal policy to be the stabilising pillar of the Nauru economy.</p> <p>Recommendations:</p> <ol style="list-style-type: none"> Short-term – consolidate reforms <ul style="list-style-type: none"> FMIS to be bedded down and fully interfaced with PCTrade and NRO NSDS implementation strategy to be linked to budget reforms to refine AOP linkages to NSDS 2018-30 and medium-term strategies Financial Instructions to be incorporated into training manual and program Scoping of procurement reforms Medium -term – enhance capacity of Treasury, Customs and NRO <ul style="list-style-type: none"> Upgrade NRO to Revenue Management System Customs to transition to Asycuda Implement training program for locals Sequence and pace procurement reforms – start with centralising procurement processes and approvals at a certain threshold Long-term – consolidate <ul style="list-style-type: none"> Fully integrate FMIS with Customs and NRO Develop performance framework for HR management and budgeting 	
Sub-question	Evidence:	Findings
	Strength of Evidence: Strong (based on Government and donor sources, and primary interviews)	Ratings: 5/6
<p>To what extent have inline personnel and PACTAM2 Advisers (treasury, PAD, customs, NRO) been effective?</p>	<p>Planning and Aid Division</p> <ul style="list-style-type: none"> <u>Monitoring the performance of the National Sustainable Development Strategy (NSDS) implementation</u> – Annual Operating Plans in place. PIFTAC providing assistance to map GFS to chart of accounts and better link to NSDS to budget outputs. National Development Planning Committee had its first meeting with Minister of Finance. NSDS Review Consultations Report completed and draft NSDS (2018-2030) with NDPC for endorsement. 	<p>PACTAM advisors have largely been in effective in delivering their expected outputs. All four divisions of MoF have managed to effectively achieve key milestones in their respective areas as evidenced.</p> <p>To lock-in the gains from the reform changes successfully implemented and operationalised hitherto,</p>

- Improved Aid Management - Cabinet approval of the asset policy and direction on the next phase of the asset maintenance framework optimises opportunities for greater donor assistance as it demonstrates local effort towards maintaining not only existing assets but also future donor funded development assets. This is also part of the policy conditionality of ADB's earmarked budget support program.
- Manage and develop local counterpart capacity – capacity development in PAD has been widely acknowledged, as a result however, departments have tended to delegate their designated planning tasks to PAD hence increasing their workload. Development partners have also been known to upload their work requirements to PAD instead of relevant line ministry. **(Source:** Interviews 14, 8, 16 and 26; Interviewee 14 APPR)

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Customs Division

- Strengthening systems and processes and aligning it to international best practices of Customs Control – PCTrade, the Customs software program, has been installed and operationalised but continues to face technical and infrastructure hiccups. A client server model in place for PCtrade and reporting issues in PCtrade are being corrected. Valuation and post compliance audits training are being conducted.
- Enforcement and Compliance – investigations training conducted with OCO and Australian Border Force. Training also being conducted on: exhibit and cargo exams; narcotics and ship searching; and passenger marshalling. A mobile X-ray van is being built in UK and due in Sept 2018. In terms of risk management, the intelligence link between Port and Risk management is active but collation of cargo report is not done properly but being addressed. An MOU has been signed with the financial intelligence unit (FIU) and there is a strong link between Customs and Tax office on financial transactions, but the Bendigo Bank needs to supply information to both Customs and Tax to ringfence the system. This is being addressed by the FIU.
- Trade facilitation and capacity building- Continued to facilitate trade through modern Customs Systems and Duty Tax Administration Services since 2016/2017 [AQC 17]. Cabinet approved use of the 2017 Harmonized Tariff format in December, however there are legal mechanics that need to be completed to activate the change from HS2012. The risk management platform is working well to a basic level; the managers talk to each other when required on risk issues but it has not evolved to a **Risk Committee** format with trimonthly reviews. This is a work in progress. MOU with the post office and the Financial Transaction Centre has been established and is working well. An MOU is expected to be drawn up by the DPP and NPF to enable Customs to investigate its own offences without Police taking over the matter.
- Administration, leadership and succession planning – Organisation structure is now aligned to the HR divisions history. Budget is now at the required level to run operations and support strategic issues and ongoing costs. **(Source:** Interview 23; interviewee APPR)

National Revenue Office

- Enforcement of domestic laws – Revenue administration Act, Employment Services Act, Gaming Act and Business Profit Tax now effectively in place and administered by NRO. Organisational structure being filled and training conducted regularly.
- Improvement of capacity of the NRO to collect taxes and other revenues and charges under the existing regime – office now fully equipped with continuous upgrading of tax administration competency skills. A new compliance strategy is being developed, and once implemented will ensure that NRO maintains a high level of compliance (both lodgments and payments) with future risks mitigated going forward.
- Oversight of ongoing implementation of tax reforms - A Revenue Office website which is expected to be operational in May/June 2018. Consolidated tax laws and other law administered by the Revenue Office will be available online, together with explanatory brochures and all necessary tax forms. Lodgement and payment due dates will be highlighted, together with details of taxpayer rights and obligations. Work has continued in respect of Nauru's membership of the Global Forum (GF). Nauru has received a "Largely Compliant" rating at the completion of the "Fast Track Review" undertaken in late 2017, with GF assessment team soon to conduct an onsite review in Nauru during Q2 of 2018 to test compliance with and application of GF requirements. A close working relationship has been developed with the Global Forum Secretariat which is assisting Nauru in its commitment to the fight against tax evasion and corrupt practices. Nauru has also made a formal qualified commitment to the BEPS Inclusive Framework, following an eligibility determination undertaken by the EU in early 2018.
- Build capacity to implement improved revenue administration and tax reforms - Weekly in-house training sessions, with real-time, on-the-job topics are being conducted. Staff have demonstrated a higher level of both administrative and technical knowledge, and show a greater willingness to take ownership of their work allocation. Staff have taken more "ownership" of their work and their decision-making has shown indications of substantial improvement, as they gain more skills and knowledge and through on-going exposure to the practical application of these skills and knowledge, they have become more confident and proficient in performing their duties. Understandably, the skill gap is still enormous in terms of technical knowledge in relation to interpretation and application of the tax law. Conducted for the first time a taxpayer education and assistance program, including arranging pre-audit reviews, supporting tax lodgments and debt collections. [AQC 2017]
- Received a PFTAC/IMF top award in the Pacific for Revenue Administration Policy and Administration Reforms. Supported Nauru becoming a signatory in September 2017 to OECD Multilateral Competent Authority Agreement, committing Nauru to sharing financial data with 97 other co-signatories and being invited to participate in the International Survey on Revenue Administration; [AQC 2017](**Source:** Interviews 19 and 31; interviewees APPR)

Treasury Division

- Management of GON and donor monies and strategic advice – reasonable degree of discipline maintained at fiscal aggregate level (expenditures within revenue levels) and in terms of allocative efficiencies (budgets according to priorities. Donor fund accounts maintained and reporting provided regularly as per legislature requirements. Payment and receipting operations roll on uninterrupted.
- Preparation and execution of annual budget – structure and some degree of discipline instilled in budget preparation process. Reformat of GON Budget to MTEF Framework [AQC 2017]. Execution of budget may however need to be aligned to policy settings of the budget and the role of PAD can help play a complementary part in that regard.
- Accounting and Reporting - The 2014-15 Financial Statements have been audited and management comments supplied to audit. It is expected that they will be tabled in Parliament next month. The 2015-16 Financial Statements have been produced and are currently being audited by the Audit Office assisted by external auditors from PASAI. This is a considered a remarkable since no financial statements were produced by Government for nearly twenty years prior to 2013-14. **(Source:** Interview 12; interviewee APPR; Interview 30)

