



# Aid Program Performance Report 2012–13 the North Pacific

## Key messages

This report summarises the aid program's progress from January 2012 to July 2013 in the North Pacific countries of the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI) and the Republic of Palau (Palau).

This is the second Aid Program Performance Report for these newly established country programs and, as agreed, provides updates proportional to the size of each program. The report outlines some key successes and challenges in delivering effective aid across the North Pacific.

The major long-term development challenge in the North Pacific is to move towards greater economic self-sufficiency. As grant aid from the United States steadily declines, with strict conditions in place on how these funds may be spent, national and state governments must reduce their reliance on foreign aid, decrease 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 in the region.

Partnerships for Development agreements between Australia and each of the North Pacific countries were signed in August 2010. In 2012–13 the programs grew substantially, achieving significant progress towards the priority sector outcomes identified in the partnership agreements.

Key achievements in the delivery of our aid in 2012–13 include:

- > FSM, supporting the preparation and passage of taxation and environmental legislation and regulations.
- > The Marshall Islands, supporting the government to renegotiate fuel supply contracts, achieving monthly savings of \$1.3 million.
- > Palau, clearing 7,000 unexploded ordnance (explosive remnants of war).

## Context

North Pacific economies are dominated by government services and largely rely on external grants. FSM and the Marshall Islands have modest private sectors.

- > FSM's population is approximately 111,542 (2011), with a gross domestic product (GDP) per capita of around US\$2,782 (2011). The impacts of climate change—such as extreme weather events, sea level rise, and associated increased levels of inundation and storm surges—are expected to continue increasing across the FSM.
- > The population of the Marshall Islands is approximately 54,816 (2011), with a GDP per capita of around US\$3,169 (2011). Government downsizing, periodic droughts, a drop in construction, a decline in tourism, and reduced income from fishing vessel licenses have constrained GDP growth.

- > The population of Palau is approximately 20,609, with a GDP per capita of around US\$8,370 (2011). Palau is one of the wealthier Pacific states. Despite this, it remains vulnerable, with development challenged by its small land mass and small population, fragile natural environment, narrow economic base and relatively remote location. Tourism is Palau's main industry and a significant source of revenue, with more than 100,000 visitors in 2012. The service sector dominates the economy, contributing more than 50 per cent of GDP.

Millennium Development Goal (MDG) tracking data in the North Pacific are inconsistent and often outdated. However, recent estimates suggest that Palau is tracking much better than FSM and the Marshall Islands on MDG development objectives.

- > FSM is on track to meet only two MDGs: MDG 4, Reduce Child Mortality and MDG 7, Environmental Sustainability. It is off track for achieving MDG 1, Eradicate Extreme Poverty and Hunger, and it is uncertain whether FSM will achieve MDG 2, Achieve Universal Primary Education. The latest data indicate FSM is also unlikely to achieve MDG 3 (Promote Gender Equality), MDG 5 (Improve Maternal Health), and MDG 6 (Combat HIV/AIDS, Malaria and Other Diseases). Health is a particular concern, with tuberculosis rates increasing from 168 per 100,000 in 2008 to 320 per 100,000 in 2012, and Hansen's disease (leprosy) the second highest rate in the world (10 cases per 10,000).
- > The Marshall Islands is on track to meet only two MDGs: MDG 4, Reduce Child Mortality and MDG 5, Improve Maternal Health. It is off track for achieving all other MDGs. Health is a particular concern in the Marshall Islands with tuberculosis rates the highest in the Pacific at 831 cases per 100,000 people (2010), and leprosy the highest in the world (11 cases per 10,000).
- > Palau is on track to reach six of the seven targets. MDG 1, Eliminate Extreme Poverty and Hunger, has mixed results. Although Palau has a relatively high level of employment, there are no data available for labour productivity and vulnerable employment.

