

PROGRAM COMPLETION REPORT

ON THE

FISCAL AND FINANCIAL REFORM PROGRAM
(Loan 1661-NAU)

TO

NAURU

November 2003

CURRENCY EQUIVALENTS

(as of July 2003)

Currency Unit – Australian dollar (A\$)

		At Appraisal	At Program Completion
		August 1998	July 2003
A\$1.00	=	\$0.63	\$0.66
\$1.00	=	A\$1.58	A\$1.52

ABBREVIATIONS

ADB	–	Asian Development Bank
BON	–	Bank of Nauru
BRC	–	Budget Reform Committee
DMC	–	developing member country
EA	–	executing agency
ERC	–	Economic Reform Committee
MOF	–	Ministry of Finance
NPC	–	Nauru Phosphate Corporation
NPRT	–	Nauru Phosphate Royalties Trust Fund
OCR	–	ordinary capital resources
OOP	–	Office of the President
PCU	–	program coordination unit
PSC	–	Public Service Commission
PSD	–	private sector development
RONFIN	–	Republic of Nauru Finance Corporation
RRP	–	report and recommendation of the President
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

The fiscal year (FY) of the Government and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends.

CONTENTS

	Page
BASIC DATA	ii
I. PROGRAM DESCRIPTION	1
II. EVALUATION OF DESIGN AND IMPLEMENTATION	3
A. Relevance of Design and Formulation	3
B. Program Outputs	4
C. Program Costs	5
D. Disbursements	5
E. Program Schedule	6
F. Implementation Arrangements	6
G. Conditions and Covenants	6
H. Related Technical Assistance	10
I. Consultant Recruitment and Procurement	10
J. Performance of Consultants, Contractors, and Suppliers	10
K. Performance of the Borrower and the Executing Agency	10
L. Performance of ADB	11
III. EVALUATION OF PERFORMANCE	11
A. Relevance	11
B. Efficacy in Achievement of Purpose	11
C. Efficiency in Achievement of Outputs and Purpose	11
D. Preliminary Assessment of Sustainability	11
E. Environmental, Sociocultural, and Other Impacts	11
IV. OVERALL ASSESSMENT AND RECOMMENDATIONS	12
A. Overall Assessment	12
B. Lessons Learned	12
C. Recommendations	12
APPENDIXES	
1. Program Framework	13
2. Status of Compliance with Loan Covenants	18

BASIC DATA

A. Loan Identification

1.	Country	Nauru
2.	Loan Number	1661-NAU
3.	Program Title	Fiscal and Financial Reform Capacity Building for Financial and Economic Management
4.	Borrower	Nauru
5.	Executing Agency	Office of the President
6.	Amount of Loan	\$5.0 million
7.	Amount of TA	\$2.3 million (revised on 2 October 2002)
8.	Program Completion Report Number	\$600,000 PCR: NAU 765

B. Loan Data

1.	Appraisal	
	– Date Started	13 August 1998
	– Date Completed	22 August 1998
2.	Loan Negotiations	
	– Date Started	6 November 1998
	– Date Completed	24 November 1998
3.	Date of Board Approval	16 December 1998
4.	Date of Loan Agreement	29 January 1999
5.	Date of Loan Effectiveness	
	– In Loan Agreement	29 April 1999
	– Actual	19 February 1999
	– Number of Extensions	None
6.	Closing Date	
	– In Loan Agreement	30 June 2001
	– Actual	02 October 2002
	– Number of Extensions	None
7.	Terms to the Borrower	
	– Commitment Charge	0.75%
	– Maturity	15 years
	– Grace Period	3 years

8. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
24 February 1999	24 February 1999	0
Effective Date	Original Closing Date	Time Interval
19 February 1999	30 June 2001	28 mo.

b. Amount (\$ million)

Loan Amount					
Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled 20 Oct 02	Amount Disbursed	Undisbursed Balance
01	5.0	2.3	2.7	2.3	2.7
Total					

9.	Local Costs (Financed)	
–	Amount (\$)	0
–	Percent of Local Costs	0%
–	Percent of Total Cost	0%

C. Program Data

1. Program Cost (\$ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	5.0	2.3
Local Currency Cost	0.0	0.0
Total	5.0	2.3

2. Financing Plan (\$ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower-Financed	0.0	0.0
ADB-Financed	5.0	2.3
Other External Financing	0.0	0.0
Total	5.0	2.3
IDC Costs		
Borrower-Financed	0.0	0.5
ADB-Financed	0.0	0.0
Other External Financing		
Total	0.0	0.5

ADB = Asian Development Bank, IDC = interest during construction.

3. Cost Breakdown by Program Component (\$ million)

Component	Appraisal Estimate	Actual
Tranche 1		
Public Service Redundancy Payments (including RONFIN)	1.0	1.0
Nauru Phosphate Corp. Redundancy/Retrenchment Cost Support	0.3	0.3
Debt Services Support	0.5	0.5
Health Expenditure Support	0.2	0.2
Specialist Inputs	0.3	0.3
Subtotal	2.3	2.3
Tranche 2		
Public Service Redundancy Payments (including RONFIN)	0.8	0.0
Nauru Phosphate Corp. Redundancy/Retrenchment Cost Support	0.2	0.0
Debt Services Support	0.3	0.0
Health Expenditure Support	0.2	0.0
Specialist Inputs	0.3	0.0
Subtotal	1.8	0.0
Tranche 3		
Public Service Redundancy Payments (including RONFIN)	0.4	0.0
Nauru Phosphate Corp. Redundancy/Retrenchment Cost Support	0.0	0.0
Debt Services Support	0.2	0.0
Health Expenditure Support	0.1	0.0
Specialist Inputs	0.2	0.0
Subtotal	0.9	0.0
Total	5.0	2.3

RONFIN = Republic of Nauru Finance Corporation.

4. Program Schedule

Item	Appraisal Estimate	Actual
Loan 1661-NAU		
Release of Tranche 1	February 1999	February 1999
Release of Tranche 2	February 2000	Canceled
Release of Tranche 3	February 2001	Canceled
Dates		
First Procurement	Not applicable.	None
Last Procurement	Not applicable	None

5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
31 December 2000 to 31 April 2001	S	S
1 May 2001 to 30 June 2002	S	PS
1 July 2001 to 31 December 2002	U	PS

PS = partly satisfactory, S = satisfactory, U = unsatisfactory.

D. Data on Asian Development Bank Missions

Name of Mission	Date	Persons (no.)	Person-Days (no.)	Specialization of Members ^a
Fact-Finding Mission	29 May–12 June 1998	2	30	a, b
Appraisal Mission	13–22 August 1998	2	20	a, b
Inception Mission	16–19 February 1999	1	8	a
Review Mission 1	21–25 June 1999	2	10	a, c
Review Mission 2	26–29 October 1999	1	4	a
Review Mission 3	21–25 August 2000	1	5	a
Program Completion Review ^b	3–10 July 2003	2	12	d, a

^a a = programs officer, b = consultant; c = associate project analyst, d = economist.

