



REPUBLIC OF NAURU

AID
MANAGEMENT
POLICY

I. INTRODUCTION

The Republic of Nauru since becoming independent on 31 January 1968 has relatively been self sufficient with little or no reliance on external assistance. This was made possible through revenue received from the mining of rock phosphate which since the early 1900s was the single key activity driving the economy of Nauru. In fact in the 1970s and 80s, Nauru had the highest per capita income making it the richest country in the Asia Pacific region.

However from 1990 onwards with a decrease in phosphate mining, Nauru started to face serious financial and economic problems. High government expenditure financed by off-shore borrowings coupled with poor investment decisions and corrupt practices have resulted in widening fiscal deficits leading to unsustainable levels of public debts. Weak economic and financial management has changed Nauru from being a wealthy nation to one that is heavily indebted and on the verge of collapse. With phosphate mining minimized and a weak business sector, the government has limited options to generate economic activity.

The Government has announced in the 2004/05 and 2005/06 budgets a range of economic and financial reforms to restructure the economy and reverse the current situation, however with limited recovery options, external assistance is considered a critical source to help rejuvenate the Nauruan economy. The Government has recognized this and is therefore committed to ensuring that an Aid Management Strategy is put in place to ensure all assistance from its development partners are utilized optimally to deliver a better quality of life for its people.

II. POLICY STATEMENT

The Government of the Republic of Nauru is committed to formulating a National Sustainable Development Strategy (NSDS), that will guide Nauru's development in the next three years and beyond. The preparation of the NSDS has been highly participatory and involved stakeholders including community leaders, church representatives, NGOs, private sector and government officials. The strategy therefore highlights the priority issues identified by the community nation-wide. The NSDS clearly articulates Nauru's vision, its national goals as well as priority strategies to be implemented over a period of years to achieve this vision.

Setting national priorities is a critical step in guiding the allocation of donor assistance. With national priorities clearly stated, the NSDS provides a clear signal of where donor assistance could make the maximum impact, in contributing to the achievement of Nauru's vision for the future. This allows development partners to match national priorities with their own areas of focus and determine where they could provide maximum value in meeting the national priorities.

The process of providing development assistance requires close cooperation and dialogue between two major parties: the donor and recipient. The Government appreciates that development partners have focal areas in which to provide support. At the same time, the Government would like to underscore that having its national priorities clearly documented as a result of a consultative process, key areas have been highlighted where development assistance can provide maximum benefit to the well-being of the people of Nauru.

The Government of Nauru is appreciative of the dedication of the Pacific Islands Forum Leaders and development partners in providing assistance to its development efforts particularly to bring the nation back to normalcy.

The Government recognizes that aid resources are valuable in that they complement and supplement government budget resources. The Government is further aware that development assistance is provided through the generosity of tax payers of development partner countries and therefore the partner countries have a responsibility to account those resources. This underscores the need for recipient countries to utilize partner assistance in the most effective and efficient manner. Towards that end, the Government of Nauru has established the institutional structure and processes to ensure every dollar of donor assistance is properly accounted.

III. AID COORDINATION AND MANAGEMENT

The Government notes that Aid Coordination is the process of planning international assistance so that it supports its national goals, priorities and strategies; avoids duplication and overlapping efforts; and minimizes burden of aid integration into recipient institutions.¹ Aid coordination comprises the functions and processes involved in establishing an effective division of responsibility among development partners (bilateral, multilateral and international NGOs) and hence among their aid programmes to the country.

In brief, aid coordination refers to the planning and “procurement” by the Government of aid from its development partners and its integration into national development goals and strategies. Aid Management refers to the effective implementation of development programmes that are supported by development assistance². Aid Management is the process of integrating external and internal resources in the implementation of local development programmes and activities. It requires the full transfer of ownership of aid from foreign to national institutions, and the integration of aid into national procedures for planning, priority setting, budgeting, implementation and accounting of development activities.

