



Aid Program Performance Report 2012–13 Nauru

Key messages

This Aid Program Performance Report summarises the Australian aid program's progress in Nauru from January 2012 to June 2013.

Key findings include:

Under Partnership Objective 1 (Public sector management) significant progress has been made toward partnership targets of better budget management, revenue collection, debt reduction and improved public procurement systems. We are on track to achieve partnership targets by 2015, but capacity in Nauru's Department of Finance continues to constrain delivery of the country's ambitious reform agenda.

Under Objective 2 (Improved education) Australian aid is contributing to better education infrastructure and facilities, more and better qualified teachers, improved enrolment rates and take up of technical and vocational education and training (TVET) programs. We have concerns about the slow progress on improving education outcomes although expect this to improve as institutional improvements in the sector start to have an effect. We are on track to achieve the partnership targets for education by 2015.

Under Objective 3 (Improved health) the focus on institutional strengthening has resulted in improvements to the quality of healthcare services and facilities. The challenge is to translate these improved services into better health outcomes for the community. While Nauru has made strong progress toward health-related Millennium Development Goals (MDGs), the incidence of non-communicable diseases (NCDs) remains high. Greater engagement in regular policy discussion is required if progress is to continue to build. We are on track to meet the partnership targets for improved health by 2015.

Under Objective 4 (Infrastructure and essential services) the bulk of Australian assistance is used to maintain reliable power and water supplies for the community. With that goal having been achieved, our assistance will shift from supporting operational costs to institutional reform and strategic infrastructure investments such as port improvements. The Government of Nauru's improving revenue base means it is better placed to take greater responsibility for operational expenses. We are on track to meet some partnership targets for infrastructure and essential services by 2015.

Under Objective 5 (Private sector growth) Australian assistance focused primarily on improving the operating environment to attract commercial banking operations back to Nauru. The Bank of Nauru liquidation process is coming into its final stages with debtor payments beginning to flow and creditors receiving some payouts. Significant growth in the private sector in 2012 represents an opportunity to engage with the government to boost private sector sustainability.

The funding Australia provides under the Nauru Australia Compact of Settlement (NACOS) has assisted Nauru to re-invigorate the phosphate mining industry leading to higher export levels in recent years. However, progress on land rehabilitation under this program has been slow to produce results. We are on track to meet some of the objectives of the NACOS program before it concludes in 2013–14.

Context

Economic performance

Following the decline of Nauru's phosphate industry in the 1990s, and poor management of the country's finances—including taking on unsustainable debt levels¹—Nauru's prospects have improved. With a revitalised phosphate industry, significant increases in fisheries income and a return to prudent macroeconomic management, modest but growing revenues have been flowing to the government since 2006. Debt is now at manageable levels. The establishment of the Regional Immigration Processing Centre in 2012 has also contributed to increased economic activity and government revenue.

In 2012, Nauru's economy grew by 4.9 per cent² with phosphate exports reaching 519,000 tons—the highest level since mining recommenced in 2007.³ The economy is forecast to grow in 2013 and 2014 at a rate of 8 per cent each year due to the combined impacts of the phosphate industry and the Regional Immigration Processing Centre. Despite the employment opportunities the RPC provides⁴, unemployment remains high at 25 per cent.⁵

The Government of Nauru's strong public financial management has been backed by reforms to expand its domestic revenue base and reduce its debt levels. Since 2004, the government has achieved modest budget surpluses and this continued in 2012–13. Before the Regional Immigration Processing Centre was established, the government's domestic revenue steadily increased from \$13.6 million in 2003–4 to \$41 million in 2011–12.⁶ In 2012–13, revenue is expected to continue to grow to an estimated \$61 million, up almost 50 per cent on 2011–12, due to increased customs duties and other revenues arising from the Regional Immigration Processing Centre.⁷ This growth should create opportunities for donors to redirect aid from funding operational costs toward capital investment.

The Republic of Nauru has been without commercial banking services since the collapse of the Bank of Nauru in the early 2000s. The absence of a formal system for the community and industry to deposit funds or access credit is a major impediment to private sector development.

Political context and governance

Instability has been a constant feature of the political landscape in Nauru since Independence in 1968 with, for example, six presidents since 2004 in the country's 18-member parliament. Instability is fuelled in part by the lack of formal political parties and the ability of Members of Parliament to realign with the alternative side of political debate. In 2012, legislation was passed creating a new 19th seat in Parliament in an effort to avoid hung parliaments. Subsequent elections held in June 2013 resulted in a new government holding a 14 to 5 seat majority.

Despite political uncertainty, there has been broad bipartisan support for Nauru's development planning, as outlined in its National Sustainable Development Strategy 2005–25 (NSDS). This has helped minimise the potential impact on development outcomes that can result from

¹ By 2007 the Asian Development Bank (ADB) had estimated Nauru's external debt levels to be in excess of 1000 per cent of gross domestic product.

² ADB, Economic Outlook 2013, p. 280.

³ Ibid., p. 280.

⁴ Government of Nauru officials advise that approximately 188 Nauruans have been employed at the centre.

⁵ Pacific Financial Technical Assistance Centre, Economic and Fiscal Outlook, October 2012.

⁶ Government of Nauru, 2012–13 Budget Paper 1.

⁷ Government of Nauru, 2012–13 Supplementary Budget, 9 October 2012.

political instability. The end result has been steady progress toward an ambitious and credible reform agenda since 2004, focusing on improved governance standards and better services for the community. Despite this steady progress, there is considerable scope to improve governance standards in the public sector. Given its capacity constraints, however, Nauru relies heavily on expatriate personnel to fill many key technical and leadership roles in the public sector.

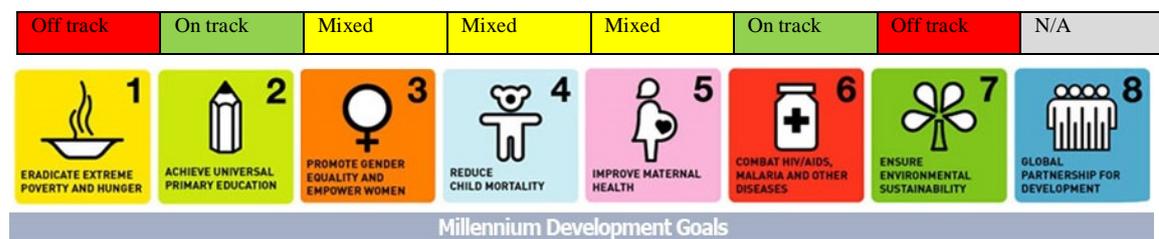
Social indicators

With donor contributions making up a significant proportion of the national budget⁸, the Government of Nauru relies on donor support to maintain basic services. There is some potential for this to change, at least in the short term, if the government’s revenue base continues to increase. Health and education standards remain poor although some progress has been made in improving infant and maternal mortality rates and in ensuring equitable access to education services, the latter being listed as on track in the 2012 MDG tracking report for the Pacific, produced by the Pacific Islands Forum Secretariat.

In 2012, Nauru had nine schools and a student population of only 2,757.⁹ A central hospital services the entire community’s healthcare needs and one central utilities facility provides all of the island’s energy and desalinated water supplies.

While there is no evidence of extreme poverty in Nauru, most people live modest lifestyles by developed country standards (gross domestic product per capita is approximately \$7,000 per year¹⁰). There are no banking services on the island, which means there is no access to financial services that might support business growth or private sector activity. The community relies entirely on costly imported goods as local food production is limited and efforts to rehabilitate land for gardens have been slow to produce results.