^b The program completion report was prepared by S. Pollard, principal economist (poverty reduction) and desk officer for Nauru; M. Prokop, economist; and C. Bantugon, associate project analyst.

I. PROGRAM DESCRIPTION

1. Nauru's continuing economic problems have been caused mainly by poor fiscal, financial, and public sector management, and lack of support for development of the private sector. The economy has relied on revenues from a single resource, phosphate, since independence in 1968. That revenue has been generated by the Nauru Phosphate Corporation (NPC), a Government-owned corporation that has a monopoly on phosphate mining on the island. Because the phosphate resources are not renewable, the Nauru Phosphate Royalties Trust Fund (NPRT) was established in 1968 to create a stock of assets that would generate a sustainable flow of income for the Government and landowners. NPRT administers other funds designed to generate income for Government and landowners, and for land rehabilitation and housing.

2. Because export volumes and prices were relatively high in the past, NPC was able to pay large royalties into the funds and provide substantial dividends directly to the Government. This allowed the Government to supply most domestic services free of charge, or at highly subsidized rates, and to employ Nauruans in the public sector at relatively high salaries. But poor public sector management and mismanagement of trust funds have increased budget deficits every year since the 1990s. As income from phosphate has declined, recurrent Government expenditure has increasingly been met through borrowing. Successive governments have financed the deficits in an unplanned and largely nontransparent manner, borrowing directly from NPRT, as well as by employing the Government-owned Republic of Nauru Finance Corporation (RONFIN) as an onlending agency that borrowed from NPRT and used NPRT assets as collateral for external commercial borrowing. The Government also borrowed from the only domestic bank, the Government-owned Bank of Nauru (BON); accessed the two Government-owned pension funds; introduced legislation to allow direct fund transfer from NPRT; and appropriated the royalty monies that should have augmented NPRT funds. BON collapsed because of excessive Government borrowings, and can no longer pay its depositors.

3. The situation has been further aggravated by NPRT's unwise investment decisions. Heavy investments in an airline, shipping line, fishing vessels, and in the property markets of Australia, New Zealand, United States, and Asian countries have resulted in substantial losses. Property investments no longer provide sufficient income to support Government expenditures, and have not been appreciating in value. Property sales have been used to augment Government revenue or liquidate borrowings, resulting in heavy losses. This has resulted in the net reduction of external assets from an estimated high of A\$1.3 billion to about A\$300 million today. Much of the current assets are mortgaged or otherwise encumbered.

4. In 1988, recognizing that phosphate reserves were depleting, the Government sought to strengthen its fiscal, financial, and overall public sector management by promoting the private sector-led diversification of its economy. Loan 1661-NAU: Fiscal and Financial Reform Program¹ was approved for US\$5.0 million provided from the ordinary capital resources (OCR) of the Asian Development Bank (ADB) on 16 December 1998. The immediate program objective was to help the Government implement essential fiscal and financial reform. The longer-term objective was to achieve sustainable economic growth in line with the economy's capacities. As a first step, the Program sought to address the fundamentals of fiscal, financial, public sector, and economic management by adopting fiscal management reform, introducing

¹ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Nauru for Fiscal and Financial Reform Program*. Manila.

an asset management framework, rehabilitating the banking sector, restoring financial services, and reforming the public sector.

5. It was recognized that the longer-term objective of achieving a reasonable and sustainable standard of living would not be easy or quick. The Program was seen as a first step to address the fundamentals of fiscal, financial, public sector, and economic management. Beyond this, and possibly to be implemented under a follow-up phase, Nauru needed to adjust to a new and more modest standard of living, and to focus on diversifying the economy.

6. The loan was to be disbursed in three tranches from January 1999 to December 2000. The loan had a repayment period of 15 years, including a grace period of 3 years, with interest determined in accordance with ADB's pool-based variable lending system for US dollar loans and a commitment charge of 0.75% per annum. The first tranche of US\$2.3 million equivalent was released upon effectiveness in February 1999. The second tranche of US\$1.8 million equivalent was to be released upon fulfillment of second tranche conditions in February 2000. The remaining US\$900,000 equivalent was to be released upon fulfillment of third tranche conditions. The counterpart funds generated from the Program were to be used for:

- (i) separation payments to about 450 public service employees and about 250 NPC staff, at an estimated cost of US\$2.7 million;
- (ii) direct budget support, estimated at US\$1.0 million, to pay arrears, deferred obligations, and restructured debt payments that affected delivery of public services;
- (iii) financing of specialist inputs to improve performance of public sector and state-owned enterprises (SOEs), as well as to support implementation of reform measures, estimated at US\$0.8 million; and
- (iv) payment of non-wage related health and education expenditures to improve service delivery for both sectors, estimated at US\$500,000.

7. The Office of the President was the Executing Agency.

8. ADB provided an associated advisory technical assistance² (TA) for US\$600,000, financed on a grant basis from the ADB-funded TA program. The purposes were (i) to support capacity building of critical public sector functions of the Government such as policy management, fiscal, financial, and debt management, and general public sector strengthening; and (ii) in particular, to help the program steering committee, called the Economic Reform Committee (ERC), implement the reforms.

9. ADB also subsequently approved a small-scale TA³ for US\$144,000 on 1 February 1999, and an advisory TA⁴ for US\$300,000 on 14 December 2000. The objectives of TA 3163 (footnote 3) were to (i) create an understanding of the current financial and economic situation facing the country, (ii) inform public and government officials about the need for the Program, (iii) create public awareness of the implications of undertaking the reforms, and (iv) help establish a transition unit to assist redundant government employees with skills training and advice on alternate employment and business opportunities. In essence, the overall objective was to gain public acceptance and support for the Program before implementation. The

² ADB. 1998. *Technical Assistance to Nauru for Capacity Building for Financial and Economic Management*. Manila.

³ ADB. 1999. *Technical Assistance to Nauru for Social Awareness and Transitional Requirements for the Reform Program*. Manila.

⁴ ADB. 2000. *Technical Assistance to Nauru for Strengthening the Ministry of Finance and Supporting the Bureau of Statistics*. Manila.

objective of TA 3584 (footnote 4) was to strengthen the Ministry of Finance's capacity in budgeting and financial management by streamlining and enhancing the institutional capacity of the Finance Department and Bureau of Statistics.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

10. Based on consultations with the chairperson and members of the ERC, elected and executive officials of Government, and members of the public, the reform program was both necessary and relevant in its time, and remains relevant today. The reform program was included in the then-current Country Operational Strategy for Nauru.

