



Completion Report

Project Number: 47352-001
Technical Assistance Number: 8631
July 2017

Nauru: Institutional Strengthening of the Nauru Utilities Corporation

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| TA Number, Country, and Name: TA 8631-NAU: Institutional Strengthening of the Nauru Utilities Corporation | | Amount Approved: \$225,000.00 | |
| | | Revised Amount: – | |
| Executing Agency: Ministry of Finance, Nauru | Source of Funding: Technical Assistance Special Fund V (TASF V) | Amount Undisbursed: \$42,175.63 | Amount Utilized: \$182,824.37 |
| TA Approval Date: 1 April 2014 | TA Signing Date: 1 April 2014 | Fielding of First Consultants: 11 February 2015 | TA Completion Date Original: 31 March 2016 Actual: 31 March 2016 |
| | | Account Closing Date Original: 31 March 2016 | Actual: 31 March 2016 |

Description.

Nauru is a Pacific island country with a total population of 11,300 people. It has in total 9 state-owned enterprises (SOEs) which (with the exception of Nauru Airlines) are generally regarded as non-performing and a drain on the national budget. The Nauru Utilities Corporation (NUC), one of the SOEs, owns, operates, and distributes the country's power generation.

One of the key components of Nauru's national development agenda is restructuring the utilities sector, particularly the provision of electricity, water, and fuel, which were previously provided by the former Nauru Phosphate Company and then by the Nauru Utilities Authority (NUA), which was then succeeded by NUC. This followed the recommendation in the Nauru National Sustainable Development Strategy (NSDS) 2005–2025 to restore the economic security of the nation.¹ The NSDS identified improved utility services as a key economic priority and the Government of Nauru (the government) requested technical assistance (TA) from the Asian Development Bank (ADB) for the corporatization and commercialization of NUC.

ADB's earlier TA for Regulatory and Governance Reform for Improving Water and Electricity Supply (TA-7873) and subsequent ADB staff consultancy, supported the reform of the utilities sector in 2011 through (i) developing legislation for NUC, (ii) preparing an inventory of assets, (iii) assisting in preparing a corporate strategy, and (iv) introducing a performance management system for senior management.² While an asset inventory was introduced under TA 7873-NAU, and considerable progress since corporatization had been made, several challenges remained. These included (i) NUC had no preventative maintenance plans or procedures for capital expenditure and procurement planning; (ii) the asset inventory had not been updated, and there were no procedures in place to keep it accurate and updated; (iii) there was no integration of the fixed assets register and the financial management information system (FMIS); (iv) there were no clear compensation policies or worker classifications, which resulted in an inefficient allocation of human resources; and (v) NUC operated under governance arrangements which were unclear and differed from good practice. To address these challenges, further TA for institutional strengthening of NUC was required to ensure the sustainability of ongoing capital investments including the acquisition of two medium speed generators, and associated reforms for tariff restructuring, financed by ADB, the European Union, and the Government of Australia.³

Expected Impact, Outcome, and Output.

The impact of the TA was reduced drain on the fiscal position of the government. The expected outcome was improved financial, operational, and governance performance of NUC. The expected outputs were (i) developing and implementing an asset management and maintenance plan, (ii) improving accounting systems through integration of the asset registry and FMIS, (iii) implementing performance management systems for non-managerial staff, and (iv) implementing a revised corporate governance structure.

Delivery of Inputs and Conduct of Activities.

The TA was well-formulated with the lessons from TA 7873-NAU incorporated in the design. The terms of reference of the consultants focused on the intended outputs and as such the key objectives and deliverables of the TA were met. The timing and the budget of the TA was sufficient to allow all TA activities to be adequately completed. The Ministry of Finance, the executing agency, together with NUC, the implementing agency, were proactive in driving the capacity-building and reforms process. The high-level engagement of NUC staff was evident in updating and valuation of the asset registry, as well as participation in developing a performance management system along with the TA consultants. A new chief executive officer (CEO) was appointed in 2014 and demonstrated commitment to address NUC's challenges and implement recommendations from TA 7873-NAU, as well as this TA. The consultants worked closely with the CEO and senior management of NUC to address these challenges. ADB provided close supervision of the TA from the Pacific Liaison and Coordination Office in Sydney and fielded 2 review missions. The performance of the executing and implementing agencies and ADB are rated satisfactory.

The TA financed and engaged 7 person-months of consultant services recruited through individual consultant selection procedures following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

¹ Republic of Nauru. 2009. *National Sustainable Development Strategy 2005–2025*. Nauru.

