



# Federated States of Micronesia Annual Program Performance Report 2011



## Contents

Political overview	2
Economic overview	2
Development context	3
Donor overview	3
Australia's funding direction	4
Expenditure	5
Objective 1: Tax reform	6
Objective 2: Environmental management	7
Objective 3: ODA coordination	7
Other AusAID assistance	7
<b>Scholarships</b>	<b>7</b>
<b>Small Grants Scheme</b>	<b>8</b>
<b>Fisheries</b>	<b>8</b>
<b>Climate change</b>	<b>8</b>
Gender equality and disability programming	9

**While AusAID does not have a dedicated gender equality or disability program in the North Pacific, support is provided to relevant non-government and civil society organisations through the Small Grants Scheme and volunteer program. In 2011, various small grants were awarded to women's organisations.** 9





## Development context

The major long-term development challenges for Micronesia are to move toward self-sustainability, reduce the country's reliance on foreign assistance, and increase government revenue. The steady decline in grant aid and strict conditions placed on expenditure of US funds make it imperative for national and state governments to reduce expenditure and increase revenue from a range of sources. Improvements in basic social services are crucial. Private sector-driven, sustainable economic growth and good public sector governance are key to long-term development.

While tracking data is inconsistent and often out dated, recent estimates suggest that Micronesia is currently on track to reach only MDG 7 (environmental sustainability). It is uncertain whether MDGs 2 (achieving universal primary education), 3 (promote gender equality and empower women), 4 (reduce child mortality), 6 (combat HIV/AIDS, malaria and other diseases) and 8 (develop a global partnership for development) will be achieved. The ratio of girls to boys in primary and secondary school was 1.02 in 2009, and the under-5 mortality rate has improved but slowly, declining from 58 in 1990 to 39 in 2009. Prevalence of tuberculosis has declined, recorded at 168 per 100 000 in 2008.

Micronesia is off-track for achieving MDG 1 (eradicate extreme poverty and hunger) and 5 (improve maternal health), with skilled birth attendant and availability of contraception dropping over recent years. There is an increasing percentage of underweight children aged under 5 and subsequently an increasing food poverty rate.

In November 2011 Australia released the results of the first detailed scientific projections for long-term climate change impacts in Micronesia and the Pacific. The impacts of climate change—such as extreme weather events (high-intensity storms, hot periods), sea level rise, and associated increased levels of inundation and storm surges—are expected to continue increasing.


Source: 2012 MDG Tracking report.

## Program objectives and strategy

### Donor overview

Micronesia receives substantial external assistance, with total official development assistance (ODA) of approximately US\$125 million (2010), which equates to 40.2 per cent of gross national income.

Australia's bilateral aid contribution of A\$3.69 million makes it a small donor in comparison to the United States and Japan. The US contributes approximately US\$108.6 million a year in ODA, while Japan, through the Japanese International Cooperation Agency (JICA) contributes approximately US\$13 million. In 2011 Australia contributed to a World Bank-led telecommunications project. The Asian Development Bank plays a small role in Micronesia.



With strict conditions on spending US compact funding, Australia can play a key value-adding role by providing technical assistance to support good policy-making and help ensure Micronesia government programs are delivered effectively. This is currently being achieved through the Pacific Technical Assistance Mechanism and the Australian Volunteers for International Development program.

As US compact funding continues to be reduced in favour of national trust fund contributions in the lead-up to the conclusion of compact funding in 2023, there will likely be an increased need for donor assistance, capacity building and technical assistance.

### Australia's funding direction

In August 2010, Australia signed a Partnership for Development with Micronesia, heralding a significant shift from previous rather ad hoc aid funding arrangements towards a bilateral partnership relationship. From just one AusAID adviser, a scholarships program and small grants program in January 2011, the program has grown over the following 18 months to include five adviser placements, nine volunteer placements, several grant agreements, and a large partnership with an international non-government organisation.

The Partnership for Development identifies three key priority areas for AusAID's aid to Micronesia:

- tax reform
- environmental management
- coordination of development assistance.

In addition, Australia continues to assist Micronesia to optimise its access to regional initiatives and participation in regional dialogue through the Pacific Islands Forum, the South Pacific Regional Environment Program and the Pacific Financial Technical Assistance Centre.