11. There was a change of government during the implementation period, and the new Government lacked the political will to continue the reforms. This could not have been anticipated at appraisal. Respondents suggested that acting at a slower pace, and gradually phasing in the reforms, might have worked better. This indicates that society, government, and donor participation in the program design should have been more extensive. The Government at the time held the National Economic and Development Summit from 24 to 26 February 1999, but it did not provide sufficient participation. Some commented that the summit's recommendations were not followed up. At first, ADB declared the Economic and Development summit a success, in that it was the first open, public forum on these issues. But by October 1999, the ADB Review Mission commented, "There is no consensus, no concerted effort by key players to set an economic and focal strategy and follow through with an action plan. Regrettably, the longer the reforms are delayed, the more difficult and painful will be the path to recovery." The assumption that Nauruans were generally aware of the situation and had accepted the need for drastic changes (footnote 1, para.67) may not have been correct. Greater participation could have resulted in a broader assessment of the readiness and ability of the recipient society, and of the leadership, to accept and sustain the required reforms, and to thereby alter, delay, or decide not to proceed with the program.

12. More extensive participatory and transparent consultations could also have helped give direction to the nature of reform. Respondents suggested that Nauruan society was not ready to accept general redundancies, and that a more acceptable method of wage and salary reduction would have been to reduce working hours and to fire nonperformers. The Fact-Finding Mission of June 1998 noted, "Adequate time for change/reform needs to be provided in any reform program," and "The average person was concerned with the loss of jobs in the government." Yet the only options recommended at fact-finding were variations on retrenchment.

13. Members of the ERC commented that the Program was far too optimistic with regard to small businesses, private sector development (PSD), and revenue generation. Although the RRP (paras. 49 and 57 on) stated that economic diversification might be addressed by further follow-up assistance, retrenched public servants were expected to establish small businesses. Program design should have included more immediate assistance to counter economic contraction caused by downsizing of the public sector. As with other ADB-funded public sector reform programs in the Pacific, it is often easier, but no less painful, to reduce public expenditures. But adjusting for economic contraction in the public sector by economic expansion in the private sector, to raise government revenues, is more difficult. The environment of Nauru, as in other Pacific developing member countries (DMCs), does not

readily support private sector expansion.⁵ Government holdings and other interventions in the provision of private goods and services tend to undermine or crowd out private investment. Transaction costs are unnecessarily expensive; public services are irregular; commercial transactions are not secure; leased land and, therefore, commercial collateral are not available to most of the population; and government red tape can be unnecessarily obstructive.

14. It was also suggested that the program should have made earlier and more substantial allowance for the needs of individuals who took redundancy packages with the intention of starting small businesses. One objective of the subsequent TA 3163 (footnote 3)—which did not materialize—was to help establish a transition unit to give redundant government employees skills training and advice on alternate employment and business opportunities. This activity did not materialize. Apparently, there was no social safety net other than the business advisory unit. Government leadership also decided not to continue to phase out retrenchment payments, but to pay in one lump sum. The lump-sum payments were soon spent. Retrenched employees then sought to return to government employment.

15. The program matrix and status of implementation are in Appendix 1.

B. Program Outputs

16. The immediate program outputs were to be the following:

- (i) The budget was to be balanced as quickly as possible, within a framework of forward budget estimates. The Government would then begin to live within its means. Current levels of government expenditure and fiscal deficits were unsustainable, so extensive fiscal reform to make public finances more transparent was urgently needed. Therefore, the Government was to adopt a fiscal management reform program to reduce expenditures by assessing and better managing the extensive debt; enhancing revenues (including by charging user fees for services that had been generally offered free or at highly subsidized rates); and making budget coverage comprehensive. The Parliament was to adopt a formal fiscal policy statement to govern future fiscal management. The Government was to act quickly on debt restructuring, public sector downsizing, phosphate revenue enhancements, and tax reform. Also, government-owned enterprises were to prepare budgets and present them to Parliament.
- (ii) The Government was to urgently introduce an asset management framework to ensure that Nauru used and managed its phosphate and financial investments productively for present and future benefit. This included an immediate and independent evaluation of financial holdings, and liabilities such as arrears on wages and purchases of goods and services as well as debt service obligations. Financial holdings of NPRT needed to be entrusted to a professional investment manager to ensure optimum returns.
- (iii) The Government was to immediately reform and rehabilitate the financial sector by establishing a viable banking system. The financial sector was in shambles. Restoration of normal financial services in Nauru was an absolute priority.

⁵ This has been further proven by recent private sector assessments for the Marshall Islands, Papua New Guinea, Samoa, and Vanuatu in 2003 through ADB. 2002. *Regional Technical Assistance for A Private Sector Development Strategy for the Pacific*. Manila (TA 6037-REG, approved for \$300,000 on 24 June 2002).

Without financial restoration, public confidence could not be regained, savings would be discouraged, efficiency of the economy would suffer, and private sector activities would not increase. While strategies were being prepared through the reform process, and pending the resolution of the Bank of Nauru's problems, an alternate banking option was a program priority to meet the urgent need for reliable banking services.

- (iv) Finally, the Government was to address basic public sector reform by streamlining staff numbers, wage levels, and efficiencies and effectiveness of services. A number of services were to be corporatized or privatized. Urgent action was needed.

17. Initial steps were taken to achieve all of these outputs, but none were fully achieved. The government budget remained in substantial deficit, the asset management framework was only partly addressed, and a viable banking system remains to be established. Numbers of public service staff were reduced initially, but raised subsequently in other areas. A few SOEs were corporatized, but efficiencies and effectiveness were not improved, and no SOEs were privatized.

18. Central government personnel were retrenched as required under the Program, but this was not fully extended to personnel working for NPC and other SOEs. Many of those retrenched were subsequently reemployed, either directly by, or indirectly under contract to, the Government. Program reform of NPC, NPRT, and BON proved to be too large an obstacle for Nauru's people, and especially its leadership, to accept. Some government departments and SOEs continued with excessive numbers employed. The inception mission of February 1999 noted slow progress with NPC reforms and the impending continued budget deficit—but with projected revenues overestimated to justify continued high levels of government expenditure. The review mission of June 1999 noted the same concerns. Apparently the political leaders, initially determined to support change, reversed their commitments once they saw that the people would not accept the reforms.

C. Program Costs

19. The loan of US\$5 million from OCR was to be released in three tranches. The first tranche of US\$2.3 million was disbursed in February 1999, when the loan became effective. But the second tranche of US\$1.8 million and the third tranche of US\$0.9 million were cancelled because of the Government's noncompliance with tranche conditions. Furthermore, the new government had reversed the reform measures agreed under the first tranche with the previous government. That made it difficult for ADB to release the subsequent tranches.

D. Disbursements

20. The loan was to be disbursed in three tranches, from January 1999 to December 2000. The first tranche of the program loan, for US\$2.3 million, was released upon effectiveness in February 1999. Subsequent governments failed to meet interest and commitment charges commencing 15 June 2001, and additional repayments of loan principal from 15 June 2002. There was a change of government, and the new Government could meet only some of the conditions for the second tranche drawdown, for US\$1.8 million, that was due in February 2000. The second tranche was not, therefore, drawn. ADB canceled the loan in October 2002. As of 15 June 2003, the outstanding loan service payments totaled US\$762,311. Staff have

continuously reminded the Government about the need to settle the overdue loan amount. The only positive response received was from the Ludwig Scotty Government of May to July 2003.