Fully aware of the importance of coordination and managing development assistance, the Government of Nauru has established the Aid Management Unit (AMU) within the Department of Finance to oversee and coordinate all assistance received from developed countries. As well, a transparent process through which development assistance will be coordinated has been established. The process requires aid assistance to be channeled through the Department of Finance; in the case of financial resources this is stipulated under the Constitution and other laws of the Republic of Nauru.

At the implementation level, Departments are expected to monitor the progress of each project to ensure that the desired outcomes are achieved. AMU will also provide additional oversight to ensure that any issue that emerges during implementation is addressed timely to minimize any adverse impact on the achievement of project objectives.

¹ Aid Coordination and Management by Government: A Role for UNDP, August 1994. UNDP Policy Division

² Aid Coordination and Management by Government: A Role for UNDP, August 1994. UNDP Policy Division

IV. NAURU/DEVELOPMENT PARTNER COOPERATION:

As highlighted above, the foundation of the partnership between Nauru and development partners must premise on trust, understanding, sharing and flexibility. Specifically the underlying principles that guides the relationship are as follows:

- a) Mutual accountability and trust;
- b) Clear national development frameworks linked to national budgets (both recurrent and development);
- c) Country driven and led;
- d) Genuine partnerships;
- e) Support for capacity building;
- f) Information sharing;
- g) Mature relationships that facilitate consultation; and
- h) Openness to change and flexibility

A. Objectives And Strategies

To operationalize this policy, four broad objectives with associated strategies have been established to ensure the partnership will generate maximum benefit for the Republic of Nauru and its people, at the same time acknowledging the focal areas of the development partners.

The objectives stipulate what the Government of Nauru intends to achieve from its cooperation with the donor community while the strategies present the activities that will be carried out in order to deliver the objectives. The policy measures outline the process through which development assistance will be coordinated.

The following objectives and strategies will guide the Aid Management Unit in its coordination and management of all development assistance received by the Government of Nauru.

A1. *Objective 1: Secure funding for priority projects*

As a top priority in its relationship with development partners, the Government of Nauru considers it critical to attract donor funding to support the implementation of projects for focal areas identified through the National Sustainable Development Strategy. This will be implemented through the following strategies:

Strategies

- a) Undertake regular dialogue with development partners on policies, programmes and projects;
- b) Agree with development partners on the terms of co-operation under the annual aid programme;
- c) Ensure proper procedures are put in place to ensure that all projects are properly screened prior to submission to Cabinet for its consideration and approval;

- d) The Government of the Republic Nauru will provide a portfolio of priority projects which are derived directly from the NSDS.;
- e) Where project formulation is carried out by a development partner, fully appreciating that partners have differing requirements, the AMU will be participate in this formulation with the beneficiary line ministry.

Specific Policy Measures

- a) The Aid Management Unit will organize at least annual consultations with development partners individually and collectively where appropriate;
- b) All liaison with development partners on matters relating to development assistance including terms of co-operation will be coordinated through the Aid Management Unit in close collaboration with the Ministry of Foreign Affairs and implementing Ministries;
- c) The Aid Management Unit will ensure a Memorandum of Understanding be agreed upon between the Government of the Republic of Nauru and individual development partners annually on terms of co-operation;
- d) Any changes either party wishes to make to the MOU will be preceded by thorough consultation between the Government of the Republic of Nauru and the development partner concerned;
- e) All projects for development assistance will be in the first instance appraised by the Development Planning and Policy Division before submitting it to the National Development Committee for consideration. This will ensure the projects are consistent with declared government priorities. With NDC endorsement, the projects will be submitted to Cabinet for consideration and approval before submitting to the Aid Management Unit for submission to development partners.
- f) All project proposals for Cabinet consideration which have implications on development assistance must be submitted through the Development Planning and Policy Division (DPPD) and the National Development Committee;
- g) DPPD will formulate a public sector investment programme which will comprise of ongoing, pipeline and planned projects which have been appraised and endorsed by both NDC and Cabinet.; and
- h) Heads of Departments and officials at the technical level will be fully consulted and involved in the formulation and implementation of projects funded through development assistance.