[EVIDENCE 2: 2016 Assessment of National Systems Report – DFAT] – The 2016 ANS Report in summary noted a marginal improvement in pre-mitigation risk rating from 'very high' in the last ANS 2013 to 'high' but post-mitigation for both assessments remained 'moderate'. This in itself may have pointed only to marginal progress in the reforms and measures implemented during those years. The headline findings were:

- The fiduciary risk mitigations recommended by the 2013 ANS have largely been implemented and have been effective. The exceptions are a delay in developing an effective accounting and procurement manual, weaknesses in GoN's use of the Independent Procurement Agent (IPA) and no progress on adoption of multi-year expenditure planning.
- Given limited capacity within GoN, DFAT's ability to mitigate risk levels continues to rely overwhelmingly on DFAT funded 'advisors' working in key line positions (including Departments of Finance and Planning) as well as on program audits of the Operational Account performed by a private provider. These line positions provide a level of

a strategic approach to PFM reform will be needed. This will take into account the following:

- GoN commitment and ownership at the political and policy levels
- Local capacity to sustain these improvements in their day to day operations;
- Setting milestones that are realistic
- The pace of implementation should be commensurate with the resourcing commitments from GoN in the areas of staffing and training.

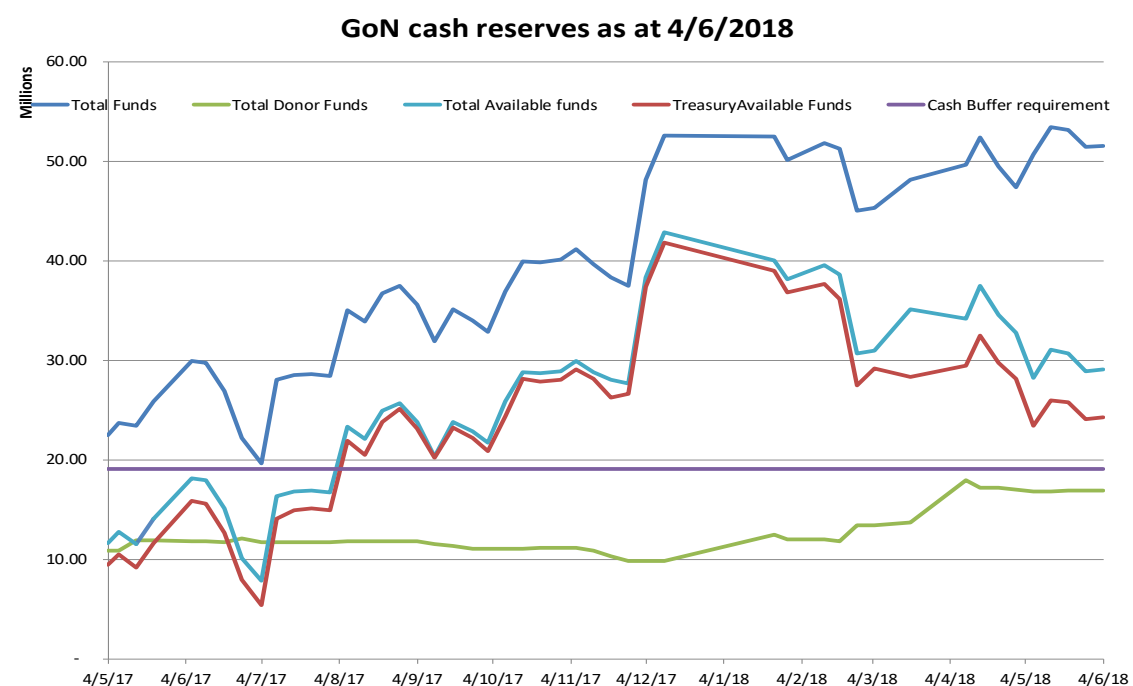
	<p>oversight and management capacity central to maintaining confidence levels in using GoN systems. Program audits of the Operational Account complement the work of advisors. Six monthly program audits provide the Australian aid program with additional levels of assurance and, an independent perspective on the strengths and weaknesses of the operations of the program.</p> <ul style="list-style-type: none"> • <u>There have been some improvements in Treasury and Accounting processes.</u> Implementation of a Financial Management Information System (FMIS) and associated system controls have enabled MoF to generate 'real time' financial reports and facilitated completion of draft financial statements (the last financial statements were produced in financial year 1995 – 1996). The FMIS has also improved data integrity through restricting access and enforcing workflow processes and facilitating electronic record keeping of invoices and approvals. • <u>Progress in procurement reform has been weak and continues to be an area of concern.</u> The IPA's role in the procurement process has been to place orders rather than to enforce adherence to GoN's procurement policies. These policies are frequently not followed which is impart due to an overly complex procurement manual. There is little evidence of strategic procurement conducted by the IPA and ministries frequently sideline the IPA when sourcing goods and services. • <u>While there has been consistent support for improvements in financial management by the Finance and Justice Minister and development partners, future progress will be constrained by capacity and dependent upon on-going political support.</u> Future reform programs would benefit from being highly prioritised (i.e. energies invested in areas of maximum potential benefit and need) and realistic given the low capacity environment. • <u>Major weaknesses and risks are still present in GoN's budget planning and management of risks.</u> The absence of a GoN fiscal strategy raises sustainability concerns for government finances. This issue is concerning in the current context where, despite windfall revenues, GoN is forecasting an annual fiscal deficit in 2015-16 and only a minor surplus for 2016-17 and GoN only recently having a more complete picture of its financial position (following system improvements and recent completion of a balance sheet and financial statements). Growth in the recognition of domestic debts is contributing to sustainability concerns and may fluctuate as GoN further embeds processes to identify and value debts. MoF has limited oversight of State Owned Enterprises (SoEs) which weakens its position to push for contingency planning strategies and stronger regulatory policies in this area. As noted above, procurement remains an ongoing concern. • <u>Transparency and external accountability mechanisms have not improved since the 2013 ANS.</u> Capacity within the Office of the Director of Audit continues to remain low. The Auditor General has had the 2013-14 financial statements since late 2014 (the audit was put on hold temporarily during the hearing of the Firebird case in 2015) but little progress had been made by August 2016. The Public Accounts Committee (PAC) continues to not operate. 'Budget' information is publicly available however 'actual' data is not released publically. Lack of public access to 'actual' figures reduces the ability of actors to hold government to account and influence stronger public financial management. <p>[EVIDENCE 3: Public Expenditure and Financial Accountability (PEFA) Assessment Report 2016 – IMF/PIFTAC] – PEFA program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. Areas that showed improvement in indicators were:</p> <ol style="list-style-type: none"> 1. Government FMIS – managing whole of GoN receipts and expenditures 2. Budget preparation, credibility and reliability 3. Administration and accounting of Government revenues 4. Accounting and reporting 	
<p>To what extent is the Financial Management Information Systems (FMIS) providing greater rigour in budget implementation and payment systems?</p>	<p>Evidence: Moderate <i>[key GON documents, primary interviews]</i></p> <p>The controls in FMIS ensure that Ministries are only able to plan and commit expenditure in line with budgeted appropriations and their cash flow forecasts. It generates budget reports on a weekly basis which are made available to Department Heads for the management of their budgets. The report includes information on actuals, commitments and also shows the original budget, virements, supplementary, and revised budget, as well as remaining budget balances. Following introduction of the FMIS and, preparation of financial statements, GoN has a more complete picture of its financial position. Despite assurance to provide reporting templates as evidence, these have not been made available as to this point. Template for reports that were sought included weekly, monthly, quarterly and mid-year budget reports.</p> <p>[EVIDENCE 1: 2016 Assessment of National Systems Report – DFAT] <i>“Implementation of the FMIS software Finance one has improved data integrity. Data integrity measures include each user being assigned an individual user account, all user changes being logged, access to functions within the FMIS dependent upon the user’s role and workflow settings restricting who can approve a payment (refer to the discussion under ‘on treasury’). MoF are able to view supporting documentation relating to the transaction. (Invoices and contracts are stored electronically and attached to relevant transaction within the FMIS.) DFAT’s recent program audits indicates significant improvement in the accuracy of transactions posted to the Operational Account.”</i>[ANS Report]</p> <p>[EVIDENCE 2: Public Expenditure and Financial Accountability (PEFA) Assessment Report 2016 – IMF/PIFTAC] The relevant dimensional indicators in the PEFA findings can be linked back to the rigour of the FMIS in budget implementation and payment systems are on the Pillar V of the PEFA framework which relates to Predictability and Control in Budget Execution. This is presented as follows:</p>	<p>The FMIS has the capabilities to generate reports for daily operations as well as for executive management, the Minister, Cabinet and Parliament.</p> <p>This has demonstrably improved the ability of GoN to monitor and manage government finances in a proactive and strategic manner.</p> <p>The reports provide key information that are critical for Treasury and PAD for the purpose of :</p> <ol style="list-style-type: none"> 1. Daily cashflow monitoring; 2. Managing revenue and expenditure commitments/arrears; 3. Actual expenditures against budgets 4. Payroll management 5. In-year quarterly and mid-year budget reporting