21. Reforms were not adhered to and the disbursement schedule could, therefore, be declared unrealistic. Delays in the reform program were partly caused by changes in government, and time was lost in readdressing the same issues with subsequent governments. But successive governments took no corrective actions, so the entire Program was effectively abandoned.

E. Program Schedule

22. The program schedule is summarized in Table 1.

Table 1: Program Loan Tranche Schedule
(US\$ '000)

Item	First Tranche	Second Tranche	Third Tranche	Total
Separation Pay	1,300	1,000	400	2,700
Debt Support	500	300	200	1,000
Specialist Inputs	300	300	200	800
Health and Education	200	200	100	500
Total	2,300	1,800	900	5,000

Source: ADB. 1998. *Report and Recommendation of the President to the Board of Directors for a Proposed Loan and Technical Assistance Grant to Nauru for Fiscal and Financial Reform Program*. Manila

F. Implementation Arrangements

23. The implementation arrangements largely functioned as planned. The Office of the President was the Executing Agency for the loan. The ERC was formed, which oversaw program implementation for as long as it received support of the political leadership. The chief secretary of Government chaired the ERC. It met often, but reported less frequently. It enlisted other technical support when needed, and was supported by a program coordination unit (PCU) headed by a reform coordinator. The PCU was staffed with an accountant, and was supported by various consultant inputs financed by TA grants.

G. Conditions and Covenants

24. Table 2 summarizes the status of the policy and reform conditions for tranche releases. Appendix 2 gives the detailed status of compliance with loan covenants.

Table 2: Policy and Reform Conditions for Tranche Releases

Condition	Date of Completion	Responsibility	Monitoring Mechanism	Status
A. First-Tranche Conditions				
Pass Public Service Commission (PSC) bill in Parliament to (i) reduce work hours of the public service by 20% for selected categories with a corresponding wage	Sep 1998	PSC	Copy of approved bill	Completed

Condition	Date of Completion	Responsibility	Monitoring Mechanism	Status
reduction, and (ii) lower the retirement age				
Budget for FY1999 passed by Parliament incorporating the reduction in public service expenditures (wages, salaries, and pension fund) equivalent to 15% of FY1998 expenditures	Oct 1998	Budget Reform Committee (BRC)	Submission of approved appropriation bill	Completed
Nonprofessional and nonmanagerial positions that have been vacant for 2 fiscal years to be abolished	Nov 1998	BRC	List furnished before loan release with quarterly reports	Completed
Per diem allowances to be aligned to international standards (United Nations, Asian Development Bank, Forum Secretariat rates)	Jan 1999	BRC	Cabinet paper revising allowances	Completed
Prepare and implement a redundancy program in cases where staffing is clearly excessive	Oct 1998	BRC	Submission of redundancy program	Completed
B. Second-Tranche Conditions				
Reduce staff expenditures in public service for FY1999 by 15% from budgeted public service staff expenditures for FY1998	July 1999	Ministry of Finance (MOF)	Submission of budget documents and financial reports	Complied with. Actual costs cut by 18%
Submission of appropriations bill for FY2000 passed by Parliament incorporating a reduction in public service staff expenditures (wages, salaries, and pension fund) equivalent to 20% of FY1999 budgeted expenditures	July 1999	MOF	Copy of budget appropriation bill	Complied with. Approved budget 68% of FY1998 budget.
Travel, entertainment, and office expenses to be reduced by 25% from the FY1998 budgeted levels	Jun 1999	MOF	Expenditure as per financial statements	Complied with
Reduce existing Nauru Phosphate Corporation (NPC) staffing to no more than 1,200 to reflect	Jun 1999	NPC	NPC staffing report and financial statements	Staffing level reached 1,176 in October 1998 with plans to reduce it to

Condition	Date of Completion	Responsibility	Monitoring Mechanism	Status
requirements of the current level of phosphate mining				1,150 by end of June 1999. But current staffing is 1,300 regular and 400 casual employees, including 550 overseas workers, violating the tranche condition.
Establish value of the Nauru Phosphate Royalties Trust Fund (NPRT) assets net of mortgages and other liabilities	Jun 1999	NPRT	Submission of report by valuation experts	Complied with. The portfolio was assessed in connection with loan restructuring.
Appoint a reputable investment firm as fund manager for the liquid portfolio	Jun 1999	NPRT	Confirmation of appointment of fund manager	Not complied with
Consolidate domestic and external debts to determine overall Government indebtedness	Jun 1999	BRC/MOF	Submission of report identifying overall indebtedness	Complied with
Implement permanent and other staff reduction of the Republic of Nauru Finance Corporation (RONFIN) by a minimum of 100 persons from existing level of 220	Dec 1998	BRC/RONFIN	Submission of staffing report and actual salary expenditures	Complied with. Staff reduced to eight
Approval for establishment of a foreign bank branch or joint venture banking company	Mar 1999	MOF/BRC	Confirmation of Government approval	Not complied with
C. Third-Tranche Conditions				
Reduce staff expenditures in public service for FY2000 by 20% from budgeted public service expenditure of FY1999	Jul 2000	MOF	Submission of budget documents and financial reports	Not complied with
Customs tariffs on all dutiable items raised by a minimum of 25% of current tariff rates	Jun 2000	MOF	Schedule of revised tariff rates	Not complied with
Raise electricity tariff rates by a minimum of 5% from 1998 rates to gradually reflect full cost recovery of a cost-	Jul 2000	MOF	Schedule of revised tariff rates	Not complied with

Condition	Date of Completion	Responsibility	Monitoring Mechanism	Status
effective and efficient supply of electricity				
Raise water utility rates by a minimum of 10% from 1998 rates to gradually reflect full cost recovery of the cost-effective and efficient supply of water	Jun 2000	NPC	Schedule of revised tariff rates	Not complied with
Review all corporatized entities, such as Eigigu Holdings and Air Nauru, to ensure clear delineation of assets and delegation of management and financial responsibilities. Prepare report with recommendations for further actions	Jun 2000	Cabinet	Reports	Not complied with

Source: ADB. 1998. *Report and Recommendation of the President to the Board of Directors for a Proposed Loan and Technical Assistance Grant to Nauru for Fiscal and Financial Reform Program*. Manila

25. All of the first-tranche conditions were met. They covered reducing working hours, lowering of the retirement age, reducing the FY1999 budgeted expenditures, abolishing lower-level vacancies, adjusting per diem allowances to international levels, and preparing a redundancy program.