Human resource gaps have been identified by the Government of Micronesia as an important need in the priority Partnership sectors, leading to a higher demand for, and provision of, technical advisers. Student scholarships and small grants are used to complement broader program objectives.

In 2011-12 the bilateral program worked with AusAID's Volunteers Section to place 19 volunteers across the North Pacific in areas targeting partnership priority sectors. Nine of these volunteer placements were in Micronesia. Community and government consultations have highlighted the high demand and respect for Australian volunteers. Micronesia has also identified that Australian volunteers fill a distinctly different role to those from other donors including the USA Peace Corps and JICA. This is because Australian volunteers are typically not of school-leaver age and come with a great deal of experience in their fields. The expansion of volunteer placements in Micronesia will enhance Australia's general visibility in the country.

Australia is also working with the International Organisation for Migration to help Micronesia adapt to the effects of climate change through a disaster risk reduction and education program. This program was funded from the 2011-12 budget and will be reported on in next year's APPR.

2011 effectively marked the transition to the new Partnership arrangement and an increased focus on achieving results under the three priority outcome areas. These results will start to register once the Partnership has become fully established and the outcomes agreed under the Partnership start to be achieved. In the meantime, the bulk of expenditure continues to be



against activities outside the Partnership priority sectors, including scholarships, climate change, small grants and activities funded from the Pacific Regional Infrastructure Facility (PRIF), as shown below. However, AusAID is working to align funding under these mechanisms (e.g. scholarships, small grants) to Partnership priorities.

## Expenditure

**Table 1: Estimated expenditure in 2011–12**

Objective	A\$ million	% of bilateral program
Objective 1: Tax reform	0.54	14.63
Objective 2: Environmental management	0.2	5.4
Objective 3: ODA coordination	0.32	8.67
* Outside partnership priority outcomes	2.63	71.27

Source: AidWorks (AusAID's internal aid management system), 17 May 2012.

\*Comprises scholarships, small grants and Pacific Region Infrastructure Facility funding.



## Progress against objectives

**Table 2: Ratings of the program's progress towards the objectives**

Objective	Current rating
Objective 1: Tax reform	
Objective 2: Environmental management	
Objective 3: ODA coordination	

Note:

-  The objective will be fully achieved within the timeframe of the strategy.
-  The objective will be partly achieved within the timeframe of the strategy.
-  The objective is unlikely to be achieved within the timeframe of the strategy.

### Objective 1: Tax reform

Micronesia's national and state governments have different constitutional tax rights and have always operated independently. A tax reform taskforce has been established and the governments have agreed to a fundamental reform program, which includes introducing enabling legislation, a national net profit (income) tax and presumptive tax, a nationwide value added tax, changes to import duty, and changes to taxes on wages and salaries.

As with any kind of national reform initiative in Micronesia, the relationship and coordination between national and state governments adds an extra level of complexity. Australia has been providing technical assistance to help advance tax reform, however progress has been slow over the last six years.

In 2011, Australia's assistance to the national government was limited. It was agreed that a technical adviser would be provided to help support the four state governments to pass the new tax and revenue legislation (this occurred in 2012 and subsequently led to the establishment of the Unified Revenue Authority).

Ongoing relationship and communication issues were redressed following staffing changes in the National Department of Finance, and the appointment of a new tax reform project manager resulted in positive engagement.

Australia continued to support the Tax and Revenue Division of the Chuuk State Department of Administrative Services. As the largest state in Micronesia, Chuuk faces unique challenges in relation to tax collection. In 2011, an AusAID adviser provided services to support complex tax and revenue reforms related to the Chuuk State Code and enabled strong results to be achieved, including a 20 per cent increase in Chuuk State revenue.

The tax adviser also worked with the Director of the Department of Administrative Services to restructure the Tax and Revenue Office. By creating a shift in focus from audit to tax collection and customer service, voluntary lodgements increased and the need for audit decreased. This was achieved by introducing a case management structure which empowered staff to take responsibility for managing all aspects of compliance.

Based on progress in 2011, tax reform support will only partially meet its objectives because of the national government's slow movement of legislation. (Significant results, however, have been seen in the first half of 2012.)