Politically, FSM and the Marshall Islands did not have a change in leadership over the reporting period. The recent change in leadership in Palau was a smooth transition, and the new government has agreed to continue with the existing priority outcomes in the Partnership for Development.

Each North Pacific country has a Compact of Free Association with the United States of America, administered by the United States Department of Interior, which will end in 2023. In the Marshall Islands and FSM, it is expected that a trust fund arrangement will replace direct financial assistance from the United States and, from 2023–24, perpetual annual payouts will begin. In Palau, the compact arrangements are significantly different.

- > FSM received approximately US\$71.4 million in grant financing in 2012 under their compact. Another US\$20.8 million was provided to the FSM Trust Fund. As a result, total assistance from the United States in 2012 was approximately US\$92.2 million.
- > The Marshall Islands received approximately US\$31.2 million in grant financing in 2012 under their compact. Another US\$11 million was provided to the Marshall Islands Trust Fund, and approximately US\$15 million delivered as compensation for the impacts of missile testing.
- > Palau receives approximately US\$21 million in annual grant assistance under their compact, including payments to the Palau Trust Fund. This figure is decreasing annually. At the end of 2010, the value of the trust fund was approximately US\$160 million.

Australia's 2012–13 development assistance of \$18.7 million makes it a small donor to the North Pacific in comparison to the United States and Japan. The United States contributes approximately US\$169.4 million annually in official development assistance (ODA), while

Japan, through the Japanese International Cooperation Agency, contributes approximately US\$38.4 million.

As compact funding from the United States continues to be reduced in favour of national trust fund contributions in the lead-up to the conclusion of compact funding in 2023, we anticipate an increased need for assistance from other donors, including in the form of capacity building and technical assistance. Australia can play a key role by providing technical assistance to support good policy making and helping to ensure government programs are delivered effectively. This is currently being achieved through the Pacific Technical Assistance Mechanism (PACTAM) and the Australian Volunteers for International Development (AVID) program.

The initial phase of the Partnerships for Development with the North Pacific is coming to an end and we are moving into a consolidation phase. During this phase, we will review the priority outcomes identified in the partnership agreements and consider the best way to deliver aid. In 2013–14, mini country situational analyses will be developed to provide a stronger evidence base to better inform our future programs in the North Pacific. An important focus of these analyses will be the nature of poverty (poverty of opportunity, for example, and deprivation in access to services) in the three countries to improve targeting and prioritising our investments.

## Expenditure

Financial expenditure is reported in two periods: one for the six months January to June 2012 and one for 2012–13. The North Pacific budget is the program fund FM1 which covers partnership activities in each country, climate change adaption initiatives, the Small Grants Scheme and scholarships.

Expenditure	A\$ million
FM1 North Pacific	8,813,878.33

Table 2A Expenditure 01 Jan 2012 - 30 Jun 2012 (six month period)

Source: Pacific Enabling Unit Data Reporting

Expenditure	A\$ million
FM1 North Pacific	5,765,000.00

Table 2B Expenditure 30 Jun 2012 - 30 Jun 2013

Source: AIDWORKS

As reflected in tables 2A and 2B, the aid program faced a significant budget reduction in 2012–13. This has been managed by consolidating activities under the partnership agreements and deferring existing commitments.

Table 1 Rating of the program's progress towards the objectives

Objective	Current Rating	Previous Rating
FSM Objective 1: Tax reform	Green	Amber
FSM Objective 2: Environmental management	Green	Green
FSM Objective 3: ODA coordination	Amber	Red
RMI Objective 1: Energy	Green	Green
RMI Objective 2: Water	Amber	Amber
Palau Objective 1: Improve the quality of the teacher workforce	Green	Amber
Palau Objective 2: Health human resources development	Green	Green
Palau Objective 3: Unexploded ordnance clearance	Green	N/A

Note:

- Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.
- Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.
- Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

## North Pacific objectives

Partnerships for Development were signed with each of the three governments in August 2010, covering the period 2010–15. Objectives were identified through discussions with partner governments, on the basis of their national action plans. Due to the modest size of Australia's aid to the North Pacific, our contribution towards achieving these objectives was not identified through specific targets or indicators. Because of this structure, it is difficult to measure progress or assess whether ongoing targets have been met. In sectors where targets are output-based and have been largely achieved, further discussion with partner governments is taking place to determine next steps. The preparation of simplified country situational analyses and delivery strategies for each country program in the North Pacific will provide a far more robust evidence base for future planning.