26. Some second-tranche conditions were complied with: the reduction of actual and budgeted staff expenditures, establishment of NPRT asset values, and reduction of RONFIN staff numbers. But other second-tranche conditions were not met, including reduction of NPC staffing, appointment of a reputable NPRT investment fund manager, consolidation of government debts, and approval of the establishment of a new commercial bank. Thus, the second tranche could not be drawn. Third-tranche conditions were abandoned. The failure to meet second- and third-tranche conditions was reported to be because subsequent governments abandoned the Program.

27. Nauru's economy and society continue to decline, salary payments are in arrears, NPC workers have gone on strike, and some Nauruans are trying to return to subsistence living. Payments by the Government of Australia to maintain refugee camps for Afghans and Iraqis in Nauru have helped sustain some public supplies and services, although erratically. The Government has otherwise mortgaged its remaining assets. The Ludwig Scotty government, elected in June 2003, promised to present a realistic reform budget in a national economic forum in September 2003. But that government was ousted by a vote of no confidence in August 2003.

H. Related Technical Assistance

28. TA 3125 (footnote 2) commenced as planned. The Pacific Financial Technical Assistance Centre also provided supporting services. All three associated TAs⁶ (footnotes 2-4) began, but activities gradually ground to a halt from 1999 to 2002, as the subsequent governments failed to support the program of reforms. Substantial funds remain underutilized, either as nondisbursed contracted funds or as uncommitted TA. The three TAs were all held open in the hope that subsequent governments would recognize the need for reform and seek TA. The reform-minded Scotty government, formed in June 2003, sought such assistance. ADB made the requisite preparation to resupply assistance, beginning with providing participation specialists to help implement a national economic forum under TA 3163 (footnote 3). But the Scotty government lasted only 2 months. It was ousted on a vote of no confidence in August 2003. The new Government from August 2003, under President Rene Harris, has agreed to proceed with the national economic forum. But the extent of this commitment is not clear, and other TAs (footnotes 2 and 4) have, again, been put on hold.

I. Consultant Recruitment and Procurement

29. No problems were encountered in consultant recruitment and procurement. The Government hired no local consultants.

J. Performance of Consultants, Contractors, and Suppliers

30. Four international consultants were recruited under TA 3125: (i) a program coordinator and adviser on overall economic strategy, financial policy, and public sector reform (8 person-months); (ii) an adviser on the financial condition and prospects of the Bank of Nauru and the restoration of banking services in Nauru (5 person-months); (iii) a debt management and financial specialist (3.5 person-months); and (iv) an adviser on NPRT portfolio restructuring, strategies, and operations, and on strengthening of NPRT's accountability and transparency (8 person-months). All international consultants performed as required.

K. Performance of the Borrower and the Executing Agency

31. Institutional arrangements were established and initially operated as planned, incorporating firm ERC commitment to reform. Executive officials began administering the Program well. But the legislative leadership did not support this executive institutional capacity. ERC members were subsequently fired, or they resigned, so the Government lost their skills and commitment. The assessment of the Office of the President's capabilities at appraisal was reasonably accurate.

32. Although some individuals have strong professional skills, government-wide executive capacity remains extremely limited. The subsequent governments did not use the TAs to support institutional and capacity building.

33. The performance of the Borrower and Office of the President is rated as partly satisfactory.

⁶ Activities under TAs 3125 and 3163 resumed in 2003 in support of the Ludwig Scotty government.

L. Performance of ADB

34. ADB provided adequate and timely assistance, as designed, with the possible exception of late and incomplete implementation of TA 3163, which might have helped strengthen (but not necessarily fulfill) commitments to the Program. The assistance included timely approval of first tranche drawdown, frequent Program review, and the selection and fielding of TA consultants. There were no individual disputes over implementation, beyond the issue with subsequent governments as to whether the entire program was politically feasible. ADB's performance is rated as satisfactory.

III. EVALUATION OF PERFORMANCE

A. Relevance

35. The objectives and purpose of the reform program were both necessary and relevant. The Program remains relevant today. The program design could have been improved by strengthened participation, involving all stakeholders in helping design the nature and extent of reforms.

B. Efficacy in Achievement of Purpose

36. The Program did not achieve its purpose and few of its immediate objectives. The fiscal, financial, public sector, and economic status of Nauru, and its management, continue to worsen. Reforms are needed more urgently today than before.

C. Efficiency in Achievement of Outputs and Purpose

37. Implementation and management started well, but lasted for only a short period. The leadership did not support the required reforms, and the people did not understand them well. The Program was inefficient.

D. Preliminary Assessment of Sustainability

38. The Program was not sustained.

E. Environmental, Sociocultural, and Other Impacts

39. The social impact was anticipated to be painful (footnote 1, para. 62), and the environmental impact was expected to be minimal (footnote 1, para. 68). The Program's failure helped worsen the sociocultural and physical environments. Nauru's government and people are far worse off today than when the Program began, with arrears in wage and salary payments, poorer public services, uncertain international transport and trade, and increased crime, including sabotage of NPC equipment and deteriorating public infrastructure.

40. A further cost of the Program was the subsequent closure of reform proponents, and the loss of their professional services to the subsequent governments. A potential benefit may, however, be seen in the formation of a new party committed to reform, and thereby the strengthening of the politics of Nauru. The party was elected in June 2003. Intent on strengthening and enforcing good governance, that government also considered establishing the office of an ombudsman and implementing a leadership code but was voted out of office by a vote of no confidence on 8 August 2003.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

41. The Program was not implemented as conceived. Most of the intended objectives, purposes, and outputs of the Program were not achieved. The Program was not sustained, and the overall assessment is that the Program was unsuccessful.⁷

B. Lessons Learned

42. The relatively brief efforts at reform to stem the long decline of the Nauru economy made in 1999 and 2000 have led to some lessons and recommendations for future reforms that the current Government may wish to consider. Major lessons and recommendations refer to the (i) need for prior, transparent, and participatory assessment of the social and political feasibility and sustainability of reforms; (ii) participatory consideration of alternative means to reduce costs of personnel; and (iii) prior consideration of the means to improve the environment for alternate revenue generation, including far greater commitment to improving the environment for private sector development. A more participatory assessment could, of course, determine that no reform program is feasible.

C. Recommendations

43. Reform programs of the nature and extent of Loan 1661, with far-reaching impacts on the livelihoods of all of Nauru's people through fiscal, financial, and public services, should be designed, implemented, and monitored in as fully participatory and transparent a manner as possible. This should be possible in a country such as Nauru, which consists of one island, one cultural grouping, and one government.

44. Outstanding loan service payments of US\$762,311 as of 15 June 2003, and the liquidation of long-outstanding advances for training of US\$25,000 under TA 3163 (footnote 3) should be followed up. Program performance audit report could take place now.

⁷ This program completion report is part of a sample of reports independently reviewed by the Operations Evaluation Department. The review has validated the methodology used and the rating given.