² ADB. 2013. *Technical Assistance Completion Report for TA 7873-NAU: Regulatory and Governance Reform for Improving Water and Electricity Supply in Nauru*. Manila.

³ ADB. 2015. *Proposed Administration of Grant for Nauru Electricity Supply Security and Sustainability Project*. Manila.

The consultant inputs included (i) Utilities Expert (international, 2 person-months); (ii) Accounting Specialist (international, 1.5 person-months); (iii) Asset Management and Maintenance Specialist (international, 1.5 person-months); and (iv) Human Resources Specialist (international, 2 person-months). The government and NUC were satisfied with the inputs of the consultants and there were no changes to the consultants' inputs, the time schedule of deliverables, and the TA's budget.

Evaluation of Outputs and Achievement of Outcome.

The TA was successful in completing the envisaged outputs. The completed activities under Output 1 included (i) updating NUC's asset registry; (ii) identifying assets critical to the delivery of services and sustained performance levels; (iii) identifying minimum life cycle costs per asset and planned replacement time and cost; (iv) developing a defined program for sustaining the group of assets through planned maintenance, repair, and replacement; and (v) determining short- and long-term funding strategies. The tasks completed under Output 2 included (i) assessing available fixed asset (FA) software packages, (ii) assisting with the acquisition, installation, and data loading of a new FA system, (iii) recommending integration options with the FA software and the FMIS, (iv) assisting NUC to develop accounting processes for the acquisition and disposal of assets: Output 3 comprised (i) providing guidance in the development of performance contracts for NUC staff, (ii) assisting NUC management with developing a performance management system for lower level staff, (iii) refining proposed targets for service quality and reliability, (iv) providing training in the operation of the performance maintenance system and (v) undertaking job evaluations and reviewing job classifications for non-managerial NUC staff. Reviewing the corporate governance of NUC and recommending improvements to increase management autonomy and accountability were included under Output 4.

The TA was successful in achieving envisaged outcome. The consultants' inputs were satisfactory and provided clear guidance on asset management, accounting and financial management, human resource management, and governance performance of NUC. Since completion of the TA in March 2016, NUC has adopted several steps to improve NUC's services and the long-term sustainability accommodating these recommendations. NUC's long term asset replacement program is at various stages of implementation and a major asset replacement is scheduled to be completed by late-2017 (footnote 3). NUC is currently implementing a short-term asset rehabilitation program and has achieved 92% of scheduled maintenance of the fixed assets. The assessment of asset conditions and update of their criticality is being undertaken annually. NUC is continuing in updating asset registry and data entry into the new asset management software. The acquisition of new software to facilitate integration of the asset registry with the FMIS is in process and scheduled to be completed by August 2017. NUC is now in compliance with preparing and submitting its annual reports with the 2016 report submitted in late-2016. NUC's performance management system is in place and has been extended to all staff linking employee performance to the business plan. The organization culture within NUC has improved with on time attendance, participation in training programs, and improved reporting and monitoring.

Overall Assessment and Rating.

The TA is rated as *successful*; and considered (i) *'relevant'* since its design remained appropriate and aligned to the government's and ADB's plans to improve management and long-term sustainability of the utilities sector in Nauru; (ii) *'effective'* as it provided realistic recommendations for improving asset management, financial and human resource management, and corporate governance functions of NUC following good practice; (iii) *'efficient'* as its intended outcomes are progressively being achieved and evident to be continued with the strong commitment shown by NUC staff; and (iv) *'likely sustainable'* as NUC has already started implementing TA recommendations, committed to implement recommended reforms in the medium to long-term and staff now understand the importance of their role towards success of NUC's operations.

Major Lessons.

The success of the TA is mainly due to strong political support and commitment of the key staff in implementing the reforms. Developing ownership among the staff is essential to build long-term sustainability of the reforms.

Recommendation and Follow-Up Actions.

NUC is still subject to Cabinet approval for some of its functions. It is recommended that the government continue to follow a program of SOE reform, with support from ADB's Pacific Private Sector Development Initiative, to improve the legal, regulatory, and governance arrangements to strengthen SOE's including NUC's commercial mandate. Furthermore, the full implementation of the recommended reforms is still ongoing. These will need to continue to be monitored and followed-up through the ongoing project (footnote 3). It is suggested that further follow-up of the TA recommendations be undertaken when preparing the completion report of the ongoing project.

CEO = Chief Executing Officer; FMIS = financial management information system; FA = fixed asset; NSDS = National Sustainable Development Strategy; NUA = Nauru Utilities Authority; NUC = Nauru Utilities Corporation; SOE = state-owned enterprises; TA = technical assistance.

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