## Objectives for the Federated States of Micronesia

- > **Priority Outcome 1, Tax reform:** Legislation to introduce a consumption tax was passed but needs to be further ratified by all four of FSM's state legislatures. A National Tax Authority is being established and FSM has so far overcome legislative hurdles by extending the deadline on reform, which will allow the national government more time to canvass support from the states.
- > **Priority Outcome 2, Environmental management:** Required environmental legislation and regulations have been updated and environmental staff provided with training.
- > **Priority Outcome 3, ODA:** A national ODA policy was drafted and an inaugural Development Partners' Forum held.

### FSM Objective 1: Tax reform

**Commitment:** Progress reforms in support of budgetary and economic self-reliance.

**Targets:** Implement a nation-wide tax reform program to strengthen and modernise tax administration at both levels of government (on track).

Establish a National Tax Authority (on track).

**Rating:** Green: Results for the tax reform outcome are assessed as on track. While good progress has been gained and with strong foundations now in place, it must be flagged early that there is a real possibility that progress against this priority sector may face significant delays in the next reporting period, as many legislation changes are due to be presented to the National Congress in late 2013.

FSM'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 new 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 FSM, the relationship and coordination between national and state governments adds a level of complexity. We have been providing technical assistance to help advance tax reform, and while progress has been slow over the last six years, significant progress has been achieved over the last 18 months.

In 2012, Australia provided two technical advisers to help support the government to pass the new tax and revenue legislation and subsequently lead to the establishment of a National Tax Authority.

The national legislative package was passed by FSM National Congress in late 2012. Due to the complexities of the Federation, each of the four state governments was required to pass a complementary state act by 19 April 2013 to enact the tax reforms. On 18 April 2013, the FSM National Congress granted a short three-month extension on the original date. While this extension will provide more time to win over all states, there are questions around whether the new deadline of 19 July 2013 will be met.

## **FSM Objective 2: Environmental management**

**Commitment:** Strengthen environmental management and conservation through improvement of legal and regulatory framework at national and state level.

**Targets:** Amend Title 25 (Environmental Protection Act) to reflect mutually determined national and state level jurisdictions (on track).

Conduct training workshop on environmental law for environmental staff at national and state level (on track).

**Rating:** Green: All targets agreed to under the Partnership for Development have been achieved. The required FSM environmental legislation and regulations have been updated and environmental staff provided with training.

In 2012, Australia continued to provide the national Office of Environment and Emergency Management with an environmental lawyer to help finalise and implement legal reforms that will help to protect and sustainably manage natural resources and environment. In late 2011, the updated Environmental Protection Act was approved by FSM National Congress. In 2012–13, the environmental lawyer's focus shifted to assisting with implementation, supported by environmental lawyer volunteers placed with the state environmental protection agencies. At the 2013 Partnership for Development Talks between the Australian Government and the FSM Government, it was agreed that these original partnership target have now largely been met.

The key question going forward is what joint commitments the partnership should focus on next in environmental management. An assessment in 2012 by the Australian aid program environment adviser concluded that support for environmental protection and climate change adaptation remains highly relevant to FSM's development needs—20 per cent of the population relies solely on subsistence lifestyles for survival and 60 per cent on part

subsistence. However, the adviser's assessment recommended programming be re-focused to achieve stronger direct benefits for the poor, in line with Australia's aid policy. The assessment concluded this may be best achieved by working at state level with state environmental protection agencies, and with the many effective community-level initiatives being supported by civil society organisations (CSOs).