Assessment Rating							
PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION							
Pillar	PFM Indicators	Scoring Methodology	Dimension Rating				Overall Rating
			i	ii	iii	iv	
V. Predictability and control in budget execution	19. Revenue administration	M2 (AV)	B	A	D	A	B
	20. Accounting for revenue	M1 (WL)	A	A	A	-	A
	21. Predictability of in-year resource allocation	M2 (AV)	B	C	B	D	C+
	22. Expenditure arrears	M1 (WL)	D	C	-	-	D+
	23. Payroll controls	M1 (WL)	B	A	B	C	C+
	24. Procurement management	M2 (AV)	B	D	D	D	D+
	25. Internal controls on nonsalary expenditure	M2 (AV)	B	B	B	-	B
	26. Internal audit	M1 (WL)	D	N/A	/A	N/A	D

This ratings within the circled portion under the last two columns could be partly attributed to the shortcomings in the FMIS but there are also other internal control issues that may very well be the major factor behind these ratings.

What is however also not evident is what appears to be a lack of formal reporting mechanism that would have required Department accountants to reconcile their sources with what is generated from the FMIS. For example, Departments need to reconcile their commitment report with the commitments that are generated from the FMIS on a weekly basis so that both ends (Departments and Treasury) made be consistent so that at the end of the week or month Departments and Treasury have the same information in terms of commitments made (i.e, Departments purchase orders), those actually paid by Treasury and those that remain to be settled. Without having regular reconciliation of these commitments, the inconsistencies inevitably lead to the accumulation of expenditure arrears, which could be the case here with Nauru as shown above by the rating for PFM Indicator 22 at D+.

[EVIDENCE 3: FMIS-generated Reporting Templates for Department of Finance executive management]
Weekly cash monitor reports



No.	Bank	Name	Currency	Type	Status	21/05/2018	28/05/2018	04/06/2018
						2,006,420.55	2,006,420.55	2,006,420.55
						3,600,000.00	3,600,000.00	3,600,000.00
1			AUD	GoN	Active	2,833,420.95	2,032,255.58	1,587,152.72
2			AUD	GoN	Active	1,392,362.19	1,375,471.71	1,377,626.60
3			AUD	GoN	Active	500,000.00	500,000.00	500,000.00
4			AUD	Donor	Active	10,316,205.58	10,316,205.58	10,316,204.78
5			AUD	Donor	Active	1,953,035.95	1,953,035.95	1,953,035.95
6			AUD	Donor	Active	2,235,187.22	2,243,219.31	2,243,218.11
7			AUD	GoN	Active	870,926.78	818,882.59	753,422.81
8			AUD	SoE	Active	309,887.91	280,186.17	287,929.77
9			AUD	SoE	Active	448.77	448.77	448.77
10			AUD	Trust	Active	1,770,273.28	1,770,273.28	1,770,273.28
11			AUD	GoN	Active	16,368,529.36	15,189,580.64	16,168,797.70
			AUD	Donor	Active	476,186.00	476,186.00	476,186.00
			AUD	Donor	Active	167,608.33	167,608.33	167,608.33
						1,729,326.00	1,729,326.00	1,729,326.00
						46,529,818.87	44,459,100.46	44,937,651.37
12			AUD	GoN		428,015.51	385,490.66	223,187.75
13			AUD	SoE		83,523.35	66,460.24	140,902.94
14						6,112,986.92	6,514,414.46	6,290,499.96
					(AUD)	6,624,525.78	6,966,365.36	6,654,590.65
			EUR			0.64	0.64	0.64
			USD			0.73	0.73	0.73
		Cash Buffer requirement				19,095,271.30	19,095,271.30	19,095,271.30
		Total Funds				53,154,344.65	51,425,465.82	51,592,242.02
		Total GoN Funds-liquid				30,670,375.02	28,933,464.10	29,100,242.30

These templates are generated from the FMIS and constitute the cashflow position of GON at any point in time. Treasury uses this information to determine the extent to which its operating accounts need to be replenished and the weekly level of expenditures that it can meet.

[EVIDENCE 4: Government of Nauru. Mid-Year Budget Review. Quarter 2, December 2017]“**Overview:** The 2017-18 Mid-Year-Budget Review (MYBR) covers the first six months of the 2017-18 Government of Nauru financial year, commencing July 1st, 2017 and ending December 31st, 2017. It is based on all available information to Treasury from the Government’s accounts and departmental sources.

The Macroeconomic assumptions on which the budget was based remain broadly consistent with information available at the mid-year. This report details the major sources of revenue and expenditure and forecast outturns based on the mid-year results. Overall both revenue and expenditures are below half-year expectations.