A2. Objective 2: - Effective Coordination of Development Assistance

The Government of Nauru considers development assistance as a valuable source of funding and is therefore committed to establishing enabling processes to ensure that they are utilized and coordinated in the most effective manner. The following strategies are intended to achieve a well coordinated framework.

Strategies

- a) The Aid Management Unit is established and functional with adequate supportive resources to carry out its functions most effectively.

- b) The Donor Coordination Framework is established and operational. The framework will ensure proper procedures and processes are in place to guide the coordination and screening of projects;
- c) Consider the most cost effective allocation of development assistance between social projects and those that are of economic and productive projects. One option is to allocate grant funding to the implementation of social projects as a priority;
- d) Sustainability of project outcomes beyond donor funding in terms of maintenance and utilization of assets must form part of the project document. Appropriate budget provisions on an annual basis must be provided to ensure sustainability;
- e) Through dialogue the Aid Management Unit will ensure that development partners are less stringent on their policy of "tying" respective assistance;
- f) Through dialogue with development partners the Aid Management Unit will ensure that where possible, all costs associated with projects are covered in the respective project budget;
- g) Ensure approved projects have capacity building components for local personnel
- h) Put in place measures that encourage private sector investment and growth as well as encourage self-help initiatives;
- i) Ensure resource management and environment conservation are implicit with special consideration given especially in areas where resource depletion and environment degradation are high;
- j) Put in place measures to promote a sense of national unity, co-operation and purpose which builds on the foundations of religious beliefs, traditional norms of respecting and caring for one another in the community

Specific Measures

- a) All projects seeking development assistance will be in the first instance appraised by the Development Planning and Policy Division before submitting it to the National Development Committee for consideration. This will ensure the projects are consistent with declared government priorities.
- b) With NDC endorsement, the projects will be submitted to Cabinet for approval and then submitted to the Aid Management Unit for submission to development partners;
- c) Heads of Departments and officials at the technical level will be fully consulted and involved in the formulation and implementation of projects funded through development assistance;
- d) Training programmes will be put in place and funding secured to improve project planning and implementation at all levels including government departments, state owned enterprises and the local community;
- e) Programmes will be established to encourage self-help and communal initiatives;
- f) Schemes to encourage local entrepreneurs to access credit assistance and other forms of assistance will be consolidated and improved;
- g) The Nauru Government will liaise with all relevant stakeholder including Non State Actors (NSAs) and religious organizations to facilitate partnership agreements and resource sharing in the various development initiatives undertaken;

A3. Objective 3: Effective and efficient implementation of projects

Project implementation is a critical stage in the coordination of donor assistance as it provides indicators against which the achievement of objectives is measured. Therefore processes must be established to ensure project implementation is monitored effectively.

Strategies

- a) Put in place measures to ensure method of disbursement of funds for implementation is made upfront;
- b) Establish mechanisms through which implementation is monitored. Setting up Project Coordinating Committees of which all stakeholders are members is one option.
- c) As part of their terms of reference, Project Coordinating Committees should consider capacity constraints and design appropriate strategies to address them as well as monitoring the financial and physical progress of the project;
- d) The Aid Management Unit must ensure that funds received from Development Partners are not held up in the Government financial system; and
- e) Bureaucratic delays that may adversely affect the implementation of approved projects must be eliminated through early discussion by the Project Coordinating Committees.

Specific Measures

- a) For large and priority projects and those projects designated by the Government of the Republic of Nauru to be treated differently, the procedure for disbursement of funds to Nauru are as follows:
 - Funds paid out to Nauru would be held in a Government designated account and then paid out on advance payment basis to project accounts as imprest in an accountable and transparent method;
 - Lead departments are required to prepare budgets which incorporate development expenditure including the utilization of funds;
 - Project steering committees will be set up for such projects to monitor the progress and discuss followup action;
 - Mid-term reviews and evaluation will be carried out for each project;
 - The Government of Republic of Nauru will also make strong submissions for funding for training and equipment to be provided to ensure that the implementation capacity in the country is improved;
 - Where possible and appropriate, work will be contracted out to the private sector or alternatively, externally through an open and competitive tendering process;
- b) For other projects:
 - Funds paid out to Nauru will be paid to a Government designated account. The funds would then be paid into a separate account with the Treasury, Ministry of Finance other than the Consolidated Fund and paid out to

project accounts as imprest or direct to purchase the items for which the funds were provided;