Progress toward the MDGs has been mixed with environmental sustainability and eradicating extreme poverty and hunger listed as off track in the 2012 MDG tracking report. Despite one in four Nauruan’s having incomes below the basic needs poverty line¹¹ this rating possibly reflects lack of reliable data on relevant indicators (poverty gap, productivity and employment for vulnerable groups) given Nauru’s comparatively high (by developing country standards) per capita gross domestic product.¹²



Donor environment

Nauru is one of the smallest of the Pacific microstates with a population of only 10,000 people. Given this micro scale, modest outcomes can often have significant impact representing major achievements. For example, according to reporting from Nauru’s

⁸ Government of Nauru, Budget Paper One 2011–12.

⁹ Government of Nauru, Department of Education reporting to the Australian Government, May 2013.

¹⁰ ADB fact sheet 2012, table 4.

¹¹ MDG Tracking Report 2012.

¹² The 2012 MDG tracking report notes that analysing poverty was hampered by the lack of data on the poverty gap ratio, productivity and employment for vulnerable groups.

Department of Education, one Nauruan teacher gained formal qualifications in special needs education in 2012–13. This teacher is able to service the education needs of Nauru’s entire special needs student cohort. As Nauru’s largest donor, Australia plays a major role in helping the microstate overcome the challenges it faces in realising economic stability and security. In this context, it is important to recognise the issues of scale as they relate to the aid program and statistics on achievements.

Nauru also receives significant aid flows from other donors, most notably Japan, New Zealand, Russia, Taiwan, ADB, European Union, and United Nations (UN) organisations and Pacific regional organisations. Approximately 65 per cent of total aid is provided as budget support.¹³ This support is channelled directly through Government of Nauru financial management systems and is therefore constrained by the capacity of the government to deliver.

The Australia – Nauru Partnership for Development 2009–2015 aims to advance Nauru’s development vision as articulated in its NSDS and makes progress toward the MDGs through support for:

- > more efficient and accountable public sector management
- > improved education
- > a cost-effective health system which delivers improved health outcomes
- > more reliable and cost-effective provision of essential infrastructure and services
- > increased private sector growth.

Support for the law and justice sector is provided principally by New Zealand’s aid program and the Australian Federal Police (AFP). While law and justice are not listed as a priority sector under the partnership, it is included as an enabling outcome area, recognising that an effective law and justice system underpins all aspects of community development.

The size of Australia’s aid program has steadily increased under the Partnership for Development, from \$23.4 million in 2009–10 to \$31.6 million in 2012–13. In 2012–13, our aid comprised \$23.7 million delivered as bilateral assistance; \$5.7 million delivered through regional programs and the annual NACOS payment¹⁴, and \$2.2 million through other Australian Government departments, primarily the AFP and Australian Sports Commission.

Australian assistance is provided through targeted budget support and technical assistance. Approximately 80 per cent of our bilateral program is channelled through Government of Nauru budget processes and financial management systems with implementation of agreed activities managed by the Government of Nauru (with support from Australian-funded advisors and in-line personnel). We provided performance-linked aid payments totalling \$1.75 million as general budget support (linked to the priorities of the NSDS) in recognition of the achievement of reforms.

In 2012, the Australian Government established the program monitoring and advisory group (PMAG) to provide monitoring and evaluation services for the Nauru program. PMAG reviews of the public sector management and infrastructure initiatives were undertaken between October 2012 and March 2013 respectively. PMAG’s team leader coordinated the involvement of the ADB, Pacific Financial Technical Assistance Centre (PFTAC) and Pacific Infrastructure Advisory Centre in the reviews. The PMAG will establish clear monitoring

¹³ Government of Nauru, budget paper 1, 2012–13 .

¹⁴ The NACOS was finalised in 1993 as an out-of-court settlement. Nauru agreed to discontinue its claim against Australia in the International Court of Justice for compensation for phosphate lands mined before 1 July 1967, while Australia agreed to pay Nauru a cash settlement of \$107 million: \$57 million upfront and \$50 million at an annual rate of \$2.5 million (in real terms) over 20 years, starting in 1993–94. The last payment under NACOS will be made in 2013–14.

frameworks for all partnership initiatives and improve outcomes more broadly by informing programming decisions and planning. However, it is important to engage Nauru's broader donor community in the PMAG process if objectives are to be fully realised.

DFAT also works in cooperation with the ADB in public sector and state-owned enterprise reform. Australia and New Zealand cooperate on a pooled funding arrangement for assistance to the education sector. Under this arrangement, the department oversees and monitors implementation of assistance to the education sector on behalf of both countries.

Expenditure

Table 1A Expenditure 01 Jan 2012– 30 Jun 2013

Objective	A\$ million	% of bilateral program
Public sector reform	6.4	20
Improved education	4.8	15
Improved health	5.6	17
Infrastructure and services	10.1	30
Private sector growth	0.85	3

Source: AidWorks

Table 1B Estimated expenditure in FY 2012–13

Objective	A\$ million	% of bilateral program
Public sector reform	5	21
Improved education	6.6	27
Improved health	3.6	15
Infrastructure and services	7.1	29
Private sector growth	1.1	4

Source: AidWorks

Progress towards objectives

The Australian aid program made strong progress toward partnership priorities in 2012–13 through funding for identified priority initiatives and public sector governance policy dialogue. The latter has resulted in some significant reforms, including the introduction of an independent procurement agent for all public procurements worth more than \$3,000. This will lead to better value for money, more streamlined administration for the Government of Nauru, and improved transparency and accountability. Greater engagement in policy dialogue in other sectors is important to ensure similar advances can be made.

The PMAG reviews of the public sector management and infrastructure initiatives, undertaken in late 2012 and early 2013, confirmed that these partnership priorities remain relevant and appropriate. The reviews found that progress was satisfactory and in line with partnership targets. However, greater efficiencies are needed to promote stronger governance in the infrastructure initiative. The reports also indicated that progress was limited in shifting responsibility for day-to-day operational expenses to government.

Reporting from Nauru's Department of Education and Ministry for Health indicates that many partnership targets in these sectors have been met and in some cases were exceeded in 2012–13. This reporting will be verified through separate PMAG reviews of our support for these sectors, scheduled for late 2013.

Some progress has been made toward the private sector growth objectives of the partnership. Work on the Australian Government-funded Bank of Nauru liquidation, scheduled to be finished by the end of 2013, is expected to improve the prospects of attracting a new commercial banking operation to the island. The Fisheries Institutional Reform program continued to improve the operations of, and returns from, the fishing industry and provide support to commercial aquaculture and aquarium fisheries.

Table 2 Rating of the program's progress towards the objectives

Objective	Current rating	Previous rating
Public sector management	Green	Green
Education	Green	Green
Health	Green	Amber
Infrastructure and essential services	Green	Green
Private sector growth	Amber	Amber

Note:

■ Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.

■ Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

■ Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

Objective 1: More efficient and accountable public sector management

Under this objective, Australia's commitment is to:

- > strengthen the capacity of central agencies to deliver and manage national budgets that are aligned with national development policies and plans
- > develop and implement policies that reduce fiscal risks and improve revenue generation
- > improve communications between the Government of Nauru and the community on policy development and implementation
- > improve collection and management of development statistics.

Rating: Green. The program is on track to meet partnership targets for public sector management by 2015.

Overview

In 2012–13, the government's budget continued to align behind the NSDS. Combined domestic allocations to health and education increased from \$6.4 million in 2011–12 to the planned \$8 million in 2012–13. However, as a proportion of domestic expenditure, allocations declined from 17 per cent to 14 per cent. In 2012–13, the Government of Nauru spent a large share of its increased revenues on paying back domestic debt and buying fuel (previously funded by donors), which is in line with NSDS Goal 1: Stable, trustworthy, fiscally responsible government. Between 2011–12 and 2012–13, the government's domestic revenues increased from \$41 million to \$61 million. These increases largely resulted from

policy changes (for example, introducing the Vessel Day Scheme¹⁵, increasing custom duties on cigarettes and alcohol, and improving compliance) and increased economic activity.

