

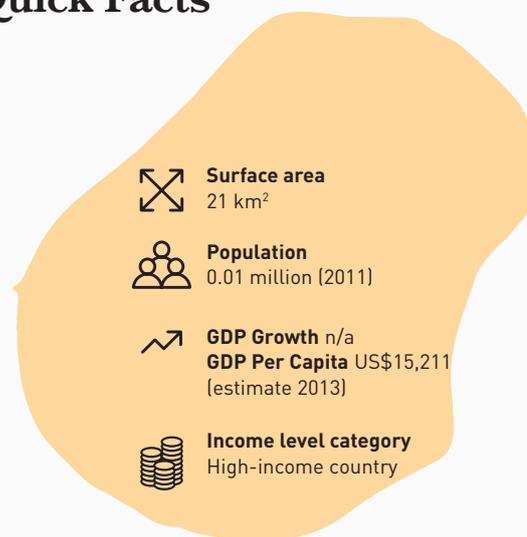


1. Country Context

Also called the Pleasant Island, the Republic of Nauru is the third smallest state by area in the world, with only 21 km² and a population of around 10,000 in 2011. Despite high unemployment, Nauru is considered a high-income country mainly due to profitable phosphate mining and a related royalties trust that generates financial resources for the public sector. Due to its small size and severe domestic capacity constraints, its macroeconomic performance and social indicators are not captured. In the absence of taxes, there is a high dependency on official development finance for all recurrent public expenditures. As a very small and environmentally highly exploited island, Nauru faces vital climate change risks.

According to this year’s monitoring, Nauru received development co-operation amounting to a total of US\$30 million, of which 97% is managed through bilateral channels. Apart from the Asian Development Bank, multilateral organizations are only residually present on the island. The largest development partner by far is Australia, contributing 57%, followed by China-Taiwan with 27% of all development co-operation reported for this monitoring. Most official development finance is focused on social sectors such as health and education as well as energy and infrastructure.

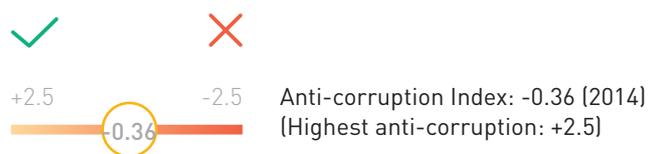
Quick Facts



Domains Where Country Systems Have Been Strengthened

	2009	2015
Budget Support		
PEFA Assessment		
PFM Roadmap		
Aid/Dev. Co-op. Policy		
Dialogue with Partners		
Peer Reviews		
Medium-Term Plans		

Key Development Indices:



Key Development Challenges

The Republic of Nauru has advanced in a number of financial reforms geared to improve efficiency and effectiveness of public expenditures. Key sectors such as infrastructure will be addressed with investment plans and coordination among ministries is relatively fluent. The main challenges for sustainable development in Nauru relate to its dependency on phosphate mining, which poses substantial environmental stress on the island. Beyond the public sector, there are very few business and employment options. Climate change is an immediate threat to the island and disaster risks will require careful medium- and long-term planning and management.

2. Efforts to Implement the Effectiveness Principles

A. Policies and Tools for Partners' Alignment

The Nauru Sustainable Development Strategy (NSDS) 2005-2025 sets out priorities on governance, social services and infrastructure, economic diversification, rehabilitation of mined out lands, and food security. The NSDS was updated in 2009 and the government is

currently working on new consultations, among others aspects, to include the Sustainable Development Goals (SDGs) in the strategy. Derived from the NSDS, there are sector plans for health, education and financial management as well as an investment plan for infrastructure

(NISIP). Despite shortcomings in terms of result-oriented planning and monitoring, the existing policies have helped Nauru to negotiate budget support as a way of avoiding excessive burden of managing numerous small projects.