A recommendation has been put forward to the Office of Environment and Emergency Management that the Department of Foreign Affairs and Trade (DFAT) provide a strategic planning specialist, who can work between national government, state-based environmental protection agencies and civil society organisations to help define the 'value-add' role that the office can play to help allow partners on the ground to implement environmental protection and management activities. This was discussed at the 2013 Partnership for Development talks and is still under consideration.

### **FSM Objective 3: ODA coordination**

**Commitment:** Improve the coordination of external development assistance to the FSM and ensure greater alignment with policies and strategies.

**Targets:** Improve and strengthen ODA policies to reflect what best addresses development needs and funding priorities (partially on track).

Improve budgetary, financial administration and reporting on performance of external assistance programs, including at state level (partially on track).

**Rating:** Amber: Despite significant delays, some good progress has been seen in the drafting of the national ODA policy. However, it is likely that objectives will only be partially achieved.

FSM has started planning for the end of the United States compact in 2023 and subsequent reduction in development assistance, by establishing the Division of Overseas Development Assistance in the Office of Statistics, Budget, Overseas Development Coordination and Compact Management (SBOC).

Australia is helping to improve FSM's ability to manage and use development assistance by providing an ODA coordination adviser. The adviser started in mid-2011 and, after a slow start, development cooperation progressed over the last year, resulting in a successful inaugural Development Partners' Forum. A nation-wide ODA policy was drafted to improve coordination between national and state governments, as well as between national government and development partners. The policy was developed in close consultation with state governments and submitted by the President to National Congress during the May budget session. However, the Congress did not consider endorsing the policy during this sitting so there will be implementation delays.

The ODA adviser funded by the Australian Government, also helped SBOC undertake a forum compact peer review in early 2013, led by the Pacific Islands Forum Secretariat. The review endorsed SBOC's approach to reforms and recommended strengthening links between strategic and budget planning and developing a public financial management roadmap to address FSM's weak financial and procurement management. At the 2013 Partnership for Development Talks, the Director of SBOC advised that the FSM Government is working with the Pacific Financial Technical Assistance Centre (PFTAC) and the Asian Development Bank on development of the roadmap and other economic and financial reform measures, to be presented at the July meeting of the Forum Economic Ministers in Tonga. Both governments agreed that consideration of further support from DFAT should wait until the ODA policy is passed by Congress, after which point there will be a strong shift in focus to effective implementation of the policy at SBOC and fledgling state ODA offices.

## Objectives for the Republic of the Marshall Islands

- > **Priority outcome 1: Affordable, accessible and sustainable energy:** In mid-2012, the Marshall Islands successfully negotiated a new national fuel supply contract which has resulted in monthly savings of approximately \$1.3 million.
- > **Priority outcome 2: Increased access to clean water and sanitation:** Water utility reform is progressing well. The Australian aid program's technical adviser and volunteers placed in the Marshall Islands under this priority outcome have been integral in responding to the drought emergency in 2013.

### RMI Objective 1: Affordable, accessible and sustainable energy

**Commitment:** Australia will support the National Energy Policy's move toward immediate and significant reorientation of the energy sector, with changes to reduce energy demand and diversify energy supply.

**Targets:** Improve efficiency of energy use in households, business and government business (on track).

Achieve a 20 per cent reduction in the amount of fuel imported for transport by 2020 (on track).

**Rating:** Green: Investments in the energy sector have delivered good results. Australia's contribution is helping the Marshall Islands to meet its objectives in the Partnership for Development by the agreed deadline of 2020.

The Marshall Islands has faced considerable pressure as a result of the acute rise in global fuel prices since late 2007. On 3 July 2008, the President declared a state of economic emergency to signal its recognition that the nation was facing a crisis in its energy sector, and that steps on the demand and supply side were needed to quickly avert further deterioration. Despite the recent easing of global oil prices, the situation remains precarious because of the country's high dependence on imported fuel. Australia helped the Marshall Islands develop its national energy policy and medium-term energy action plan in 2010 by providing technical assistance.