The program

Australian assistance through this initiative is primarily targeted at strengthening public financial management and economic governance and government communications by providing budget support and technical assistance. The PMAG November 2012 review of our assistance under this initiative concluded that:

*Overall, the Australian Program focusses on key areas of Nauru's National Sustainable Development Strategy (NSDS) and the Partnership for Development and the PMAG concludes that this is highly relevant. The focus of this initiative on improved public financial management is supported by the PMAG and is of critical importance in enabling the Government of Nauru to make best use of its scarce resources.*¹⁶

Our budget support is earmarked to agreed priorities and channelled through Government of Nauru financial management systems using a government-managed operational account. Annual independent audits of this account have consistently reconciled all funds and identified no mismanagement issues. The audits also confirmed that all funds provided through the operational account were directed toward agreed activities. Providing a large proportion of Australian and other donor funds as budget support has many benefits. It reduces implementation time, offers greater flexibility in how to pursue outcomes, strengthens partner systems, enhances ownership, reduces transaction costs and avoids external costs such as management fees.

Use of Government of Nauru systems with oversight from Australian-funded personnel—in roles such as Secretary for Finance, Deputy Secretary Treasury, Deputy Secretary Revenue and Deputy Secretary Planning and Aid Coordination—is helping to strengthen fiscal management and governance as well as development planning and management. The PFTAC *Economic and Fiscal Outlook* report of October 2012 noted that:

... the government has maintained a prudent fiscal stance for a number of years ... budgets have been broadly balanced. This has been made possible (in part) by increased aid from development partners.

The PFTAC report also noted that 'fiscal prudence has enabled inroads to be made into Nauru's debt burden ... and has enabled total debt to be reduced by around \$100 million'.¹⁷ With revenue management, the report stated that 'The appointment of an experienced Deputy Secretary of Revenue has enabled the Nauru Revenue Office to take a number of important measures to more rigorously enforce compliance with the revenue framework'.¹⁸

Outcomes

Despite these notable successes, work under this objective has had limited success in building the skills and capacity of local government personnel. One exception is that a skilled Nauruan national, mentored by Australian-funded advisors over the past four years, was appointed to the position of Secretary for Finance in mid-2012. We provide salary supplementation for this

15 The Vessel Day Scheme is where vessel owners can purchase and trade days fishing at sea in places subject to the Parties to the Nauru Agreement. The scheme's purpose is to constrain and reduce catches of target tuna species, and increase the rate of return from fishing activities through access fees paid by Distant Water Fishing Nations. The total allocation of fishing days is set and apportioned between Pacific Island members for one-year periods up to three years in advance.

16 PMAG, Independent Review Report, November 2012, p. 1.

17 PFTAC, *Economic and Fiscal Outlook*, 2012, p. 1.

18 PFTAC, *Economic and Fiscal Outlook*, 2012, p. 4.

role. While the sector continues to rely heavily on expatriate technical assistance, it is important to recognise the extent to which this support is addressing capacity gaps and achieving results.

We have provided technical assistance and funding to support the introduction of an independent third-party procurement agent for all government procurements worth more than \$3,000 (including for state-owned enterprises). This will realise better value-for-money procurement outcomes, reduce risks and improve transparency and accountability. Following an international tender undertaken in February 2013 (conducted with assistance from an Australian-funded procurement advisor), the preferred bidder for this work is expected to be operating in Nauru by September 2013. We used performance-linked funding for the development of policy guidelines, reforms to legislation and development of training modules to facilitate the introduction of the procurement agent.

We have also provided assistance that is central to broader financial management reforms, including the introduction of a financial management information system. However, implementation has been delayed and additional assistance required to ensure it can be used effectively by Government of Nauru personnel. Once fully operational, the system will improve reporting functions, strengthen internal controls, reduce administration, and improve accounting and financial management processes.

Despite this progress, the October 2012 PMAG report noted that ‘a number of the public financial management reforms have stalled, the remaining agenda is daunting and capacity to implement the reforms is stretched’ One area of risk we have identified is the reform of state-owned enterprises that we support through funding we provide to the ADB. In response to the PMAG report, PFTAC reviewed and prioritised Nauru’s public financial management roadmap in February 2013 to ensure a more strategic and manageable approach to the reform agenda. We will work closely with the ADB and PFTAC to take forward the revised roadmap by ensuring both closely align programming with our policy approach in the public sector management sector.

The ability of the Government of Nauru’s Department of Finance to effectively manage rapidly increasing revenues and inflation risks resulting from increased economic activity needs careful monitoring. DFAT will continue to engage with the government on how to distribute the benefits of its growing economy so they are shared by all sections of the community, including the most vulnerable.

Management consequences

- > DFAT needs to engage more closely with the Government of Nauru, ADB and PFTAC on policy and planning relating to management and effective use of Nauru’s expanding revenue base (potentially through a joint policy reform program) to focus expenditure on strategic investments, save for the future, improve critical infrastructure and reduce debt.
- > DFAT needs to place greater emphasis on support for the ADB’s state-owned enterprise reform program.
- > DFAT will more closely engage with PFTAC, ADB and other donors to ensure ongoing participation in the PMAG process, including through annual economic review missions.

Objective 2: Improved education

Under this objective Australia’s commitment is to improve the:

- > quality of and increase the number of teaching staff
- > quality and access to primary and secondary education to ensure higher student retention rates and education attainment levels

- > access to good quality and relevant tertiary and TVET services.

Rating: Green. We are on track to meet our partnership targets for improved education.

In 2011–12, the Government of Nauru agreed that Australia and New Zealand would provide support for education services under a pooled funding arrangement (or delegated aid arrangement). Under this arrangement, both countries are targeting budget support for the education sector. Planning and implementation is being managed by two Australian-funded education advisors assisting the Nauruan Secretary of Education. DFAT provides monitoring and oversight to the education sector on behalf of Australia and New Zealand. This approach reduces administration and reporting requirements for the Government of Nauru and ensures funding is targeted to the agreed priorities of all three countries. This approach also aligns closely with the principles outlined in the Cairns Compact on Strengthening Development Coordination in the Pacific.¹⁹

As well as technical assistance, in 2012–13 the Australia – New Zealand program for Nauru provided:

- > funding for a school refurbishment and maintenance program, providing safe and healthy learning environments at Nauru's nine schools
- > financial support for planning and designing a Learning Village which will see secondary school, TVET and adult education resources (including a University of the South Pacific campus and new library) co-located in a modern, practical, accessible and fit-for-purpose facility
- > financial support for rolling out cost-effective information and communication technology resources to all schools to build competence in the use of information and communication technology equipment and provide access to global information networks
- > financial contributions toward teacher salaries and training costs
- > financial support for the establishment of a Recognition of Prior Learning and Current Competencies program to provide skilled but unqualified trades persons with formal qualifications.

Poor education outcomes continue to be one of Nauru's most significant development challenges. In 2011, for example, six national exam scores averaged only 41 per cent, with the average score for maths only 38 per cent.²⁰ Nauru relies heavily on donor assistance to provide the technical skills needed to ensure that public services, trades and robust private enterprises are maintained and effectively managed.

That said, significant progress has been made in the education sector since 2005. As at May 2013, 78 of Nauru's 95 teachers (82 per cent) now hold a certificate, diploma or degree-level qualification (up from less than 40 per cent in 2005) and another 14 teachers are studying at Goroka University in Papua New Guinea.²¹ Our funding in 2012–13 helped 28 Nauruan teachers receive diploma or degree-level qualifications.