Major Development Partners of this Round (by Reported Disbursements)



Participation in 2014 Monitoring



Existence of a National Co-operation Policy

B. Governance and Management of Development Finance and Co-operation

The 2011 Development Fund Act provides broad guidelines on how to provide development co-operation. Despite discussions over the past years, an aid management policy has not been approved yet. Nauru has been very active in promoting more effective development co-operation around practical arrangements such as general budget support. A development partner round table gathers the main contributors to discuss operational procedures. Nauru also signed an Aid Partnership Agreement with the main development partner (Australia). At the international level, Nauru is a proactive partner in the Pacific Island Forum, where it pioneered

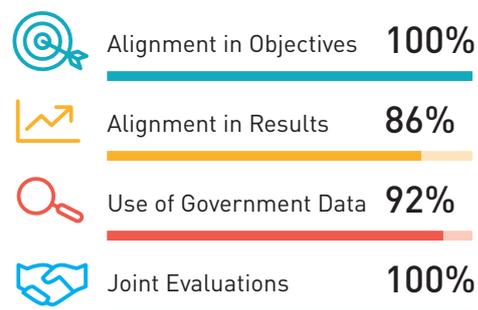
the country peer review in 2010, and in the Global Partnership monitoring, contributing its data in 2014. The country has advanced a number of institutional and operational arrangements to track and manage development co-operation, as with the electronic Financial Management Information System (FMIS), which was launched in 2013 and covers all government departments. Nauru conducted a Public Expenditure Financial Accountability (PEFA) study in 2010 and a Climate Change Finance Assessment in 2012. Recommendations are being implemented up to today, with manifold opportunities to capture all development-related finance in the near future.

3. Country Ownership

Indicator 1: Partners' Alignment and Use of Country-Led Results Frameworks

All development co-operation reported in 2015 is fully aligned with the objectives outlined in the NSDS and sector plans. Eighty-six percent of resources are aligned to country-led results stands and 92% use national monitoring systems. Where evaluations are planned (62%), the Government of Nauru is fully involved by contributing technical and financial means. These favourable figures are

mainly due to the use of general and sector budget support as well as close interaction with the government around political and technical priorities of development co-operation. Nauru has also been a strong player in analysing and assessing its development co-operation, which is why the government is closely involved in evaluations and other analytical work related to development initiatives.

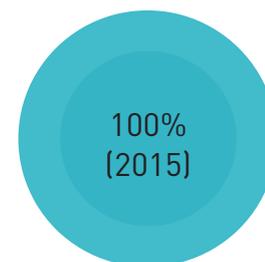


Indicator 6. Development Co-operation is on Budget (Subject to Parliamentary Scrutiny)

All development co-operation reported for this monitoring round is on budget, thanks to the extensive use of general and sector budget support and a good flow of information between the government and the small community of development

partners. In 2015, the government was preparing the roll-out of a Medium-Term Expenditure Framework (MTEF) that might become a valuable reference for consolidating the outstanding performance of indicator 6 in the coming years.

Percentage on Budget



Indicators 9 and 10. Use of Country Systems

Contrary to the excellent performance in alignment, only 53% of development co-operation (i.e., all official development finance provided through budget support) uses Nauru's budget and financial reporting in 2015, while only 8%, relies on country systems for auditing and 34% for procurement. Procurement is

outsourced to a state-owned private company and, over the past years, development partners have been using the system more extensively, albeit at a low level. As of 2015, 93% of development co-operation was untied, slightly down from 99% in 2014. These results reflect the need to strengthen Nauru's public

financial management system, principally by accelerating the implementation of the 2010 PEFA recommendations. Given the high level of trust among all involved partners, joint action might address the pending task of strengthening country financial management capacity in the coming years.

	Budget (ideal: 100%)	Financial Reporting (ideal: 100%)	Auditing (ideal: 100%)	Procurement (ideal: 100%)	CPIA* (maximum: 6)	Untying (ideal: 100%)
INDICATOR 9B.	53% ▼	53% ▼	8% ▲	34% ▲		
INDICATORS 9A & 10.					N/A	93% ▼

* Country Policy and Institutional Assessment

4. Inclusive Partnerships for Development

Indicators 2 and 3. Fostering Inclusive Partnerships for Development

Civil society organizations (CSOs) and the national private sector are involved in formal multi-stakeholder consultation around development planning and implementation, particularly the NSDS. Both players are organized through the Nauru Island Association of NGOs (NiangO) and the Nauru Private Business Sector Organization (NPBSO). A number of challenges remain especially for CSOs, as legal frameworks and coordination mechanisms are not yet in place for civil society to operate in a proper space. However, there are joint capacity-building

initiatives and continuous dialogue to improve the enabling environment in the future. At the level of private sector, only very few non-state companies are active on the island, but there is proactive coordination by the Ministry of Commerce, Industry and Environment to foster micro and small enterprises as well as to attract foreign direct investment, especially with a view to diversifying Nauru's economy. In summary: inclusive partnerships for Nauru's development have advanced thanks to the availability of formal multi-stakeholder forums, showcasing

government's openness to involve all relevant players. As Nauru is a very small island, only short distances need to be bridged for all players to communicate continuously. In the next years, the government needs to clarify the enabling environment for CSOs in political, legal and financial terms (i.e., access to funding) as well as continue investing, with support by the international community, in the capacities of all players – including the government itself – to engage and deepen partnerships for sustainable development.