	<p><i>Two Supplementary Appropriation Bills were passed in the first six-months of the year and these are included in the analysis.</i></p> <p><i>It is important to note that the report only covers general Government operations. Donor expenditures and the operations of State owned enterprises (SoE's) are not included in this report apart from where transfers from the Government have been made to donor projects or as subsidies/loans to SoE's. Likewise receipts from direct budget support donor funding have been included....."</i></p>		
To what extent has the investment increased capacity sustainably?	<p>Evidence: <i>Weak (Primary interviews, anecdotes)</i></p> <p>Core application systems (FMIS, NRO and Customs) and operational (financial management and planning) processes are up and running in the Divisions under Department of Finance. The capacity to keep this running effectively still largely rests with the PACTAM2 advisors and expatriates. Most of these Departments have had all their establishment filled but turnover is still an issue in some of these Departments like PAD. Some good local counterparts identified as potential to take the helm in PAD, but this will still require technical support to sustain the consistency required to complete the NSDS review. Technical and systems capacity across the four Divisions has increased considerably with the support of PACTAM and expatriate advisors. Overall, human resource capacity still falls well short of the required levels needed to take over those posts currently manned by PACTAM deployment. Interviews with local counterpart staff of NRO showed their full support and high commendations for the capacity building efforts of the Deputy Secretary and Reform Implementation Advisor (Source: Interviews 14, 16, 17 23, 31)</p>		In terms of the institutional capacity as a whole, the investment has directly contributed to increased capacity in terms of core functions and outputs. That said, the capacity to do so without PACTAM2 support is very limited if not non-existent in some areas, with the exception maybe of PAD only to a large extent.
Key question	Overall finding:		
4. To what extent is the investment efficiently using Australia's resources to achieve the outcomes?	<p>Whilst this is happening in the main, and evidenced in the revenue areas like Customs, Fisheries and NRO, improvements in Treasury and PAD will need to be better documented and reported on.</p> <p>PFM Reforms will need to be taken stock of and the so-called PFM Roadmap, which was not made available, will need to be revisited.</p> <ul style="list-style-type: none"> It should first of all have the Operating Account Review recommendations incorporated as part of the FMIS improvements. There also needs to be proper demarcation of roles and responsibilities between PAD and Treasury in the vetting and payment processes for the Development Fund and the Operating Account. Within the existing level of PACTAM support, and with the additional post in the new structure, it should not be too ambitious to schedule completion of this milestone by end of this calendar year 2018. Procurement is at the heart of efficiency and effectiveness of any investment in any government. The political will behind procurement reforms must be established before any reform plans are made. ADB is perhaps best placed to provide specialised TA support for this, as part of their budget support program policy conditions Capacity building and training should be an integral part of any PFM reform agenda moving forward. <p>The mode of engagement of PACTAM personnel is also recommended to be modified, with:</p> <ul style="list-style-type: none"> More emphasis on soft skills of relationship management, mentoring and capacity building – with clear objectives in TORs PACTAM advisors to be part of interviews of the recruitment of local counterparts Local counterparts to be given opportunity to give their views on the six-monthly performance reports of PACTAM advisors. 		
Sub-question	Evidence		Findings:
	Strength of evidence: <i>Moderate (primary interviews and GON documents)</i>		Rating: 5/6
To what extent were <u>core deliverables</u> of the PACTAM supported departments completed within stipulated timeframes and budgets?	<p>All Departments submitted Annual Operating Plans as part of their budget submissions in time for the 2018/19 Annual Budget preparation deadlines.</p> <ul style="list-style-type: none"> Planning and Aid Division – completed NSDS Review Consultations in late 2017 and submitted report to National Development Planning Committee by April 2018 as per scheduled timeline. Updated NSDS 2018-2030 was not made available. NSDS monitoring mechanisms in place and AOP templates refined for 2018/19 Budget. Treasury – 2014/15 -2017/18 Annual Budget prepared and passed in time for operation in the fiscal year. Development Fund reports submitted to Parliament on quarterly basis; monthly budget reports made available; and mid-year budget reports submitted but not always within following quarter. Annual accounts being brought up to date. Customs – Collections have been on track with projections. Core functions operational throughout, but technical bottlenecks (PC Trade and IT network) have had interim measures put in place which should ensure continuation of operations, pending more permanent solutions. Training a major part of core deliverables and these have been regularised as part of core operations. National Revenue Office – Collections have surpassed projections for all taxes since coming into effect. All tax legislations currently in effect are being administered by core NRO resources and PACTAM support. Training and capacity building have been regularised as part of core functions of the office (Source: Interviews 8, 12, 14, 23, 31) <p>[EVIDENCE 2: GON ANNUAL BUDGET DOCUMENTS 2014/15 - 2017/18] – Treasury prepares the annual budget documents which has information showing policies, strategies and program objectives of all Departments against budget allocations.</p> <ul style="list-style-type: none"> Customs estimates as presented in budget document – is in line with international best practice showing previous years' estimated collections and description of policy impact (if any): 		<p>GON documents that were provided did corroborate these findings, which were also attested to by third party interlocutors. These included the budget reporting templates and FMIS reports.</p> <p>Direct Funding Agreements (DFA's) need to be tailored</p> <ul style="list-style-type: none"> DFA's should also have, as part of the appendix, clear items which are not funded by the Government of Australia through the Operational Account. The appendix should not be subjective and restrictive in nature. DFA's may need to include enforceable robust Financial Management clauses relating to Donor funding activities. Examples of such clauses include but are not limited to: <ul style="list-style-type: none"> ➤ Development and submission of Project Budgets outlining the utilisation of approved funds; ➤ Development of project plans which show the project milestones/timelines; ➤ Identification of key risks and how these could be mitigated; ➤ Producing Project Financial Status report detailing how the project budget vs actual are tracking on a periodic basis;

CUSTOMS DUTIES			
<i>Impact on budget balance (\$)</i>			
	<i>2016-17 Rev Budget</i>	<i>2016-17 Actuals + Commitment</i>	<i>2017-18 Proposed Budget</i>
Customs and Excise Duty – Tobacco	3,971,409	4,146,463	3,996,691
Customs and Excise Duty – Alcohol	1,403,570	1,545,517	1,768,758
Customs and Excise Duty – Sugar	581,209	601,864	642,870
Customs and Excise – Machinery/Vehicle/Equip.	639,796	504,269	512,056
Customs and Excise Duty – Other	2,616,410	2,400,650	2,602,544
Customs and Excise Duty – Petrol Sales	2,622,088	1,912,667	2,685,706
Customs and Excise Duty – Diesel Sales	4,995,540	3,471,646	4,919,472
Customs and Excise Duty – JetA1	241,817	19,539	18,260
Customs Duty Total	17,071,839	14,601,195	17,146,357
No changes to duties and excises are foreshadowed in the current budget. Forecast Customs revenue is lower than revised budget figures mainly due to lower fuel excises. In the next year the expectation is that revenues will be approximately the same as current budget estimates.			

- NRO estimates as presented in budget document – also in line with international best practice with some explanations on the basis of projections

INCOME AND BUSINESS TAXES			
<i>Impact on budget balance (\$)</i>			
	<i>2016-17 Rev Budget</i>	<i>2016-17 Actuals + Commitment</i>	<i>2017-18 Proposed Budget</i>
Employment / Services Tax	9,000,000	9,366,270	3,900,000
Business Profit Tax –(new)	1,374,200	2,469,433	800,000
Income tax- Total	10,374,200	11,835,703	4,700,000
There has been a significant reduction in the expatriate workforce associated with the RPC operations during the year. This has been reflected in reduced employment tax collections in the current year and factored into expectations next year. Collections from the new Business Profit Tax are above expectations this year, this is thought to be due to pre-payments that will require			
<div>Page 9</div> <div></div> <div> <i>Republic of Nauru 2017-18 Budget</i> </div>			
refunding upon completion of the financial year. The 2017-18 estimates are reduced and consider the expected net revenue from the new tax.			

- Planning and Aid Division – in Budget Paper 2 of the GON Budget document PAD compiles Chapter 4, which is the annual update of NSDS progress.

- Producing Project progress report detailing how the project is tracking against its timelines and project milestones;
- Producing a Risk Status report on the effectiveness of risk mitigation strategies; and
- Exposing all projects to, but not limited to, project performance audit and Compliance audits.
- DFAs should mandate and make the AOPs a pre-requisite for funding. This will ensure that Department heads and third-party have an agreed basis for funding activities undertaken by their Departments.
- In addition to the above, the DFAs should also be signed by the line Department Heads in order to affirm financial management accountability and responsibilities of their respective Departments.
- Staff should receive FMIS training. Specific training should be provided to PAD staff with respect to all the key functions of the FMIS. In addition to the above, staff managing or engaged with donor funding activities should also receive ongoing financial management awareness training. Training should also be extended to staff who deal with donor related funding at the Department of Health, Department of Education and Department of Sport for instance.
- Funded projects acquittal practice should be introduced and maintained. Departments should acquit all donor funded projects and provide financial acquittal reports to the Planning and Aid Division for assessment and endorsement by authorised personnel. The acquittal of donor funded projects will provide the much-needed information on the progress of projects.