Nauru is on track to meet MDG 2 (universal primary education) by 2015.²² Net enrolment rates remained steady on 2010–11 figures, at 95 per cent, well up on the 2005 rates at 60 per cent.²³ Approximately 30 per cent of Year 12 students are choosing a technical and vocational

¹⁹ The Cairns Compact on Strengthening Development Coordination is an agreement between Pacific nations to step-up development coordination and re-shape the relationship between development partners and recipients in the Pacific to achieve development outcomes.

²⁰ Government of Nauru, Department of Education, Annual Report 2010–11.

²¹ Government of Nauru, Department of Education, six-month reporting against annual operational plans, May 2013.

²² MDG Tracking Report 2012.

²³ Government of Nauru, Department of Education, six-month reporting against annual operational plans, May 2013.

pathway. Of the 2,757²⁴ students enrolled in Nauruan schools in 2012, Australian funding enabled 981 children to enrol (514 boys and 467 girls) through a re-entry program targeting young people who had left school before completing Year 12 and an early years learning program for younger children. There is no evidence of gender imbalance in the school system with roughly equal numbers of boys and girls enrolled (1,446 boys and 1,311 girls at May 2013²⁵).

Our support has also enabled Nauru to establish its first TVET facility. Located at the Nauru Secondary School, the facility provides trade skills training for school students and adult education training through after-hours courses. Since its establishment in 2010, the facility has trained more than 300 Nauruans. In 2012–13, Australia agreed to fund an expanded TVET facility at the proposed new Learning Village.

The education program now needs to focus on translating early successes into improved literacy and numeracy outcomes by, for example, improving student attendance and class participation. Average student attendance has not improved significantly over the past three years and remains steady at approximately 68 per cent.²⁶ Data from the Department of Education suggests that almost 50 per cent of students are at risk of failing to meet the curriculum standard for literacy in their age/grade category.²⁷

We will engage more closely in policy dialogue on curriculum development, literacy and numeracy benchmarking and teacher training programs to influence decision making and sector planning. The PMAG review of the Australia – New Zealand support for education, scheduled for the second half of 2013, will enable greater focus on policy dialogue.

Australia awards and New Zealand scholarships

The Australia Awards Pacific Scholarships gives Nauruans the opportunity to gain skills and knowledge, contribute to Nauru's human resource development needs, and strengthen the skills base of the public sector. Scholarship focus areas are determined in consultation with the Chief Secretary's Office and Department of Finance's Planning and Aid Division. Currently focus areas include commerce, health, law and public administration. Australia offers up to 12 scholarships a year at undergraduate and post-graduate levels. While it has been difficult to find suitable candidates with sufficient secondary school results to meet the selection criteria, in 2012 all 12 scholarships were filled (6 males and 6 females).

In 2012, six Australia Award graduates returned to Nauru and took up work:

- > one nursing diploma graduate works at the Republic of Nauru Hospital and has been promoted to a nursing graduate position
- > one student completed a Bachelor of Public Health degree and is working as a public health promotions educator
- > two students completed a Bachelor of Education degree, with one working as a primary school teacher at Aiwo Primary School and the other as acting teacher-in-charge at Boe Infant School
- > one student completed a Bachelor of Arts degree and is working with the Nauru Police Force (NPF) as Superintendent for the Operations Support Division
- > one student has completed a Bachelor of Commerce degree and returned to work for the Ministry for Finance as the economic-social sector planner.

²⁴ Ibid.

²⁵ Ibid.

²⁶ Government of Nauru, Annual Report 2010–11, p. 34.

²⁷ Government of Nauru, Language benchmarking report 2012.

While the number of units failed by Nauruan awardees has decreased in recent years (possibly reflecting improvements in the broader education system), failure rates and terminations remain concerning.²⁸ In 2013–14, we will undertake a review and tracer study to improve performance data and examine the reasons behind failures. We will also establish an alumni framework to monitor graduates' personal achievements after completion of studies, provide professional networking opportunities and link graduates to post-graduate study opportunities through, for example, the Australian Leadership Awards.

New Zealand provides three to six Pacific Scholarships each year. In 2012–13, nine Nauruan students were studying in New Zealand—two in law, three in science, three in business/management and one in architecture. One scholarship is reserved for fisheries applicants (if available) and another may be prioritised for legal studies to align with New Zealand's focus on the law and justice in Nauru.

Australia-Pacific Technical College

The Australia-Pacific Technical College delivers TVET courses in targeted industry sectors for the Pacific, providing recognised Australian qualifications in areas such as automotive, construction, electrical, health and community, hospitality and tourism.

Since the college was established in 2007, 42 Nauruans have graduated (23 females and 19 males). In 2013, 59 Nauruan students remain enrolled in college courses (34 females and 25 males). The college is producing results for Nauru with local skills gaps being slowly addressed with, for example, Nauru's first two female tilers graduating and returning to Nauru to take up jobs within Nauru's public works state-owned enterprise.

Management consequences

- > We will establish a Nauru Education Sector Group, including DFAT education specialists and Nauru program staff, and representatives of Nauru's Department of Education. We will offer New Zealand the opportunity to participate. This reference group should meet at least once a year to discuss policy priorities, developments on the ground and risk management. It should also discuss progress reporting and data management.
- > We will undertake a PMAG review of assistance to the education sector, including an Australia Awards tracer study, and review factors influencing the technical and vocational study stream.

Objective 3: A cost-effective health system which delivers improved health outcomes

Under this objective, Australia's commitment is to:

- > strengthen health system management, in particular budget prioritisation, strategic planning, infrastructure redevelopment and improved health statistics
- > reduce the prevalence of NCDs and sexually transmitted infections, through more effective preventative and public health programs
- > improve maternal and child health outcomes, by improving access to and quality of ante and post natal care and child nutrition programs.

Rating: Green. We are on track to meet partnership priorities for this sector, noting some objectives have been revised down reflecting the short time span covered by the partnership.

²⁸ In 2012, two Australia Awards scholarships were terminated.

For example, targets for reducing the incidence of NCDs have been reduced from 25 per cent to a more realistic 5 per cent.

The Government of Nauru health services operate under a centralised system based around the Republic of Nauru Hospital and the Naoero Public Health Centre combined with some clinical outreach. As a small, single island with a population of approximately 10 000, this centralised way to deliver health services has achieved good coverage reaching all elements of the community equally.

Australian bilateral funding in 2012–13, at \$3.18 million, represented 45.3 per cent of the overall health budget for Nauru.

Nauru's mortality and disease burden attributable to NCDs, primarily diabetes, cancers and respiratory diseases, represent a leading threat to the health and development of the population. Reporting from the Ministry for Health indicates that in 2012–13, 84 per cent of all deaths in Nauru were attributed to NCDs with life expectancy being only 49 for men and 57 for women.²⁹ DFAT's focus on preventative health care aims to reduce the incidents of NCDs and improve the life expectancy of all Nauruans. This approach is consistent with the World Health Organization – Secretariat of the Pacific Community Implementation Plan for the Prevention and Control of NCDs in the Pacific (2008–2011) and Nauru's NCD Action Plan 2007–12.

Australian support for vaccination programs assisted Nauru to maintain its coverage for key vaccines, including for hepatitis B, diphtheria, polio and tetanus at 99 per cent.³⁰ However, reporting from the Ministry for Health in 2013 suggests that a shortage in supplies meant measles vaccinations reached only 83 per cent coverage in 2012. Our funding provided vaccinations for 153 children (or about 43 per cent of all vaccinations provided).