PROGRAM FRAMEWORK

Design Summary	Performance Target	Monitoring Mechanisms	Assumptions and Risks	Status
Goal Sustainable economic growth	Target for goals At least 2% per annum, starting in 2001	National accounts		Economy is still contracting
Purpose 1. Achieve responsible fiscal management in the medium and long term	<ul style="list-style-type: none"> Balanced budget within 2 years Increase in revenues by at least 30%, starting in 2000 Expenditure cuts of at least 15% in 1999, and another 20% in 2000 No further government borrowings 	Annual budget performance	<ul style="list-style-type: none"> Phosphate prices do not decline The economy can diversify beyond phosphates operation The Government continues to be committed to reform 	Not yet achieved. Subsequent governments have not been fully committed to reform.
2. Preserve real value of external assets and increase sustainable recurrent revenue stream from the Nauru Phosphate Royalties Trust Fund (NPRT) and Nauru Phosphate Corporation (NPC)	<ul style="list-style-type: none"> Net value of assets will increase about \$200 million Minimum recurrent revenue of \$15 million Generate a dividend income of at least \$7 million from NPC 	<ul style="list-style-type: none"> Audited statements of trust funds and NPC Revenue statement of annual budget 	<ul style="list-style-type: none"> Phosphate prices do not decline The economy can diversify beyond phosphates operation The Government continues to be committed to reform Property markets allow for profitable liquidation 	Not achieved. Real asset values have declined. Phosphate operations have almost ceased. The economy has not diversified. Property markets could allow for some profitable liquidation, but the poor state of some assets, asset litigation, mortgages, and locked box limit liquidation.
3. Improve efficiency and effectiveness of public sector	<ul style="list-style-type: none"> Government departments operate within the reduced budget Quality of public service delivery is improved State-owned enterprises operate on a commercial basis 	Budget performance reports	<ul style="list-style-type: none"> Phosphate prices do not decline The economy will be able to diversify beyond phosphates operation The Government continues to be committed to reform 	Some public service delivery has improved with assistance of the Australian Agency for International Development (AusAID). With some exceptions, like Air Nauru's previous equipment lease, state-owned enterprises do not operate on a commercial basis. Budgeted

Design Summary	Performance Target	Monitoring Mechanisms	Assumptions and Risks	Status
4. Establish viable banking system and adequate consumer confidence	<ul style="list-style-type: none"> Traditional financial transaction such as payment by checks and use of financial instruments reestablished Domestic savings mobilized 	<ul style="list-style-type: none"> Establishment of an alternative bank Annual financial sector reports Bank financial statements 	<ul style="list-style-type: none"> The private sector will respond to reform initiatives Private banks operate efficiently and effectively to reinstate public confidence in banking 	<p>expenditures were not adhered to.</p> <p>A viable banking system was not established.</p>
Outputs 1. To achieve responsible fiscal management: <ul style="list-style-type: none"> Decrease overall government expenditure through measures specified in the policy and reform matrix (including redundancy program) Increase government revenues through measures specified in the matrix (taxes and customs duties) Realign/reallocate phosphate royalties from the current distribution to augment government revenues Reduce subsidies and donations to state-owned enterprises by introducing full cost recovery Establish public debt and clear books of government entities 	<p>Dec 2000</p> <p>Dec 2000</p> <p>Dec 1999</p> <p>Dec 2000</p> <p>Jun 1999</p>	<ul style="list-style-type: none"> Loan reviews Compliance with tranche conditions Quarterly reports from project implementation unit 	<ul style="list-style-type: none"> Political commitment to implement the Program exists The Government has the institutional capacity to implement the Program External sources continue to provide appropriate and timely advice The Government has the ability to adapt to changing conditions and take corrective action 	<p>Responsible fiscal management was not fully achieved.</p> <p>Personnel expenditures were reduced, but other expenditures were not controlled.</p> <p>Existing duties were increased.</p> <p>No new duties and taxes were leveled.</p> <p>Not implemented</p> <p>Full cost recovery was achieved by some state-owned enterprises. Most subsidies were removed.</p> <p>Public debts were established. Books of state-owned enterprises</p>

Design Summary	Performance Target	Monitoring Mechanisms	Assumptions and Risks	Status
<ul style="list-style-type: none"> More effective planning, budgeting, and control by the Ministry of Finance (MOF) through the introduction of restructured budget and financial management systems, procedures, and supervision 	Jun 1999			<p>were not separated</p> <p>Improved budget framework and budget systems were adopted at first, but not followed by subsequent governments.</p>
<p>2. To preserve real value of assets and increase sustainable income:</p> <ul style="list-style-type: none"> Streamline management and operations to make the NPC more efficient Take measures to separate NPC's corporate, private ancillary activities Establish and consolidate net assets of Nauru Phosphate Royalties Trust Fund immediately; realign part of the investment portfolio to generate current income Appoint a professional investment firm as fund manager for the portfolio 	<p>Dec 1999</p> <p>Jun 2000</p> <p>Jun 1999</p> <p>Mar 1999</p>		<ul style="list-style-type: none"> Political commitment to implement the Program exists The Government has the institutional capacity to implement the Program External sources continue to provide appropriate and timely advice The Government has the ability to adapt to changing conditions and take corrective action 	<p>Did not happen</p> <p>Did not happen</p> <p>Net assets of Nauru Phosphate Royalties Trust Fund neither consolidated nor realigned</p> <p>Professional investment firm not appointed</p>
<p>3. To improve the public sector:</p> <ul style="list-style-type: none"> Reorganize and streamline public administration, including individual ministries Introduce cost-effective human resource 	<p>Jun 2000</p> <p>Dec 2000</p>		<ul style="list-style-type: none"> Political commitment to implement the Program exists The Government has the institutional capacity to 	<p>Not achieved</p>

Design Summary	Performance Target	Monitoring Mechanisms	Assumptions and Risks	Status
<p>management and development</p> <ul style="list-style-type: none"> Create capacity for economic and development policy planning Strengthen Air Nauru's operation to meet operating costs by 2000 Corporatize the Telecom Department in an orderly manner Strengthen government institutions and agencies such as the Office of the Auditor General Introduce a system of external audit of operations of public sector enterprises and instrumentalities Eliminate political interference in the management of public enterprises 	<p>Dec 1999</p> <p>Dec 1999</p> <p>Jun 1999</p> <p>Jun 1999</p> <p>Jun 1999</p> <p>Jun 1999</p>		<p>implement the Program</p> <ul style="list-style-type: none"> External sources continue to provide appropriate and timely advice The Government has the ability to adapt to changing conditions and take corrective action 	<p>June 2002.</p> <p>Some state-owned enterprises externally audited</p> <p>With some exceptions, not achieved</p>