## Objective 2: Environmental management

Micronesia recognises that protecting and sustainably managing its natural resources and environment are critical to development. The formulation and enforcement of policies, laws and regulations along with adequate legal and international treaty safeguards is fundamental to achieving its goals on environmental management and economic development.

In 2011, Australia provided the national Office of Environment and Emergency Management with an environmental lawyer to help progress legal reform. As any change to international treaties, legislation or regulations needs thorough consultation with each state office, the process for updating legislation is slow and requires frequent engagement with appropriate stakeholders. Strong results have been achieved however, and congress passed the amending bill for Title 25 (Environment Protection Act) in May 2012.

Australia and Micronesia have agreed to continue reviewing and updating relevant legal frameworks. The environmental lawyer will help build the capacity of staff, particularly at state level, to implement and enforce new legislation.

Progress under this partnership priority is likely to meet its objectives within the timeframes specified under the Partnership for Development.

## Objective 3: ODA coordination

Micronesia has started planning for the end of the US compact in 2023, and the subsequent reduction in development assistance, by establishing the Division of Overseas Development Assistance in the Office of Statistics, Budget, ODA and Compact Management. Australia is helping to improve Micronesia's ability to manage and use development assistance by providing an ODA coordination adviser. This adviser began in mid-2011, and results so far have been limited.

A priority for the office is to develop an ODA policy which will help guide national planning processes, roles and responsibilities, and donors working in Micronesia. The ODA coordination adviser will play an essential role in drafting this policy, which will require significant consultation with the states.

This outcome area is unlikely to achieve its objectives, however, as greater engagement by State and national levels of the FSM Government with donors is essential to (i) link development assistance and FSM's own budget priorities with priorities under its development plan, and (ii) create an environment where donor funds can be effectively used.

Australia will support Micronesia in 2012 to host its first donor roundtable, which will be the key event to launch its ODA policy.

There is some ambiguity about where in government the ODA management function should sit. While there are logical arguments for ODA management to remain alongside budget planning and management, there is increasing pressure to shift the function to the Department of Foreign Affairs. Wherever ODA management is housed, ongoing engagement from AusAID will be essential during the current adviser's placement. Future provision of technical assistance should be carefully considered and discussed with Micronesia to confirm it is still a national priority.

## Other AusAID assistance

### Scholarships





Assessment of progress against each partnership priority has been informed by Pacific Technical Assistance Mechanism adviser evaluations and completion reports and on-the-ground monitoring by AusAID. Implementation schedules are being developed for each Partnership priority sector, which will more clearly articulate the results expected in each sector and means for tracking progress.

Micronesia's forward program is progressing and it is anticipated that current expenditure levels will be maintained.

### Gender equality and disability programming

While AusAID does not have a dedicated gender equality or disability program in the North Pacific, support is provided to relevant non-government and civil society organisations through the Small Grants Scheme and volunteer program. In 2011, various small grants were awarded to women's organisations.

### Management consequences

2011 marked a period of transition for Australia's aid to Micronesia under the new bilateral partnership. This transition has included a process of consolidation in which our aid is increasingly focused on three priority development outcomes agreed between the two governments.

With the new Partnership agreement in place for just over a year, the next 12 months will be critical in terms of testing whether the strategic focus, modes of delivery and scale of our aid is appropriate. As the program moves forward, it will be important to complement technical advice with funding support aimed at broader capacity building, particularly in the education sector.

One program management issue that will require close monitoring and review is the level of staff resources required to develop and implement the program effectively. In addition, future programming will need to take account of and find ways to address existing limitations on aid delivery options in the North Pacific. For example, the major multilateral organisations like the World Bank and Asian Development Bank and other large donors currently have a limited presence in the region. Options for delivering Australian aid through these development partners are therefore also limited, but AusAID will actively seek co-financing opportunities to encourage further engagement from multilateral organisations capable of having an impact at scale.

Australia is in a fortunate position in the North Pacific to be able to work closely with the US. As the major donor in the region, the US invests large amounts of money in the countries of the North Pacific. While the partnership priority outcomes were selected primarily to fill gaps left after US compact funding, there are opportunities to develop a strong rapport and to work in partnership with the US, which AusAID will seek to explore further.

The poor graduation rate of North Pacific scholars from regional institutions is a key concern. Greater attention will be given to strengthening scholarship selection and preparation processes in partnership with each partner government.