While progress against cardio-vascular disease, diabetes and sexually transmissible diseases has been mixed³¹, success in keeping Nauru free of any known cases of HIV/AIDS and malaria resulted in the 2011 and 2012 MDG tracking reports listing Nauru as on track to meet MDG 6—combat HIV/AIDS, malaria and other diseases—by 2015. Progress has also been strong in relation to MDG 4, reduced child mortality, with the 2012 MDG tracking report lifting Nauru's progress from off track to mixed. The report noted reductions in under-five and infant mortality rates, which sit at 20.6 and 23.6 per 1000 live births respectively.³² There were no maternal deaths in Nauru during 2011 or 2012.³³

The overall slow pace of progress in the health sector arguably reflects cultural barriers rather than the effectiveness of Nauru's health services. For example, Nauru needs to improve the acceptance and uptake of family planning services and address the high levels of alcohol, tobacco and sugar consumption in the community. These issues may take a generation or more to overcome, but public awareness campaigns, improved nutrition programs (including a school feeding program providing a nutritious meal to approximately 1,500 students daily)³⁴ and the Australian Sports Commission's work in promoting sport and physical activity in Nauru are making progress in turning around contributing factors. Our performance-linked aid funding was also successful in 2012–13 as an incentive for the Government of Nauru to establish its first Compliance Unit enforcing regulations under the 2009 Tobacco Control Act.

²⁹ Government of Nauru, NSDS 2005–25, p. 65.

³⁰ United Nations Children's Fund (UNICEF), State of the World's Children 2012.

³¹ According to the 2011 Ministry for Health's annual report, table 16, p. 39, the contraceptive prevalence rate rose from 5.4 per cent in 2010 to 11.2 per cent in 2011.

³² Government of Nauru, Ministry for Health reporting, to the Australian Government, May 2013.

³³ *Ibid.*

³⁴ According to the Ministry for Health Annual report for 2011 (pp. 37–38), child malnutrition problems relate more to over nutrition rather than under nutrition. The percentage of children that are overweight or obese in the 1 to 3 year age bracket is 24 per cent. This increases to 42 per cent in the 4 to 7 year age bracket.

By providing technical assistance at senior management level and funding toward agreed activities, Australia is making a strong contribution to setting strategic direction, coordinating broader multi-donor support and directly influencing the standard of day-to-day operations. This is improving service delivery and basic healthcare standards. Our funding for building maintenance and repairs and providing pharmaceuticals, medical equipment and consumables (bandages and surgical supplies) has resulted in enhanced and better maintained infrastructure and facilities and better equipped medical (and dental) services available to all members of the community.

While the community is receiving improved health services overall, some services cannot be provided locally. This results in expensive overseas medical referrals. It is important to manage community expectations on the level of funding that can be allocated to such services and ensure that all such referrals are warranted on a clinical basis. Given the scale of Australia's contribution to the health sector, closer engagement on policy development, particularly with budget management and prioritisation, is required to ensure our investments target areas of most significant need. This requires a sharper focus on collecting health statistics through health department reporting.

More Nauruan high school graduates are entering the nursing and medical streams of the Australia Awards program, with at least one per year returning as qualified practitioners to work in the health sector. Our assistance is also improving administration, budget management and planning by providing professionals who can perform these functions and build the skills of local counterparts to take over these roles. Government of Nauru funding for preventative medical services has slowly increased as a proportion of the overall health budget over recent years and reached 15 per cent in 2012–13, in accordance with the joint commitments under the partnership.

Management consequences

- > We will establish regular (at least once per year) consultations with Department of Health officials and DFAT health sector specialists to discuss progress toward partnership targets and objectives, the effectiveness of the policy framework and evidence-based reporting.

Objective 4: Reliable and cost-effective provision of essential infrastructure and services

Under this objective, Australia's commitment is to:

- > improve the reliability and cost effectiveness of power and water services, through more effective governance, maintenance and cost-recovery arrangements
- > increase use of renewable forms of energy and clean water capture, particularly at household level and in public buildings
- > support maintenance and provision of essential infrastructure and services.

Rating: Amber. We are on track to meet some of the partnership priorities in this sector.

Under this initiative, DFAT works primarily with the Nauru Utilities Corporation to ensure ongoing, reliable power and water supplies for the community. Restoring and maintaining the reliability of these services to sufficiently meet community demand represents a significant success. However, progress on institutional reform and governance standards within the Nauru Utilities Corporation has been mixed.

Almost 25 per cent of our bilateral aid funding was provided for this sector in 2012–13. This work principally involved funding for the Chief Executive Officer Utilities and senior operational personnel, and for agreed activities to support power and water production and distribution. In 2012–13 this included:

- > ongoing repairs and maintenance works at Nauru's power station and for the country's dilapidated distribution/transmission infrastructure
- > improvements to electrical supply and distribution within the Bulk Fuel Depot (Tank Farm)
- > provision of clean and secure fuel storage tanks
- > repairs and maintenance of reverse osmosis desalination equipment, water delivery and storage
- > provision of 200 new community water tanks , each with a storage capacity of 18,400 litres of improved clean water capture.

Power outages, once a daily occurrence in Nauru, are now comparatively rare and are typically due to scheduled maintenance. Generators are producing about 4 megawatts per day which matches average daily peak demand.³⁵ Desalination equipment now produces approximately 80 per cent of Nauru's fresh water needs (approximately 220 kilolitres per day³⁶) with rainwater making up the difference. While these improvements are significant, Nauru remains vulnerable to water shortages in periods of low rainfall, and aging utilities production assets means breakdowns are frequent. Costs of maintaining these assets are high and by far outstrip the returns from commercial tariffs (set at a comparatively low level for private consumers) resulting in the government (and donors) subsidising consumption. A greater focus on policy dialogue (with the support of the ADB), particularly on reform of tariff regimes and improved efficiency, will be central to our work in this sector throughout 2014–15.

Improved energy efficiency and stronger governance standards in the management of the Nauru Utilities Corporation are critical factors to ensuring better value-for-money outcomes. We work in collaboration with the ADB to improve governance standards and energy efficiency. Progress to date has been slower than expected as a result of the unexpected loss of key personnel. Given Australia's significant contribution to keeping this sector operational, stronger and more frequent engagement in policy setting is required to realise better value-for-money outcomes. Equally, as the Government of Nauru's revenue base expands, our aid program will increasingly emphasise support for governance reforms and invest more in strategic infrastructure instead of providing operational funds, which the government increasingly has the resources to cover. It will be important, however, to ensure that any increase in capital expenditure through the aid program does not introduce excessive long-term maintenance requirements that will be unsustainable if current government revenue increases slow over time.

Links are well established between increased access to clean water supplies and improvements in the lives of women in particular. As in most cultures, women in Nauru are primarily responsible for using and managing water resources, sanitation and health at household level.³⁷ Our funding for more reliable power and water services therefore makes a valuable contribution to improving the lives of Nauruan woman.

In 2012, the Australian Government agreed to fund activities to improve the operations of Nauru's sea port. This included providing a crane for cargo handling and funding an institutional strengthening program for the Nauru Ports Authority, due to begin in late 2013. Efficient port operations are critical to all elements of the community as the country relies

³⁵ Government of Nauru, Utilities Authority Annual Operational Plan 2013.

³⁶ Ibid.

³⁷ UN Department on Economic and Social Affairs, A Gender Perspective on Water Resources and Sanitation, Commission on Sustainable Development, April 2004.

entirely on imported goods. The department is also working with Japan to scope the potential for a joint program of works at the port to improve dilapidated infrastructure.

Management consequences

- > Establish a forum for regular (at least annually) policy dialogue with the Government of Nauru and the Nauru Utilities Corporation, supported by Pacific Division infrastructure advisors.
- > Develop a strategy and timeline to shift our program focus from operational expenses to supporting reform and strategic investments.

Objective 5: Increased private sector growth.

Under this objective, Australia's commitment is to:

- > pursue mutually beneficial regional trade liberalisation and economic integration arrangements
- > sustainably manage revenue in the phosphate and fisheries sectors, including through the establishment of enhanced legal and trust fund arrangements
- > stimulate development of new small and medium-sized enterprises
- > enhance access to appropriately regulated and credible financial and insurance services.