	<p>DFAT, Nauru- there are capacity constraints within DFAT-Nauru to oversee all activities under the PSR program. It is a small team to be managing and overseeing the PACTAM2 program which can require technical inputs at times. Scope Global provide efficient recruitment mechanism for PACTAM2 but also lack technical capacity in PFM to offer technical solutions.</p>	<p>team who are developing and piloting certain human resource management strategies and systems.</p> <p>DFAT-Nauru- DFAT have a small team to manage the PSR portfolio and could benefit from some technical support in the areas of public financial management and public-sector reform. One avenue could be to engage experts from DFAT-Canberra or link in with regional forums PFTAC??</p>												
Key question	Overall finding:													
5. What would the preferred structure of the program, performance expectations and monitoring and evaluation look like?	<p>Current performance monitoring and reporting for PACTAM2 Advisers is considered adequate. Scope Global who manage the contract for PACTAM2 lead 360 performance reviews for advisers which include soliciting feedback from the Adviser’s supervisor, staff and DFAT. Reports are then finalised and endorsed by both DFAT and GoN. These reports clearly show progress of Adviser’s against agreed targets/milestones.</p> <p>The review team recommends DFAT to develop a Theory of Change and an M&E Framework for the Public Sector Reform program moving forward. Having a broader structure of M&E would also be useful and it would include the PAF indicators. This would complement the current reporting by PACTAM2 advisers, and does not need to be overly complex. This will help provide DFAT information on progress against the various components within the PSR investment (trade, customs, NRO, PAD and any new focus areas) and how these are contributing to the overall PSR portfolio of work. Given limited current M&E capacity at DFAT Post, DFAT should explore opportunities for staff to gain further expertise in monitoring and outcomes reporting.</p>													
Sub-question	Evidence	Findings												
	Strength of evidence: Strong	Rating: 4/6												
To what extent are the current reporting and M&E arrangements suitable considering the DFAT standards?	<ul style="list-style-type: none">The Public Sector Reform investment does not have a Theory of Change or a corresponding M&E framework. The Performance Assessment Framework, PAF below (developed in July 2017) outlines DFAT’s broad Objectives in PSR and the 2 key outcomes under that Objective. The outcomes include milestones for FY16-17 and FY17-18.It is unclear whether any reports, other than the AQCs, and the Adviser Performance Reports are being compiled against the PAF milestones.PACTAM2 Performance Assessment Meetings in Nauru are held in November each year after advisers submit an adviser progress report in October. The process in Nauru involves a meeting with the Partner Government Supervisor/s, DFAT and Scope Global who discuss the adviser’s performance and progress. APA scores are drafted by the panel (with most inputs provided by PG). The adviser will then join the meeting and PG will provide feedback directly to the adviser regarding their progress. Sometimes the PG supervisor is not comfortable doing this and will ask for assistance from DFAT/Scope Global. DFAT and Scope Global will also add feedback. In additional to this meeting, Scope Global/DFAT will meet with other staff at the Partner Government division including staff that report to the adviser, counterparts and colleagues to receive feedback that supports the narrative obtained from the supervisor in the formal meeting. The final APA document is signed off by the Partner Government supervisor and DFAT. Scope Global commits to going to Nauru x2 a year for monitoring visits at a minimum [interview with Scope Global, PACTAM2 Team Leader]The evidence is generated through three types of reporting and data collection. Firstly, government available information is used as secondary data – this is important for PSR because it is embedded within the GON systems. Secondly, specific reports and evidence is generated by all PACTAM2 advisors, reporting biannually per each advisor. Thirdly, ad hoc reviews, evaluations and research is undertaken either commissioned by DFAT directly or through other development partners (e.g. ADB, OECD, IMF, etc) – this can be applied either to a specific theme, a specific department, or a specific program. [AQC 2018] <p>PAF:</p> <table><tr><th colspan="3">MORE EFFECTIVE PUBLIC-SECTOR MANAGEMENT</th></tr><tr><th colspan="3">Objective 1.0: Strengthened financial management capacity and economic governance to maximise the benefits of available revenue and manage critical human development infrastructure</th></tr><tr><th>Outcome 1.1</th><th>Milestones for FY 2016-17:</th><th>Milestones for FY 2017-18:</th></tr><tr><td>Implementation of reforms for improved public financial management</td><td><ul style="list-style-type: none"><i>Operational Account (OA)</i> – transfer of quarterly and monthly reporting to PAD; and roadmap for OA prepared by independent Auditor with recommendations for improvement<i>Procurement</i> - tender for a new IPA prepared<i>Public Expenditure and Financial Accountability (PEFA)</i> - GoN PEFA self-assessment outcomes documented; and Assessment of National Systems (ANS) review conducted<i>Financial Management Information Systems (FMIS)</i> - roll out across government departments underway<i>Nauru Sustainable Development Strategy (NSDS) Review</i> – first phase of review to assess requirements/scope for change</td><td><ul style="list-style-type: none"><i>OA</i> - measurable improvements in execution of funds<i>Procurement</i> – IPA selected and operational; and procurement guidelines completed and training conducted<i>PEFA reforms</i> – development of roadmap for reform based on PEFA self-assessment; external PFTAC assessment; IMF Article 4 update; and application of reforms in the budget process<i>FMIS</i> – continued roll out across government departments, particularly Fisheries and Customs<i>Financial Instructions</i> – completion of Instructions for Cabinet consideration</td></tr></table>	MORE EFFECTIVE PUBLIC-SECTOR MANAGEMENT			Objective 1.0: Strengthened financial management capacity and economic governance to maximise the benefits of available revenue and manage critical human development infrastructure			Outcome 1.1	Milestones for FY 2016-17:	Milestones for FY 2017-18:	Implementation of reforms for improved public financial management	<ul style="list-style-type: none"><i>Operational Account (OA)</i> – transfer of quarterly and monthly reporting to PAD; and roadmap for OA prepared by independent Auditor with recommendations for improvement<i>Procurement</i> - tender for a new IPA prepared<i>Public Expenditure and Financial Accountability (PEFA)</i> - GoN PEFA self-assessment outcomes documented; and Assessment of National Systems (ANS) review conducted<i>Financial Management Information Systems (FMIS)</i> - roll out across government departments underway<i>Nauru Sustainable Development Strategy (NSDS) Review</i> – first phase of review to assess requirements/scope for change	<ul style="list-style-type: none"><i>OA</i> - measurable improvements in execution of funds<i>Procurement</i> – IPA selected and operational; and procurement guidelines completed and training conducted<i>PEFA reforms</i> – development of roadmap for reform based on PEFA self-assessment; external PFTAC assessment; IMF Article 4 update; and application of reforms in the budget process<i>FMIS</i> – continued roll out across government departments, particularly Fisheries and Customs<i>Financial Instructions</i> – completion of Instructions for Cabinet consideration	<p>The current PSR investment does not have an overarching Theory of Change and M&E Framework and have been using the PAF to compile data against milestones and targets.</p> <p>Performance monitoring and reporting for PACTAM2 Advisers is considered adequate. Scope Global who manage the contract for PACTAM2 lead 360 performance reviews for advisers which include soliciting feedback from the Adviser’s supervisor, staff and DFAT. Reports are then finalised and endorsed by both DFAT and GoN. These reports clearly show progress of Adviser’s against agreed targets/milestones.</p>
MORE EFFECTIVE PUBLIC-SECTOR MANAGEMENT														
Objective 1.0: Strengthened financial management capacity and economic governance to maximise the benefits of available revenue and manage critical human development infrastructure														
Outcome 1.1	Milestones for FY 2016-17:	Milestones for FY 2017-18:												
Implementation of reforms for improved public financial management	<ul style="list-style-type: none"><i>Operational Account (OA)</i> – transfer of quarterly and monthly reporting to PAD; and roadmap for OA prepared by independent Auditor with recommendations for improvement<i>Procurement</i> - tender for a new IPA prepared<i>Public Expenditure and Financial Accountability (PEFA)</i> - GoN PEFA self-assessment outcomes documented; and Assessment of National Systems (ANS) review conducted<i>Financial Management Information Systems (FMIS)</i> - roll out across government departments underway<i>Nauru Sustainable Development Strategy (NSDS) Review</i> – first phase of review to assess requirements/scope for change	<ul style="list-style-type: none"><i>OA</i> - measurable improvements in execution of funds<i>Procurement</i> – IPA selected and operational; and procurement guidelines completed and training conducted<i>PEFA reforms</i> – development of roadmap for reform based on PEFA self-assessment; external PFTAC assessment; IMF Article 4 update; and application of reforms in the budget process<i>FMIS</i> – continued roll out across government departments, particularly Fisheries and Customs<i>Financial Instructions</i> – completion of Instructions for Cabinet consideration												