Since 2012, our support to the energy sector has transitioned from a focus on energy efficiency to a focus on fuel supply. In mid-2012, the Marshall Islands negotiated a new national fuel supply contract, a key achievement. This arrangement means the Marshall Islands pays for its fuel retrospectively, rather than in advance. The Australian fuel adviser mobilised in February 2012 played an essential role in the six months of negotiations and ongoing communication with the government, and reports from the adviser demonstrate results achieved so far. The new supply contract has helped to stabilise the Marshall Islands Energy Company's cash flow problems, with monthly savings of approximately \$1.3 million. Also included in the contract is a US\$5 million loan, with low interest, being used for essential infrastructure and maintenance improvements at the energy company's fuel facility.

### RMI Objective 2: Increased access to clean water and sanitation

**Commitment:** Support the Marshall Islands to establish a dedicated water management body to take forward the development of a national water policy and national action plan, improve program coordination and collaboration with external development partners and reduce negative health, social and economic impacts on the population.

**Targets:** Develop and approve a National Action Plan for water resources (partially on track).

Establish a National Water Office (or similar) with a mandate for policy and program coordination of water resource management (off track).

Strengthen and improve the operations of the water and sewage utilities on Majuro and Kwajalein (on track).

**Rating:** Amber: Mixed results have been seen in water and sanitation, with very little movement on establishing a National Water Office and national water policy not yet endorsed by the Nitijela (Parliament). However, water utility reform is progressing well.

As a country comprising low-lying coral atolls and islands, fresh water resources are extremely limited in the Marshall Islands. A 2010 study conducted jointly by the Australian Government and the Secretariat of the Pacific Community found the country's finite and vulnerable fresh water resources under increasing pressure from population growth, urbanisation and economic development. Despite the problem's critical nature, there is no agency or body within government specifically responsible for water policy or management.

The Marshall Island Water and Sewage Company manages Majuro's public water supply, which runs for an average of four hours a day, three days a week (depending on rainfall). The Marshall Islands is predisposed to drought and prolonged periods of low rainfall have a significant impact on the population's access.

The situation on Kwajalein Atoll is significantly worse. The island of Ebeye depends entirely on desalination. Kwajalein Atoll Joint Utility Resources (KAJUR) has three out-of-date desalination units, and only one works. When units break down, as was the case in late 2011, water needs to be shipped from the nearby United States Kwajalein military base, at considerable expense to the government. Currently, the one working desalination unit produces enough water for public services to run for only 45 minutes, once a week. At all other times, the people of Ebeye must collect water in buckets from the water plant or catch the ferry to the Kwajalein military base.

From January 2012 to July 2013, Australia's assistance to the Marshall Islands resulted in a more significant investment in water quality and access. Technical assistance and a volunteer plumber were provided to the water and sewage company in Majuro to support utility reform. In Kwajalein Atoll, we provided funding to procure 380 household water tanks. Installation is being implemented by Reeves International and is expected to conclude in August 2013.

Another significant new investment in the water sector is the design phase of a major project to rehabilitate and improve the water supply and sanitation system on the island of Ebeye. In partnership with the Asian Development Bank, we are supporting the design phase which includes the development of master plans (and prioritised infrastructure investment plans) for water, sewage and electricity. An 18-month design phase is expected to start in August 2013.

Comprehensive reform strategies have been prepared for the two water utilities. While utility reform is progressing well, there is a gap in government policy and management of national water resources. In 2011, the government identified the need for a comprehensive water policy and water action plan. An Australian Government adviser worked with a water taskforce to draft a national water policy. It was presented to Nitijela (Parliament) in early 2013 but sent back with the request to include a costed infrastructure plan. To help ensure the plan has evidence-based prioritisation of infrastructure investments, Australia has offered to assist by facilitating technical support from the Pacific Infrastructure Advisory Centre, through the Pacific Region Infrastructure Facility mechanism.