Design Summary	Performance Target	Monitoring Mechanisms	Assumptions and Risks	Status
<p>4. To establish a banking system.</p> <ul style="list-style-type: none"> Establish an appropriate legal environment for independent banking operations and supervision Facilitate setting up of a branch of foreign bank or a joint venture banking in Nauru Through appropriate controls, eliminate any possibility of government interference in the operation of the proposed new bank Study alternative options for the future of the Bank of Nauru and take further action to rehabilitate or close (as appropriate) 	<p>Jun 1999</p> <p>Jun 1999</p> <p>Jun 1999</p> <p>Dec 1999</p>	<p>Copy of appropriate legislation</p>	<ul style="list-style-type: none"> Political commitment to implement the Program exists The Government has the institutional capacity to implement the Program External sources continue to provide appropriate and timely advice The Government has the ability to adapt to changing conditions and take corrective action 	<p>Study undertaken</p> <p>With exception of the Bank of Nauru study, not achieved</p>
<p>Inputs</p> <ul style="list-style-type: none"> Redundancy payment of \$2.7 million Consultant inputs (\$800,000) Repayment of debts (\$1 million) Support of health and education sector (\$500,000) 		<ul style="list-style-type: none"> Disbursement statement 		<p>Partly implemented</p>

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
<p>The Borrower will furnish, or cause to be furnished, to the Asian Development Bank (ADB) all such reports and information that ADB reasonably requests concerning</p> <ul style="list-style-type: none"> (i) the loan, and the expenditure of the proceeds and maintenance of the service; (ii) goods and services financed through the loan proceeds; (iii) counterpart funds and their use; (iv) implementation of the Program, including accomplishment of the targets and carrying out of actions set out in the policy letter; (v) financial and economic conditions in the territory of the Borrower, and the Borrower's international balance-of-payments position; and (vi) any other matters relating to the purposes of the loan. 	Art. IV, Section 4.05(a)	Partly complied with, at the beginning of the Program
<p>It is the mutual intention of the Borrower and ADB that no other external debt owed a creditor other than ADB will have any priority over the loan by way of a lien on the Borrower's assets. To that end, the Borrower agrees that</p> <ul style="list-style-type: none"> (i) except if ADB agrees otherwise, any lien created on any assets of the Borrower as security for any external debt will ipso facto equally and ratably secure the payment of the principal of, and interest and other charges on, the loan; and (ii) the Borrower, in creating or permitting the creation of any such lien, will make express provision to that effect. 	Art. IV, Section 4.06(a)	Complied with
<p>The provisions of paragraph (a) of this section will not apply to</p> <ul style="list-style-type: none"> (i) any lien created on property, at the time of its purchase, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than 1 year after its date. 	Art. IV, Section 4.06(b)	Complied with
<p>The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the loan account for the purposes of Section 8.02(l) of the loan regulations: the Borrower did not become eligible to withdraw the second tranche by 31 July 1999 or the third tranche by 31 July 2000.</p>	Art. V, Section 5.01	The first tranche was released in Feb 1999 as scheduled. But the balance of the loan—the second and third tranches—was canceled because of the Government's inability to comply with the conditions.
<p>A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement, for the purposes of Section 9.04 of the loan regulations.</p>	Art. VI, Section 6.01	Complied with
<p>Withdrawals from the loan account will be made to finance the foreign exchange cost of the Program, and for financing consultant services.</p>	Schedule 3, para. 2	Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
<p>No withdrawal from the loan account will be made for</p> <ul style="list-style-type: none"> (i) local expenditures, or (ii) foreign exchange expenditures that were financed by credits from official international or bilateral aid agencies, or any other ADB loans. 		Complied with
<p>Applications for withdrawal from the loan account will be submitted to ADB by the Borrower's Ministry of Finance and will be in a form satisfactory to ADB.</p> <p>Except as provided for under (e), such withdrawal applications will be accompanied by a certificate of the Borrower confirming that</p> <ul style="list-style-type: none"> (i) in cases where loan proceeds finance imports already made, the value of eligible imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in cases where the loan proceeds will finance goods to be imported, the value of eligible imports in the immediately preceding 1-year period was equal to or greater than the amount of the requested withdrawal, plus all other amounts expected to be withdrawn from the loan account during the succeeding 1-year period. 	Schedule 3, para. 3	<p>Complied with for the first tranche</p> <p>Complied with for the first tranche</p>
<p>Before submitting the first application to ADB for withdrawal from the loan account, the Borrower will open a deposit account at a bank that is acceptable to ADB, into which all withdrawals from the loan account will be deposited. The deposit account will be established, managed, and liquidated in accordance with terms and conditions that are satisfactory to ADB.</p> <p>Separate accounts and records for the deposit account will be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower will have the deposit account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB. Promptly after their preparation but in any event no later than 6 months after the date of ADB's request, certified copies of such audited accounts and records, in English, will be furnished to ADB.</p>	Schedule 3, para. 4	<p>Complied with</p> <p>Separate accounts were maintained. Some reports were provided, but they were not professionally audited.</p>
<p>Notwithstanding any other provisions of this Loan Agreement or the loan regulations, and unless ADB agrees otherwise, no withdrawals will be made from the second tranche unless ADB will be satisfied, after consultation with the Borrower, that</p> <ul style="list-style-type: none"> (i) sufficient progress has been achieved and maintained by the Borrower in the carrying out of the Program; and, in particular, (ii) the Borrower has fulfilled the conditions for the release of the second tranche, specified in Attachment 2 to this schedule. 	Schedule 3, para. 5	<p>Complied with</p> <p>No progress made. Not complied with</p> <p>Not fulfilled. Not complied with</p>
<p>Notwithstanding any other provisions of this Loan Agreement or the loan regulations, and unless ADB agrees otherwise, no withdrawals will be made from the third tranche unless ADB is satisfied, after consultation with the Borrower, that</p>	Schedule 3, para. 6	Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
<p>(i) the Borrower has achieved and maintained sufficient progress in the carrying out of the Program; and, in particular</p> <p>(ii) the Borrower has fulfilled the conditions for the release of the third tranche, specified in attachment 3 to this schedule.</p>		<p>No progress made. Not complied with</p> <p>Not fulfilled. Not complied with</p>
<p>Except as provided in paragraph 2(b), each contract for eligible items will be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector.</p> <p>Each supply contract for eligible items that are commonly traded commodities will be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.</p>	Schedule 4, para. 2	<p>Complied with</p> <p>Complied with</p>
<p>The services of international consultants will be utilized in carrying out the Program, particularly with regard to:</p> <p>(i) public enterprise management, (ii) corporatization and privatization, (iii) macroeconomics, (iv) development of microenterprises, (v) utility management and finance, and (vi) management.</p>	Schedule 5, para. 1	Complied with
<p>In addition to international consultants, the services of domestic consultants may be utilized with regard to utility management and finance and hotel management. The terms of reference of all consultants will be as determined by agreement between the ADB and the Office of the President (OOP).</p>	Schedule 5, para. 2	No local consultants recruited.
<p>The selection, engagement, and services of the consultants will be subject to the provisions of this schedule and of the <i>Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers</i>, dated April 1979, as amended periodically, which have been furnished to the Borrower and the Executing Agency.</p>	Schedule 5, para. 3	Complied with
<p>OOP will select and engage the consultants in accordance with the following procedures:</p> <p>(i) A list of candidates together with their qualifications and a draft contract will be furnished to ADB for approval before the selection of the consultants.</p> <p>(ii) Soon after the contract is signed, ADB will be furnished with evaluation of the candidates and a brief justification for their selection, and three copies of the signed contract.</p> <p>(iii) Any substantial amendment of the contract proposed after its execution will be submitted to ADB for prior approval.</p>	Schedule 5, para. 4	No local consultants actually recruited, although selection was prepared.
<p>Domestic consultants will be selected and engaged in accordance with procedures acceptable to ADB, and subject to ADB's approval with regard to their competence and experience for carrying out the assignment. As soon as the proposals have been evaluated, but before negotiations with</p>	Schedule 5, para. 5	Complied with as far as Government attempted to recruit consultants.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>the potential consultants begin, ADB will be furnished with three copies of</p> <ul style="list-style-type: none"> (i) a list of consultants invited, (ii) an evaluation of the progress (together with one set of the first-ranked proposal), and (iii) justification for the selection. <p>After negotiations are concluded but before the contract is signed, the contract as negotiated will be furnished to ADB for approval. Soon after the contract is signed, ADB will be furnished three copies of the signed contract. Any substantial amendment of the contract proposed after its execution will be submitted to ADB for prior approval.</p>		
<p>The Borrower will</p> <ul style="list-style-type: none"> (i) ensure that the policies adopted and actions taken before the date of the Loan Agreement, as described in the policy letter and policy matrix, continue in effect for the duration of the Program; and (ii) promptly adopt and carry out, or cause to be carried out, the other policies and actions set out in the policy letter in accordance with the schedule of policy reforms included in the policy matrix, and ensure that such policies and actions continue in effect for the duration of the Program and subsequently, unless otherwise agreed to by ADB. 	Schedule 6, para. 1	<p>Partly complied with</p> <p>Not complied with</p>
<p>OOP will be responsible for the overall execution of the Program and will coordinate its day-to-day implementation with all agencies concerned.</p>	Schedule 6, para. 2	Complied with
<p>Immediately after the effective date, the Borrower will establish the Economic Reform Committee (ERC), which will oversee program implementation. The chief secretary will chair the ERC. ERC members will be the secretary of finance, the secretary of justice, the presidential counsel, and director of administration. The ERC will meet at least once every quarter to review the status of program implementation, and will report to the minister for finance and reforms. The Borrower will ensure that adequate secretarial and office support is provided to the ERC. The terms of reference of the Budget Reform Committee may be expanded and its organization and membership reconstituted, as necessary, at the option of the Borrower, so that the Budget Reform Committee is empowered and structured to undertake the activities and functions of the ERC.</p>	Schedule 6, para. 3	Complied with
<p>Immediately after the effective date, the Borrower will establish a program coordination unit, headed by a reform coordinator, with adequate staff and resources, which will support the ERC in overseeing program implementation.</p>	Schedule 6, para. 4	Complied with
<p>The Borrower will keep ADB informed of, and the Borrower and ADB will from time to time exchange views on, progress in carrying out the Program.</p>	Schedule 6, para. 5	Complied with
<p>The Borrower will continue timely policy dialogue with ADB on problems and constraints encountered during program implementation, and on changes needed to overcome or mitigate such problems and constraints.</p>	Schedule 6, para. 6	Partly complied with
<p>The Borrower will keep ADB informed of policy discussions</p>	Schedule 6,	Partly complied with