		<ul style="list-style-type: none"> <i>Nauru Intergenerational Trust Fund (NITF)</i> – established to align with national development priorities 	<ul style="list-style-type: none"> <i>NSDS Review</i> – completion of updates for NSDS <i>NITF</i> – demonstrated good governance, transparency and accountability 		
	Outcome 1.2 Increased generation of national revenue for the delivery of public services	<ul style="list-style-type: none"> Customs – introduction of harmonised tariff system; Taxation – successful establishment of Employment and Services Tax and Business Profits Tax 	<ul style="list-style-type: none"> <i>Customs</i> – <i>Taxation</i> – development of a tax compliance strategy? 		
What would the recommended Theory of Change and M&E Framework include for future DFAT PSM investments?	N/A				
Key question	Overall finding:				
6. To what extent has the investment identified opportunities to address:	DFAT's investment in PSM do not directly influence GON actions nor deal with these policy issues despite bilateral commitments to do so and GON policy statements. However, PACTAM positions in PAD and Treasury could be playing a more proactive role in fleshing out the practicalities of these policies and how they could be better implemented through the machineries of GON. Disaster recovery strategies for all four departments should be made a deliverable of the TORs of all the PACTAM positions i.e. presuming that gender violence, child protection and disability safeguards are already included as part of PACTAM contract templates.				
Sub-question	Evidence				Findings
	Strength of evidence: moderate				Rating: 4/6
Gender	<p>[EVIDENCE 2: NSDS 2017 NSDS Consultations Report.] Planning and Aid Division: Report highlighted a host of issues regarding women like the need for more budget and resources for women's programs in areas such as: engendering behavioural change towards women in families from childhood years; support in balancing the role of women as income earner and family duties; integrating of women's issues across all sectors which is currently limited – women are missing from high level planning, budgeting, resource mobilization project design.</p> <p>As a key cross-cutting issue, consultations emphasised that Nauru is predominantly a matriarchal society, where women govern the household and are the main decision makers. Similarly, property is matrilineal with women having access to land. However, the consultation indicated that there are also challenges with this model restricting economic development. Various stakeholders and communities noted the importance of including specific provisions for building women's capacity to contribute more productively to society. This specifically relates to building women capacity in the area of entrepreneurship. Deputy Secretary PAD had highlighted in the interview that gender policies could be better integrated as a safeguard or essential part of social inclusion at the budget preparation level but this appeared not to be the case.</p> <p>EVIDENCE 3: APR 2018 and interviews –] Customs - Deputy Secretary was instrumental in the Cabinet submission for the hypothecation of alcohol import duties at the rate of 10% to the Domestic Violence unit to fund their programs. This is a watershed policy for GON in keeping to its gender policy.</p> <p>EVIDENCE 4: APR 2018 and interviews –] <i>"The current staffing profile of the NRO shows a ratio of 13 females / 1 males (excluding the tax Implementation adviser and this adviser). Current and future recruitment exercises give equal employment opportunity to both male and female applicants. All staff, regardless of gender, are nominated for training opportunities. All public relations exercises and presentations include both male and female business and community representative attendees, and are presented by both male and female NRO staff members."</i> Gender violence and child protection posters and promotional materials are being distributed through NRO to clients.</p> <p>[EVIDENCE 5: Statement by the Hon Charmaine Scotty M.P., Minister for Home Affairs, Education, Land Management and Health at the sixty second session of the Commission on the Status of Women (CSW) United Nations, New York, 12 to 16 March, 2018]</p> <p><i>"...Nauru recently approved Gender Mainstreaming throughout its government ministries. We will now proceed with the development of our national Gender Policy which will be applied across government departments and mainstreamed into policies and laws....in the same vein, we will introduce Gender Responsive Budgeting to ensure that the national budget allocations are equal and optimally applied so the output is the same for both men and women..."</i> This statement is yet to be translated to a formal policy on Gender Responsive Budgeting (interview with Deputy Secretary Treasury).</p> <ul style="list-style-type: none"> <i>"In discussion with the PACTAM Public Sector Advisers it was mentioned that the Ministry of Finance funded a staff member to attend a gender budgeting course. This I understand was a six month course and represents a significant contribution to the field. How this new knowledge will be incorporated into the ongoing workplan is important to elicit. In addition five people, including two women attended a training that addressed gender budgeting through UNDP. There was a suggestion that the forward budget surplus could consider aspects of gender budgeting."</i> [Pacific Women Gender Adviser report. 				<p>Evidence provided so far reveals that:</p> <p>a) For initiatives instigated through by PACTAM personnel these have been largely done by default or through their own initiatives, and not through any deliberate policy of GON.</p> <p>b) Statements made by minister Scotty in international fora do not necessarily convey a formally adopted policy position by GON but in most cases still requires formal ratification of Cabinet; leave alone the fleshing out of policy details and its implementation</p> <p>c) It still remains to be seen how gender issues will now come across in the updated NSDS 2018- 2030, i.e. whether it gains more prominence than its predecessor.</p> <p>d) PAD sought to be more proactive in terms gender but Budget appeared to take a rather reactive approach.</p>

Social Inclusion (youth, disability, elderly)	<p>[EVIDENCE 1: NSDS 2017 NSDS Consultations Report.] Planning and Aid Division: Young people from all economic and social backgrounds should have an equal right and opportunity to engage in active citizenship, according to attendees. Some groups of young people were also considered to have less opportunity to be involved due to societal norms and perceptions. With Nauru's youth population bulge and the associated social implications, youths were seen to be lacking in local community development initiatives, hence perception of marginalisation. Developing young people's ability to progress and give back, and connecting young people to help other young people in more difficult circumstances, or act as role model was noted. A key point raised in all the consultations and reinforced by the survey questionnaires is the need to promote child and youth friendly communities e.g.: safe place for young people and families, recreational facilities or youth centres for young families, and playgrounds for children.</p> <p>TA commenced a national action task force on youth alcohol which has morphed into youth crime and safety council. This takes in people as young as 5 through to 25 and is about reducing anti-social behaviour, sexual offences, drug and alcohol abuse. The task force now has health, police, education, media, department of youth, gender, and planning division input and is chaired by Hon Minister Charmaine Scotty. (Source: Interview 23)</p> <p>[EVIDENCE 3: APR 2018 and interviews]. As part of NSDS and SDG consultations, the disabled community president is consulted and is a regular participant in workshops and discussions held by both donor and Government. (Source: Interview 14)</p>	PSM through PACTAM personnel do not have direct work avenues, except for Deputy Secretary PAD, to address these important social issues. However, there may be room for their participation by extension of their TOR responsibilities like in Customs or as volunteers.
Climate change mitigation	<p>PAD – surprisingly no mention is made in the NSDS Consultation Report on climate change. It is only noted as far as coordination of requests for disaster relief and the accountability of its use to local and donor agencies.</p> <p>Treasury – provides emergency financial assistance through the annual budget for disaster relief.</p> <p>National Revenue Office - Tax data is backed-up daily and stored offsite.</p> <p>Customs – working with health to support/counter disaster issues (Source: Interviews 12, 14, 19, 23, and 31)</p>	<p>Not much direct reference to climate change and disaster risk management except for disaster responses generally and within each agency.</p> <p>However, disaster recovery strategies for all these Divisions should be made a key part of the PACTAM TORs.</p>