Rating: Amber. We are on track to meet some of the partnership priorities for this sector.

In 2012–13, our support under this objective focused on the Bank of Nauru liquidation process.

Funding provided under the NACOS also supported phosphate mining which, at 519,000 tons exported in 2012, reached its highest annual export level since mining recommenced in 2007.³⁸ The Fisheries Institution Reform Program entered its second phase, emphasising the development of private sector opportunities in areas such as aquaculture and aquarium fisheries. Finalising the Bank of Nauru liquidation process will create a more attractive environment for other commercial banking services to be established. The liquidation is expected to be finalised during 2013–14. Most debtors and creditors have been identified, account balances established and total debt burden quantified. However, to date only one local debtor, Republic of Nauru Phosphate Corporation, started making payments in 2012–13. These payments have enabled the liquidator to make payments of \$200 to each identified deposit holder, reducing the number of claimants by 50 per cent.³⁹

In 2012–13, we funded the ADB's Private Sector Development Initiative to provide technical assistance to help: determine the demand for banking services; provide an overview of suitable models; develop a shortlist of financial institutions that may be interested; and facilitate preliminary discussions between the Government of Nauru and financial institutions. This work found that the estimated deposit base for any new banking operation was sufficient to make a sound business case.⁴⁰ Next steps are to prepare an information memorandum providing prospective institutions with a complete and detailed business case, including financial information and analysis of technical or legal issues. This work is scheduled to take place by mid-2013.

³⁸ ADB, Economic Outlook 2013, p. 280.

³⁹ Fourteenth Report to the District Court of Nauru on the Bank of Nauru Liquidation, produced by Deloitte.

⁴⁰ ADB Nauru Banking Options technical assistance program, progress report, June 2012.

Management consequence

- > Undertake a private sector development needs assessment through the ADB's Private Sector Development Initiative.

Assistance to other sectors

Law and justice

Our assistance to Nauru is managed through a strong whole-of-government approach, including the AFP delivering \$2 million through the NFP Cooperation Program. Rule of law is a necessary enabler for socio-economic development. By improving security, stability and governance in Nauru, the AFP is helping to create a safer, more secure community, which supports poverty alleviation and is in our national interest.

The NFP Cooperation Program is a bilateral component of the Pacific Police Development Program, established in November 2004. The program focuses on mentoring and capacity development in operational policing, enabling services and leadership.

At the end of the reporting period for this APPR, an AFP Program Manager was the Commissioner of the NPF. In 2012–13, key outcomes from the NFP Cooperation Program included:

- > providing officer training in officer safety, public order management and equipment, case management workshops, powers of arrest, brief preparation, forensic photography training, criminal intelligence, investigations and close personal protection training
- > installing a new radio network, in March 2012, which is providing improved response times to incidents and better and improved communications to decision makers
- > restructuring the NPF to include a crime intelligence and community policing unit and traffic unit
- > improving and providing a fair and equitable promotional system
- > acquiring central server and case management systems, providing the NPF with the ability to collect information and provide timely and accurate criminal intelligence
- > supporting gender equality, including the AFP sending several Nauru police officers to attend women in leadership programs and interviewing techniques courses held in Australia
- > sending a female NPF member on an exchange with the Tonga Police Force to gain insight into establishing a better women's advisory network in Nauru⁴¹
- > training by Cyber Safety Pasifika (a joint initiative of the AFP, Pacific Islands Chiefs of Police and Pacific Transnational Crime Network), to improve cyber safety and security education in Pacific island schools and communities by equipping local police services to deliver high-quality information to children and parents.

Assistance to the policing sector through the Pacific Police Capacity Building program, managed under separate funding through the AFP, provides critical support to the law and

⁴¹ The NFP has also received support from the Pacific Prevention of Domestic Violence Program, an agreement between the AFP and New Zealand Police, to assist police forces in the Pacific to establish specialised domestic violence units and to train police staff to build partnerships with non-government organisations that support victims of violence.

justice sector. This sector is listed under the Partnership for Development as an ‘enabling priority outcome area’ recognising that a stable law and justice sector underpins all aspects of development, governance and community wellbeing.

Climate change

The Government of Nauru has taken significant steps to address climate change over recent years. As the 2012 Chair of the Alliance of Small Island States, Nauru has been instrumental in influencing global climate change negotiations on behalf of the region.

While the government is developing a climate change policy statement and a Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management, climate change has not been fully integrated into national strategies and associated government systems. A 2012 assessment by the Pacific Islands Forum Secretariat found the need for line agencies to clarify roles and responsibilities with climate change if Nauru is to make best use of various climate change funding.

In 2012–13, our climate change adaptation funding was used to help build resilience against Nauru’s frequent periods of drought. Funding was provided to build and install 200 additional water storage tanks, each capable of storing 18,400 litres of fresh water. The tanks are providing more storage capacity for desalinated water and rain water. Our funding was also used for long-term technical assistance to help manage Nauru’s climate change and environment programs in the Department of Commerce, Industry and Environment.

Seasonal Worker Scheme

Australia’s Seasonal Worker Scheme is creating opportunities for Pacific islanders to make additional income through seasonal employment in Australia. Visas were granted for 10 workers from Nauru in 2012. Given Nauru’s extremely small population base (approximately 10,000) and even smaller pool of eligible candidates for this scheme, this small number of visas is significant. In comparison, 12 visas were issued for neighbouring Kiribati which has a population of approximately 100,000. More than 2,000 workers from the Pacific and Timor-Leste have earned additional income as seasonal workers in Australia. With the average worker remitting approximately \$5,000 to \$6,000, an estimated \$11.1 million was remitted to benefit participating workers and their households throughout the region by the end of 2012.

Gender

At the 2012 Pacific Islands Forum, Pacific leaders (including Nauru’s then President) committed to a gender equality declaration that set out domestic policy actions to improve gender equality. Australia also announced funding of \$320 million over 10 years to improve gender equality in the Pacific through the Pacific Women Shaping Pacific Development Initiative⁴². Our support to Nauru under this initiative will begin through our partnership with the Secretariat of the Pacific Community which will work with government and civil society to identify gaps in the capacity to address gender inequality issues in each sector and develop an assessment report and action plan.

Nauru’s NSDS outlines Nauru’s aspirations for ‘A just society that recognises and respects the rights of women and promotes equal opportunities’. The strategy outlines specific gender disaggregated sector strategies to support Nauru to:

⁴² Pacific Women Shaping Pacific Development (PWSPD) is a 10-year \$320 million commitment across all Pacific Island Forum Countries to promote gender equality and the status of women to enable their ‘full, free and safe’ participation in economic, political and social life.

- > ensure all girls and boys complete a full course of primary schooling
- > strengthen umbrella organisations for women, including the National Council of Women
- > appropriately mainstream women's needs and reflect them in national development policies, plans and budgets.

Traditionally in Nauru, land ownership is passed in a matrilineal system, granting women considerable status and voice within the community.⁴³ However, anecdotal evidence suggests this influence seems to be diminishing in comparison with woman's significant role in traditional land ownership.⁴⁴ Issues of concern for women include poor school completion rates (69 per cent of females 15 years of age and over leave school with no educational qualifications)⁴⁵, lack of job opportunities for school leavers (26 per cent of females 15 years of age and over are unemployed and only 35 per cent of the work force is female)⁴⁶, poor environmental conditions and poor health and nutrition⁴⁷, although data from the 2011 Census suggests health issues affect men and women in Nauru in broadly equal proportions. Nauru ratified the Convention on the Elimination of all Forms of Discrimination Against Women in 2011. The Constitution guarantees equality between men and women. The rights of children, youth and women are protected by Nauruan law and represented by the Department of Youth and Community Affairs, Department of Women's Affairs and a number of community non-government organisations.⁴⁸ Women are reasonably well represented in public sector leadership roles. At the elections held in June 2013, Nauruans elected a female Member of Parliament (the second in Nauruan history and the only current serving female one) who has since taken on several ministerial portfolios, including Home Affairs, Education and Youth Affairs and Land Management.