Indicator 8. Gender Empowerment

Gender equality is not yet tracked in national budget processes. Overall, women's empowerment is still an incipient agenda largely pushed by

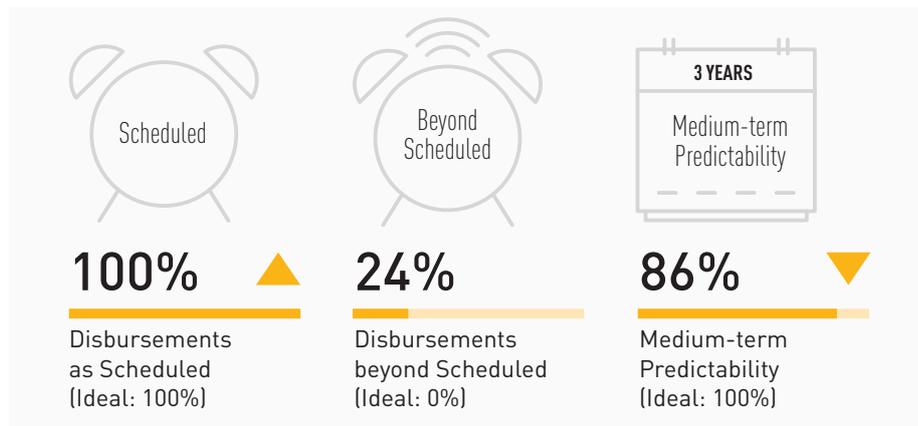
bilateral development partners such as Australia. The Government of Nauru increased allocation to its Women's Affairs Department from 0.10% to 0.16%

of total budget in 2015, but more needs to be done to ensure that men and women are provided equal opportunities through gender-sensitive public expenditures.

5. Transparency and Accountability

Indicator 5. Development Co-operation is More Predictable

In 2015, all development co-operation was disbursed as scheduled annually, while 86% is predictable in the medium term. The latter figure reflects the high quality of aid provided by China-Taiwan and Australia. These are significant changes compared to the last monitoring round, where annual predictability was 0% and medium-term predictability only achieved 62%. Maintaining the current success in the future will require further work on joint planning, especially at the operational level, and continued efforts to improve country systems.



Indicator 7. Mutual Accountability

The Government of Nauru has not yet established a formal mechanism for mutual accountability assessments. However, in practice, there is continuous interaction between the government and providers to further enhance the quality and effectiveness of development co-operation. One example is the development partner round table, which meets annually

to discuss projections and lessons learned. Given the rather reduced group of providers, strong bilateral ties play an essential role for mutual accountability, particularly with Australia (where an Aid Partnership Agreement is in place). This monitoring exercise itself is a valuable contribution for all partners to account for their efforts to boost co-operation

effectiveness. For the future, Nauru might consider reactivating the Aid Management Policy, building up on the opportunities stressed in this year's monitoring. Key elements might include joint work on the quality and use of country systems for public financial management, capacities for inclusive partnerships and further progress in gender equality.

National Priorities Going Forward

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This second round of Global Partnership monitoring survey has been an insightful experience with long-overdue stock-taking and analysis of current development co-operation practices. It was also a much-welcomed opportunity to contemplate and consider national priorities going forward for Nauru's development co-operation. This round of monitoring has found that Nauru is progressing and has already established mechanisms and processes to address all indicators of effective development co-operation. Consequently, going forward, the most significant priority for Nauru in terms of effective development co-operation is to focus on human resource capacity, including quality relationships for the implementation and sustenance of a renewed national development plan and goals. In doing so, Nauru would effectively strengthen and build upon those mechanisms and processes of effective development co-operation previously established. A capable human resource pool ensures effective development co-operation for Nauru in the future.

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For ease of reference, the term 'country' is used to refer to developing countries and territories that reported to the Monitoring Round. Participation in this process and mention of any participant in this document is without prejudice to the status or international recognition of a given country or territory.