Annex C – List of People Interviewed

No.	Interviewee	Role	Organisation	Interviewer
1	Abraham Simpson	Chief Executive Officer (CEO)	Nauru Utilities Corporation	Paula
3	H. E Angela Tierney	High Commissioner	Department of Foreign Affairs and Trade	Paula, Samiha, Romys
4	Angus Hinton	Second Secretary	Department of Foreign Affairs and Trade	Paula, Samiha, Romys
5	Anton Jimwereiy	CEO (outgoing)	Nauru Port Authority	Paula
6	Baydon	CEO (incoming)	Nauru Port Authority	Paula
7	Being Yeeting	Fisheries Advisor	Nauru Fisheries and Maritime Resources Authority	Paula
8	Branessa Tsiode	Social Sector Planning	Planning and Aid Division, Department of Finance	Paula
9	Camilla Solomon	Development Coordinator	Asian Development Bank	Paula, Suzette
10	David Detenamo	Principal Customs Officer	Customs Division, Department of Finance	Paula, Samiha
11	Hon. David Adeang	Minister of Finance	Ministry of Finance, Justice and Foreign Affairs	Paula, Samiha, Angus, Angela
12	George Plant	Director for Treasury (PACTAM)	Department of Finance	Paula, Suzette
13	Graham Leung	Secretary for Justice	Department of Justice	Paula, Samiha
14	Henry Cocker	Deputy Secretary (PACTAM)	Planning and Aid Division, Department of Finance	Paula, Samiha, Angus
15	Jay Udit	Solicitor General	Department of Justice	Paula
16	John Liman	Director Planning	Planning and Aid Division, Department of Finance	Paula
17	John Petersen	Advisor to Minister of Finance	Department of Finance	Paula
18	Julie Olsson	Civil Society Representative	CSO/NGOs	Paula, Samiha
19	Kelvin George	Tax Reform Advisor	National Revenue Office, NRO	Paula
20	Manoharan Nair	Auditor-General	Audit Office	Paula, Romys
21	Maritino Nemani	HRM Advisor	Chief Secretary's Office	Paula, Samiha
22	Martin Michalik	Stanton Principal Consultant	Stanton International	Paula, Romys, Angus, Samiha
23	Richard Brennan	Deputy Secretary	Customs Division, Department of Finance	Paula, Samiha
24	Richard Neves	PFM Advisor	PFTAC	Paula
25	Robert Mencil	CEO	Ronphos	Paula, Romys,
26	Samuel Grundler	Director for Aid	Planning and Aid Division, Department of Finance	Paula
27	Sashikumar Parvanoor	Secretary to Cabinet	Office of President	Paula, Samiha
28	Sevuloni Valenitabua	Public Legal Defender	Department of Justice	Paula

29	Stephen Bale	Financial Controller	Ronphos	Paula, Romys
30	Taufia Paloto	Chief Accountant	Treasury Division, Department of Finance	Paula, Samiha
31	Terry Greenwood	Deputy Secretary	National Revenue Office, Department of Finance	Paula

Annex D – Work plan and Timeframe

The PSM review is planned to commence in mid-April and be completed by end of May. The table below outlines the various activities to be undertaken as part of the review with tentative dates. The dates will be confirmed with the PFM Sector Specialist.

Activity	Timing- TBC	Byron	Samiha	PFM Specialist
DFAT identify and schedule meetings and interviews with key stakeholders for the Review Team	9 Mar – 4 Apr			
Desktop Review	23 Feb – 23 Mar			5
PSM Mission: <ul style="list-style-type: none"> Travel time to Nauru for Sector Specialist Briefing with DFAT- includes an initiation meeting of the review team and DFAT Conduct interviews with key stakeholders in Nauru Travel time to Nauru- Samiha Conduct any follow-up interviews and preliminary analysis of the interview results and data Internal de-brief with DFAT Post (morning) and Preparation for the Findings Briefing (afternoon) Conduct Preliminary Findings Briefing with DFAT and GoN to review the evidence and co-develop the findings 	12 – 25 May	1	6	14
Travel from Nauru- Samiha and Sector Specialist	25 May		1	2
Further follow-up interviews via telecom (as needed) and Submit Draft PSM Review Report	28 May – 8 June	1	2	10
Summit Workshop- to review findings and workshop recommendations	June 2018	1	1	
Submit draft PSM Review Report	July 2018	0.25	1	5
Submit Final PSM Review Report	July-August 2018			

Annex E– Draft Interview Guide

Interviews are envisioned to be exploratory, covering a number of KRQ sub-questions. All interviews will be semi-structured.

5.1.1.1 Background

The purpose of the interview is to ask you to draw on your experience and perspectives about DFAT's support to the public sector in Nauru. The information you provide will be used to develop a report providing DFAT with a broader understanding of the public sector, appropriateness of its existing assistance and future strategic direction for public sector investments. This report will be shared with the Australian Department of Foreign Affairs and Trade.

While you will not be identified by name in the report, identification may be possible by reason of the small number of interviewees we will be contacting. If there are any comments you would not like to be associated with please let me know so that I can ensure confidentiality. Is it okay if I record the interview? This interview is expected to take about 60 minutes. Are you happy to proceed?

5.1.1.2 Contact Details

Name of interviewee	
Name of organisation	
Date	

5.1.1.3 Introduction

1. Please tell me about your role and involvement in the public sector in Nauru, including:
 - your current position
 - the length of your term
2. To your knowledge, what reforms have occurred in the public sector in Nauru since 2014 up until now?
3. Why are these reforms important to the public sector in Nauru?
4. Are these the right priorities for Nauru right now, or should there be a focus on other reform priorities in the public sector?
5. What support did DFAT provide to influence these changes?
6. Should DFAT continue to support these initiatives? Why?
7. What work has been done of gender budgeting and what assistance is required to further this new initiative from the government?
8. Should DFAT support any other alternative activities in public sector management, public financial management? Why?
9. At what point can DFAT handover activities to the MoF and related agencies to implement/manage/fund themselves?
10. If DFAT didn't provide assistance through inline personnel and PACTAM advisers, what would've been the impact for MoF and government's financial position, in terms of public sector management reforms and outcomes?
11. To what extent were activities completed on time and within budget?

12. To what extent did inline personnel and PACTAM advisers provide capacity building for MoF employees?
13. To what extent are local counterparts able to undertake their core responsibilities without PACTAM advisers support?
14. Were different aid modalities considered for support to MoF before assistance was provided?
15. To what extent has DFAT assistance been effective, or should it play a more active role in developing and executing public finance policies and regulations?
16. How does the MoF undertake procurement? Has this been an efficient process?
17. Is DFAT investment generally harmonised with other donors and aligned with GoN systems?
18. To what extent has the FMIS been a useful tool?
19. What is the current M&E and review structure for the Nauru Trust Fund and is it the most appropriate mechanism to measure progress?
20. For future activities in the public sector in Nauru, what do you think DFAT support should focus on and why?
21. How can progress against the overall public sector investment by DFAT be measured?
22. Finally, are there any other closing comments you would like to make?