Our assistance for gender-related issues has been delivered through support for regional institutions and programs, including the UN Women's Pacific Facility Fund to End Violence Against Women, the United Nations Population Fund, the UN Women's Advancing Gender Equality in Political Governance Program in the Pacific, and the Emerging Pacific Women's Leadership Program.

Disability

The Government of Nauru has made significant progress towards advancing the rights of persons with disability in recent years. In June 2012, Nauru acceded to the Convention on the Rights of Persons with Disabilities and a national disability policy was prepared. Nauru's NSDS commits the government to 'create an inclusive, barrier-free and just society for people with disabilities'.

Under the Partnership for Development, Australia and Nauru are pursuing a target of 70 per cent of students with disability having access to education services by 2015—up from 61 per cent in 2011–12.

Australia provides annual funding support for the operations of Nauru's Able-Disable Centre, which provides education services for about 40 students with disability. Funding in the education sector for staff training for special needs teaching and for the development of a disability-inclusive school curriculum is also provided. One teacher gained formal qualifications in special needs teaching during 2012.

⁴³ UNICEF, Nauru, A Situation Analysis of Children, Women and Youth, August 2005, pp.8 and 40.

⁴⁴ Ibid.

⁴⁵ Government of Nauru, 2011 Census.

⁴⁶ Ibid.

⁴⁷ UNICEF, Nauru: A Situation Analysis of Children, Women and Youth, August 2005, p. v.

⁴⁸ Ibid., p. 40.

Australia also provides disability inclusive development support through our partnerships with the Pacific Islands Forum Secretariat, Pacific Disability Forum, Disability Rights Fund, Secretariat of the Pacific Community, and World Health Organization. This assistance is helping the Nauru Disabled Peoples Association to raise awareness of the rights of people with disability, including through education and employment opportunities.

The Nauru Australia Compact of Settlement

In 2012–13, Australia provided \$3.97 million to the Nauru Rehabilitation Corporation under NACOS. In accordance with NACOS, this funding is for mutually agreed activities that contribute to Nauru's rehabilitation, development and self-reliance. Funding is directed to assisting the sectors of the economy that the Government of Nauru accords the greatest priority. Since 2007, the Government of Nauru has used NACOS funding to progress an agreed five-year plan for phosphate mining combined with land rehabilitation.

While phosphate mining reached record levels in 2012, with 519,000 tons⁴⁹ exported, there has been limited progress on the land rehabilitation program. This is balanced to some extent by the economic and social benefits provided by Nauru's more prosperous mining industry, including higher dividends for land owners and government and increased employment opportunities.

Funds provided under NACOS represent a significant proportion of the operational budget for the Nauru Rehabilitation Corporation's work on mining and land rehabilitation. It is as yet unclear how the corporation plans to fund these operations once the final payment due under the NACOS treaty is made in 2013–14. This will be discussed at annual NACOS talks scheduled for late 2013.

Sport for development

The Australian Sports Commission manages a highly successful sports outreach program for Nauru known locally as *Epon Keramen* (EK). This is a partnership between the Australian Sports Commission and the Nauru Ministry for Sport. EK supports youth volunteer coaches, referees and organisers to conduct sport-based activities for males and females of all ages across Nauru to help increase physical activity, improve health-related behaviours and increase leadership and engagement in community activities. EK also works in partnership with the Nauru Ministry of Health to use sport activities to communicate health messages in association with the Healthy Islands Through Sport initiative. Preliminary results from Australian Sports Commission research (unpublished) undertaken in Nauru in early 2013 suggests that EK has had a direct effect on increasing physical activity in Nauruan communities with many participants taking part in two or more sports. It has also had a positive effect on health-related attitudes and behaviours. Increased physical activity has led to participants reducing or quitting smoking and reducing their alcohol consumption. Corresponding health gains were reported in all ages, but particularly in older participants. The research indicates that EK is making an important contribution to raising awareness of the importance of physical activity, and the links between physical activity and NCDs.

EK has also made a significant contribution to building social cohesion in Nauru through a strong volunteer base and inter-community social interaction, which has helped foster a broader sense of community and is helping to overcome the history of sport-related violence on the island.

EK was stated to have contributed towards greater inclusion of different age groups, especially youth men and women, as well as people aged 35 years of age and over.

⁴⁹ ADB, Economic Outlook 2013, p. 280.

Participants reported that EK gave them greater opportunity to take part in sporting events, resulting in increased self-confidence and community contribution.

Visibility of Australia's aid program for Nauru

In 2012–13, with the Government of Nauru's agreement, large Australian aid signs were erected at facilities in Nauru supported by our aid program. This included the Nauru Secondary School, the hospital and the power station. Visibility of our aid program will be further supported with 500 large stickers gradually being fixed to Australian-funded water tanks and other structures around the island in 2013.

In May–June 2013, a communications strategy was developed to help better inform Nauruan stakeholders, development partners and the Australian audience about what we do for Nauru and why we do it. The strategy recommends opportunities to promote the contributions of our aid program and deliver on commitments.

Quality at implementation ratings

A table listing all QAI ratings for the Nauru program for 2011 and 2012 is at Annex B. Overall the trend in QAI ratings for 2012 was similar to 2011 ratings. The relevance rating for all five major initiatives remained high but ratings for monitoring and evaluation remained only adequate for most initiatives.

Ratings for effectiveness and efficiency remain steady at 'good' for most initiatives, although they fell slightly for the public sector management program. This reflected delays encountered in introducing the Financial Management Information System. Additional technical assistance was mobilised in early 2013 to rectify the difficulties encountered in rolling the system out to line agencies. Ratings for gender equity fell marginally in all sectors except for education. This reflected the absence of a gender analysis or gender strategy. This will be rectified in 2013 as the Pacific Women Shaping Pacific Development Initiative is rolled out in Nauru. While the gender rating for the infrastructure initiative is listed as 'poor quality requiring major work to improve', this rating reflected that little gender specific work was been undertaken in the sector, rather than poor quality work undertaken. The rating also failed to take adequate account of the significant benefits that woman accrue from improved access to more reliable and cleaner water supplies and more reliable energy sources.

Sustainability ratings remained steady at 'adequate', although the Australia Awards Pacific Scholarships program was rated at 'high' given its success in delivering skilled and qualified Nauruans to help build the nation's future.