Covenant	Reference in Loan Agreement	Status of Compliance
concerning the Program undertaken with other international and bilateral agencies as ADB may reasonably request, and will provide ADB with the opportunity to comment on any resulting policy proposals.	para. 7	
<p>Immediately after the effective date, the Borrower will establish, in a manner satisfactory to ADB, a special account at a bank that is acceptable to ADB for the purpose of depositing and utilizing the counterpart funds.</p> <p>Whenever the Borrower withdraws proceeds from the loan account, the Borrower will promptly deposit into the special account the Australian dollar amount equivalent to the amount of the proceeds withdrawn.</p> <p>Except if the Borrower and ADB otherwise agree, the counterpart funds will be used no later than 31 December 2000 to meet the expenditures to be incurred pursuant to the provisions of paragraph 8.</p> <p>Separate accounts and records of the special account will be maintained, and will be audited annually by independent auditors who are acceptable to ADB. Certified copies of such audited accounts and records will be furnished to ADB promptly after preparation but no later than 6 months after the close of the fiscal year to which they relate, or no later than 6 months after the date of the closing of the loan account.</p>	Schedule 6, para. 8	<p>Complied with</p> <p>Complied with</p> <p>Partly complied with</p> <p>Partly complied with</p>
<p>The Borrower will ensure that sufficient counterpart funds are made available to meet the costs associated with program implementation. Without limiting the generality of the preceding, the Borrower will ensure that counterpart funds are used to support</p> <ul style="list-style-type: none"> (i) implementation of fiscal management reform; (ii) strengthening of national asset management; (iii) establishment of a viable banking sector; (iv) improvement in efficiency and effectiveness of the public sector, including implementation of the retrenchment and separation of public service staff through the Program; and (v) costs of the services of local consultants engaged under the Program, except such costs that were have been paid from loan proceeds. 	Schedule 6, para. 9	Mostly complied with
<p>Before release of the second and third tranches, reviews will be carried out concerning the Borrower's progress in implementing the policy reforms set out in the policy letter, including, in particular, fulfillment of the conditions listed in attachments 2 and 3 to schedule 3 of the Loan Agreement. To facilitate such a review, OOP will provide ADB with relevant information, in addition to the reports and information referred to in Section 4.05 of this Loan Agreement, in such detail as ADB reasonably requests. Such reviews will form the basis for discussions between the Borrower and ADB on</p> <ul style="list-style-type: none"> (i) further measures that may be necessary or desirable to promote the continued reforms, and 	Schedule 6, para. 10	Not complied with

Covenant	Reference in Loan Agreement	Status of Compliance
(ii) releases of the second and third tranches.		
<p>The Borrower will ensure that</p> <p>(i) adequate compensatory payments are made to public service staff who are retrenched at the time of separation, taking into account length of service and job level, by way of full or partial payments, and/or maintenance support, depending on the type of retrenchment effected; and</p> <p>(ii) any compensatory payments made to the retrenched public service staff will be paid out in the normal course, in specified installments in accordance with an approved plan for staff retrenchment payments in order to reduce the risk of immediate dissipation of such funds.</p>	Schedule 6, para. 11	<p>Complied with</p> <p>Partly complied with</p>
The Borrower will ensure timely implementation of a public information campaign to make Nauru citizens aware of the need for immediate fiscal and financial reform.	Schedule 6, para. 12	Complied with