Annex F – Strength of Evidence Rubric & Rating Scale

Evidence	Definition
Weak	Includes non-validated assertions, personal opinions and anecdotes. Weak evidence is not sufficient to rate an investment criterion satisfactory.
Moderate	Evidence derived from a more limited range of sources such as implementing agency reports, records of monitoring visits or records of discussions with partners and other stakeholders.
Strong	Evidence derived from multiple reliable sources independent reviews/evaluations, quality assured monitoring data, implementing agency reports validated by monitoring trips, and independent research conducted in the sector.

Rating Scale:

Rating	Score
Very Good	6
Good	5
Adequate	4
Less than Adequate	3
Poor	2
Very Poor	1

Annex G – KRQs and Performance Rubric

KRQ	Sub-question	Methods	Data sources	Performance Rubric
Relevance- 1. To what extent are existing initiatives relevant to the objectives of GoN and DFAT in public sector management? 2. To what extent is the PACTAM program the most appropriate modality for achieving public sector outcomes for GoN?	1.1 To what extent does Australia's current investments support GoN's objectives in public sector management?	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; key informants	Good, Very Good (rating: 5-6)- The investment is highly relevant to Australia's national interests, to the development context and Nauru's priorities. <ul style="list-style-type: none"> The investment's outcomes are closely aligned with the objectives of the Nauru Aid Investment Plan and/or the NSDS. Considering the alternatives, this is the most appropriate modality to achieve the investment's outcomes. The investment has demonstrated a high degree of flexibility in adapting to any changes in the development context in Nauru, Australian Government or partner priorities. Adequate (rating: 4)- The investment is largely relevant to Australia's national interests, to the development context and partner priorities and does not fail in any major area. <ul style="list-style-type: none"> The investment's outcomes are generally aligned with the objectives of the Nauru Aid Investment Plan and/or the NSDS. The modality is generally appropriate to achieve the investment's outcomes and
	1.2 How is investing in Nauru's public sector management in alignment with Australia's national interest?	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; key informants	
	1.3 Which areas of the public service would be most strategic for DFAT to support, and why? This includes existing or potentially new areas. Include reference to gender responsive budgeting.	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; key informants	
	1.4 Which areas of the public service no longer requires DFAT support and can be transitioned over to GoN?	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; key informants	
	2.1 What other modalities exist (outside of PACTAM) for providing sustainable public sector management support to GoN?	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; key informants	
	2.2 Considering alternative modalities, is this the most appropriate modality to achieve the desired outcomes? Describe the major strength and weaknesses of the alternatives.	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; key informants	

				<p>does not fail in any major area but alternatives may be worth considering in any future such investments.</p> <ul style="list-style-type: none"> • The investment has demonstrated satisfactory flexibility in adapting to any changes in the development context in Nauru, Australian Government or partner priorities. <p>Less than Adequate (rating: 3)- The investment is poorly aligned with Australia's national interests, and/or the development context and partner priorities.</p> <ul style="list-style-type: none"> • The investment's outcomes are not aligned with the objectives of the Nauru AIP and/or the NSDS in at least one major area. • The modality is not appropriate to achieve the investment's outcomes in this context or fails in at least one major area. • The investment has not shown adequate flexibility to adapt to changes in the development context in Nauru, Australian Government or partner priorities. <p>Poor, Very Poor (rating: 1-2)- The investment is not aligned with Australia's national interests, and/or not relevant to the development context and partner priorities.</p>
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				<ul style="list-style-type: none"> The investment's outcomes are not aligned with the objectives of the Nauru AIP and/or the NSDS in several/all major areas. The modality is not appropriate to achieve the investment's outcomes or fails in several/all major areas. The investment is not able to adapt in response to changes in development context in Nauru, Australian Government or partner priorities.
Effectiveness- To what extent has DFAT support led to strengthening of financial management capacity and economic governance (in accordance with Nauru's National Sustainable Development Strategy 2005 - 2025) of MoF? / To what extent have there been improvements in national budget development, revenue collection, debt management, public accounts, national development planning and aid coordination?	To what extent have inline personnel and PACTAM Advisers (treasury, finance, customs, tax, HRM) been effective?	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; Adviser Progress Reports, key informants	Good, Very Good (rating: 5-6)- The investment has fully achieved the outputs and targets expected at this point in time and is on track to achieve the expected final outcomes. Adequate (rating: 4)- The investment has achieved the major outputs and targets expected at this point in time and is largely on track to achieve the expected final outcomes. Less than Adequate (rating: 3)- The investment has not sufficiently achieved the outputs and targets expected at this point in time and is not on track to achieve the expected final outcomes. Poor, Very Poor (rating: 1-2)- The investment has not achieved the outputs and targets expected at this point in time and it will not achieve the expected final outcomes.
	To what extent is the Financial Management Information System (FMIS) providing greater rigour in budget implementation and payment systems?	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; key informants	
	To what extent has the investment increased capacity sustainably?	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; Adviser Progress Reports, key informants	

Efficiency- To what extent is the investment efficiently using Australia's resources to achieve the outcomes?	To what extent were activities completed on time and within budget?	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; Adviser Progress Reports, key informants	<p>Good, Very Good (rating: 5-6)- The investment maximises outcomes from available time and resources.</p> <ul style="list-style-type: none"> The investment is within budget and funds are being expended as planned. Staff levels are appropriate within DFAT and implementing partners and staff have the skills and experience they need to do their jobs efficiently. <p>Adequate (rating: 4)- The investment generally makes appropriate use of time and resources in all major areas.</p> <ul style="list-style-type: none"> The investment has deviated from either the budget, planned expenditure or timelines but this is within tolerance limits. Staffing within DFAT and implementing partners is adequate but there are some gaps in skills and experience required for optimal efficiency. <p>Less than Adequate (rating: 3)- The investment is not making appropriate use of time and resources in at least one major area.</p> <ul style="list-style-type: none"> The investment has deviated from the budget, planned expenditure or timelines and this is beyond tolerance limits. Staffing within DFAT and implementing partners is largely inadequate. Many
	To what extent did skilled inline personnel, PACTAM Advisers, GoN counterparts and DFAT have the right skills and experiences to efficiently undertake the activities? Provide sex disaggregated data	Desktop review and key informant interviews	AIP, APPR, AQC 2015-17, NSDS, other GoN documents; Adviser Progress Reports, key informants	

				<p>staff positions remain unfilled and/or there are significant gaps in the skills and experience required to achieve intended outcomes.</p> <p>Poor, Very Poor (rating: 1-2)- The investment is not making appropriate use of time and resources in several/all major areas.</p> <ul style="list-style-type: none"> • The investment has deviated significantly from the budget, planned expenditure or timelines and this is well beyond tolerance limits. • Staffing numbers, skills and experience are completely inadequate to achieve the intended outcomes; deficiencies exist in several/all major areas.
<p>Monitoring and Evaluation- What would the preferred structure of the program, performance expectations and monitoring and evaluation look like?</p>	<p>To what extent are the current reporting and M&E arrangements suitable considering DFAT standards, particularly for the Nauru Intergenerational Trust Fund?</p>	<p>Desktop review and key informant interviews</p>	<p>AIP, APPR, AQC 2015-17, NSDS, other GoN documents; Adviser Progress Reports, key informants</p>	<p>Good, Very Good (rating: 5-6) Adequate (rating: 4) Less than Adequate (rating: 3) Poor, Very Poor (rating: 1-2)</p>
<p>Cross-Cutting</p>	<p>What would the recommended Theory of Change and M&E Framework include for future DFAT PSM investments including gender indicators?</p>	<p>Desktop review and key informant interviews</p>	<p>AIP, APPR, AQC 2015-17, NSDS, other GoN documents; Adviser Progress Reports, key informants</p>	