Management consequences

DFAT will:

- > Engage closely with the Government of Nauru, ADB and PFTAC on policy and planning relating to management and effective use of Nauru's expanding revenue base (potentially through a joint policy reform program and budget analysis) to ensure expenditure focuses on making strategic investments, improving critical infrastructure, reducing debt and saving for the future. Donors need to encourage the new government to maintain momentum on reform despite its improved fiscal position. The department should start discussions with the ADB, New Zealand and PFTAC on how to support the development of a coherent set of economic reforms led by the Government of Nauru against which to link performance funding.
- > Engage closely with the ADB, PFTAC and other donors will be required to ensure ongoing participation in the PMAG process, including through annual economic review missions. PFTAC's role will help establish the groundwork for Nauru to become a member of the International Monetary Fund.
- > Develop a performance assessment framework including clear indicators for all partnership initiatives, drawing on support from the PMAG.
- > Establish reference groups for the health, education and infrastructure sectors involving DFAT specialists and Nauru program personnel as well as representatives of Nauru's departments of health and education and the Nauru Utilities Corporation. New Zealand will be invited to participate in the education reference group given its close cooperation in this sector. The reference group will provide a forum for policy dialogue at sector level. Its work will be supported by PMAG reviews, performance assessments and data collection.
- > Undertake a review of assistance to the education sector including an Australia Awards tracer study and establishment of an alumni framework for Australia Awards graduates. The review will inform early planning for Phase II of the partnership.
- > Agree on a timeline for the Government of Nauru and ADB for shifting our funding emphasis in the infrastructure sector from operational expenses to institutional reform of the Nauru Utilities Corporation, as well as other strategic infrastructure investments.
- > Undertake a gender analysis, develop a gender strategy and establish mechanisms for gathering statistics on gender issues, including gender disaggregated data for all sectors and drawing on support from the Pacific Women Shaping Pacific Development Initiative.
- > Undertake a private sector development needs assessment through the ADB's Private Sector Development Initiative.
- > Discuss future funding options for the phosphate mining and land rehabilitation programs with the Nauru Rehabilitation Corporation and the Government of Nauru to ensure ongoing viability of these initiatives beyond the timeframe associated with NACOS. This could potentially involve support from DFAT's Mining for Development initiative.
- > Increase the department's resourcing at Post to satisfactorily manage and monitor the wide range of priorities under the Partnership for Development impacting on almost all sectors in Nauru. The current approach of relying on a single Australian officer and three locally engaged staff limits opportunities for dialogue and increases program management risks.

Table 3 Risks associated with the program and management actions

Most significant risks	Management response—What? Who? How? When?
Political instability in Nauru impedes progress on development activities or detracts from the reform agenda.	Senior-level (Assistant Director General, the Australian High Commissioner and Government of Nauru departmental secretaries) dialogue is maintained with Government of Nauru officials to ensure attention and commitment to development activities and the reform agenda remains unchanged.
A stronger domestic budget position results in a reduced commitment to the reform agenda.	As above.
Limited capacity to effectively manage and spend increased revenue results in adverse economic impacts (inflation), inequitable distribution of benefits or failure to adequately save for future generations.	Performance-linked aid is used to ensure that the principles of sound fiscal management continue to be adhered to.
The cessation of payments under NACOS leaves phosphate mining under resourced reducing government dividends for and risking job losses in mining and associated industries.	Negotiate ongoing support for phosphate mining and land redevelopment from within the Partnership for Development budget allocation and drawing on input for DFAT's Mining for Development initiative.
Following the elections in June 2013, an incoming government fails to sign a contract with the new independent procurement agent.	Reconsider the methodology of providing targeted budget support and move to alternative models of delivery.

Annex A

Progress in addressing 2011 management consequences

Management consequences identified in 2011 APPR	Rating	Progress made in 2012–13
Review the scholarships program to assess its effectiveness.	Amber	The newly established PMAG will review assistance to the education sector in July 2013, including a review of the scholarships program.
Develop a gender strategy.	Amber	Nauru is scheduled for inclusion in the department's Pacific gender strategy (Pacific Women Shaping Pacific Development Initiative) during the second quarter of 2013, which will involve developing a gender strategy and work plan.
Establish a PMAG.	Green	PMAG team leader engaged in September 2012 with the first review mission taking place in November 2012 to review the public sector management initiative.
Explore alternative approaches to capacity building, recognising the limited impact of efforts to date and acknowledging that technical assistance will be required for some time.	Amber	A new design for the Pacific Technical Assistance Mechanism (PACTAM) is expected to provide greater scope for flexibility on how the capacity-building elements of PACTAM can be delivered.
Introduce greater emphasis on economic analysis and targeting reforms to public financial management systems, including possibly exploring International Monetary Fund membership.	Green	Through the PMAG, greater focus on economic analysis has been established and regular economic situation analysis will be prepared with assistance from the PFTAC and ADB. There has been no progress on pursuing IMF membership.
Develop a long-term, integrated climate change adaptation strategy, and integrate climate change into Nauru's infrastructure strategy.	Green	With the appointment of a new Environment and Climate Change adviser to the Department of Commerce, Industry and Environment, initial steps toward developing an integrated climate change strategy started in December 2012.
Review the current mechanism for providing technical assistance through the Pacific Technical Assistance mechanism.	Green	The review of PACTAM was finalised late 2012.
Develop a more comprehensive approach to building visibility and community awareness of Australia's engagement with Nauru.	Green	Signage was erected at major institutions supported under the partnership including the Nauru secondary school, hospital and power station. A media strategy was developed in May 2013.
Take forward private sector growth priorities under the Partnership for Development through the Australian-funded private sector growth initiative.	Amber	Desk raised this issue with ADB counterparts but no formal arrangements have been agreed.

- Note:
- Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.
 - Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.
 - Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

Annex B

Quality at implementation ratings

Initiative name	Approved budget and duration	Qalyear	Relevance	Effectiveness	Efficiency	Monitoring and evaluation	Sustainability	Gender equality	Risk management
Public sector management	\$7.6 million	2012	5	4	4	5	4	3	I
	2009–15	2011	5	5	5	4	4	4	I
Education	\$5.2 million	2012	5	4	5	4	4	5	I
	2009–15	2011	5	4	5	3	4	5	I
Health	\$8.0 million	2012	6	4	5	4	4	4	I
	2009–15	2011	6	5	5	4	4	5	I
Infrastructure	\$18.9 million	2012	5	5	5	4	4	2	I
	2009–15	2011	5	4	4	3	4	3	I
Australia Awards	\$1.3 million	2012	5	4	4	3	5	4	I
	2009–5	2011	5	5	5	3	5	6	I

Definitions of rating scale:

Satisfactory (4, 5 and 6)

6 = 6 = Very high quality

5 = 5 = Good quality

4 = 4 = Adequate quality, needs some work

Less than satisfactory (1, 2 and 3)

3 = 3 = Less than adequate quality; needs significant work

2 = 2 = Poor quality; needs major work to improve

1 = 1 = Very poor quality; needs major overhaul

Risk Management scale:

Mature (M). Indicates the initiative manager conducts risk discussions on at least a monthly basis with all stakeholders and updates the risk registry quarterly.

Intermediate (I). Indicates the initiative manager conducts ad-hoc risk discussion and updates the risk register occasionally.

Basic (B). Indicates there are limited or few risk discussions and the risk register has not been updated in the past 12 months.

Annex C

Evaluation and review pipeline planning

List of Evaluations completed⁵⁰ in the reporting period

Name of Initiative	AidWorks number	Type of evaluation ⁵¹	Date evaluation report received	Date evaluation report uploaded into AidWorks	Date management response uploaded into AidWorks	Published on website
Public financial management review	INI968	Independent progress report	Draft received November 2012	Not uploaded	Not uploaded	No

List of evaluations planned in the next 12 months

Name of Initiative	AidWorks number	Type of evaluation	Purpose of evaluation ⁵²	Expected completion date
Nauru improved health	INI970	Whole-of-program review	To inform next Partnership for Development	December 2013
Nauru improved education	INI950	Whole-of-program review	To inform next Partnership for Development	December 2013
Nauru public sector reform	INI943	Whole-of-program review	To inform next Partnership for Development	December 2013
Nauru private sector growth	INI947	Whole-of-program review	To inform next Partnership for Development	December 2013
Nauru infrastructure and services	INI949	Whole-of-program review	To inform next Partnership for Development	December 2013
Program management and coordination	INI968	Whole-of-program review	To inform next Partnership for Development	December 2013

⁵⁰ 'Completed' means the final version of the report has been received.

⁵¹ Mid-term review, completion report, partner-led evaluation, joint evaluation.

⁵² To inform a future phase of program, to improve existing program; to verify program outcomes.