- The Secretary of Finance and implementing Ministries will be co-signatory to the release of funds to ensure proper accountability;
- Where appropriate, work would be contracted out by open tender to the local private sector;
- Training will be conducted with assistance from Development Partners to ensure project management and project implementation is carried out properly;
- All projects that require counterpart funding by the Government of Nauru, must obtain Cabinet approval before implementation. This understanding must be specified in the MOU with the Development Partners concerned.

A4. Objective 4 – Improve internal financial management

The Government of Nauru is committed to ensuring that all development assistance received from Development Partners are utilized in an accountable and transparent manner. The Constitution together with the Public Finances (Control and Management) Act 1997 provides a clear legislative framework for receiving development assistance. It stipulates that all development assistance must be receipted by the Department of Finance before they are disbursed to Line Departments. Therefore an enabling financial system and processes must be put in place to facilitate this role.

Strategies

- a) Establish a reliable financial management and reporting systems,
- b) Set up clear and accountable procurement systems;
- c) Institute a transparent and wide legal framework;
- d) Ensure the systems are predictable, efficient and enforceable;
- e) Establish a transparent dispute mechanism;
- f) Provide training for key decision makers to ensure that they become accountable for decisions made;
- g) Establish an open bidding system to ensure that contracts are offered on merit and not necessarily to the lowest bidder; and
- h) Ensure that the scope of systems established are applicable to all parties involved.

V. COMMUNICATIONS WITH FOREIGN AID DONORS

Communications with Development Partners will be handled within the Government of Nauru as follows:

(i) Foreign Governments

- a) Diplomatic contacts and agreements in principle will be made through the Ministry of Foreign Affairs and Trade (MFAT) with assistance from the Aid Management Unit;
- b) Dialogue and negotiations on programmes and projects will be made in

collaboration with the Aid Management Unit, Ministry of Foreign Affairs and Trade, Office of the President and relevant Line Ministries;

- c) Negotiations on recruitment of technical assistance and additional support staff under aid funded development projects will be made by the Ministry of Foreign Affairs, in collaboration with the Public Service Commissioner, Line Ministries and the Aid Management Unit.

(ii) Non State Actors (NSAs)

- a) Initial approaches (either way) by NSAs for approvals to operate in Nauru, and agreements in principle should be made to the Ministry of Foreign Affairs in collaboration with NGO umbrella body (once established) and local NGOs concerned; and
- b) Negotiations on programmes and projects, will be made with local NSAs and sector ministries concerned through the Aid Management Unit in consultation with the Ministry of Foreign Affairs and Trade

(iii) Multi-lateral and Regional Organizations

- a) Initial contacts and agreements will be made through the Ministry of Foreign Affairs, Ministry of Finance, Line Ministries and Aid Management Unit collaborating together;
- b) Dialogue and negotiations on programmes and projects will be made with the Aid Management Unit and sector ministries concerned; and
- c) Negotiations on recruitment of technical assistance and additional support staff under aid funded projects will be made by the Ministry of Foreign Affairs and Trade, in collaboration with the Public Service Commissioner, Line Ministries and the Aid Management Unit

(iv) Financial Institutions (e.g. WB, International Monetary Fund and the ADB)

- a) Initial contacts will be made with the Ministry of Finance and Aid Management Unit and where applicable Ministry of Foreign Affairs and Trade. Negotiations for loans will be done by the Ministry of Finance;
- b) Negotiations on Loan Agreements must involve the Department of Justice before it is submitted for consideration, approval and signature;
- c) Loan-funded projects will be discussed between the Ministry of Finance in close consultation with the Aid Management Unit and Line Ministries concerned; and
- d) Negotiations on recruitment of technical assistance and additional support staff under aid funded projects will be made with the Ministry of Foreign Affairs and Trade in collaboration with the Public Service Commissioner, Line Ministries involved and the Aid Management Unit.