Another challenge to successful reform of the water sector is the lack of a permanent agency with responsibility for water policy, programming and management. To date, there has been no progress. The Australian Government raised this as a concern at the 2013 Partnership for Development talks and will continue to engage with the Marshall Islands Government on the

importance of investing in the agency as a basis for ongoing support from Australia for water sector reform.

In the coming year, DFAT will continue to assist utility strengthening by providing technical assistance. The design phase of the Ebeye water and sanitation project could lead into a larger investment (estimated \$15 million over five years) linked to reforms agreed with the Marshall Islands Government. The design phase may include some small-scale infrastructure investments, potentially the rehabilitation of the dilapidated toilet block and new salt water bores for increased water intake.

### Objectives for the Republic of Palau

- > **Priority Outcome 1, Improve the quality of the teacher workforce:** The Teaching-English-to-Speakers-of-Other-Languages (TESOL) curriculum was successfully upgraded.
- > **Priority Outcome 2, Health human resources development:** A national Health Human Resource Development Plan was endorsed, and the College of Health established operations in up-skilling health workers.
- > **Priority outcome 3, Explosive remnants of war survey and clearance:** more than 7000 items of unexploded ordnance were cleared in 2012–13, and the Regional Explosive Ordnance Disposal Training School opened in April 2013.

#### Palau Objective 1: Improve the quality of the teacher workforce

**Commitment:** In partnership with the Ministry of Education and the Palau Community College, develop and implement appropriate strategies to improve the teaching qualifications (on track).

**Targets:** Improve the quality and coverage of pre-service and in-service training for elementary level teachers.

**Rating:** Green: the current reporting period saw the successful completion of the Teaching-English-to-Speakers-of-Other-Languages (TESOL) curriculum upgrade.

Palau has primary school enrolment rates of 100 per cent for boys and girls. Given the solid enrolment, our assistance to education in 2012–13 focused on strengthening teaching qualifications. While Palau has approximately 271 public school teachers, most lack experience and are not qualified. While teachers have access to short-term, in-service training, they lack the financial resources to sufficiently upgrade their educational qualifications.

Australia's assistance to education in 2012–13 focused on strengthening the teaching qualification at the Palau Community College by providing a TESOL adviser. The adviser's key achievement was working with the college to develop a best-practice curriculum, integrated into the teaching associate degree requirements.

The new curriculum was trialled with a group of in-line teachers in mid-2012. In January 2013, we supported the Ministry of Education to run workshops of the new TESOL curriculum for in-line teachers, resulting in improved coverage of training. The adviser has also been working with teachers to modernise teaching practices and ensure they are implemented effectively.

Ongoing discussion with the Government of Palau, the Palau Community College and adviser reports demonstrate that progress in education is advancing and contributing towards the objectives outlined in the Partnership.

At the partnership talks in April 2013, the Australian Government agreed to continue supporting curriculum reform by recruiting and placing a maths specialist to complete a

similar process of updating relevant education curriculum. While the target of improving qualifications is on track, the broader goal of improving the quality of the teacher workforce is more difficult to measure. Going forward, Australia will consider increasing assistance to include teaching scholarships to help contribute towards this broader goal.

## **Palau Objective 2: Health human resources development**

**Commitment:** Assist Palau to successfully implement its Public Health Strategic Plan, with a particular focus on human resource reform.

**Targets:** Assist the Ministry of Health (in partnership with the Palau Community College) to establish the College of Health (on track).

Draft and implement the national Health Human Resource Development Plan (on track).

**Rating:** Green: The national Health Human Resource Development Plan was finalised and endorsed in early 2012, with implementation continuing. Australia's assistance has allowed the College of Health to establish operations and start up-skilling health workers.

The Ministry of Health in Palau is shifting its focus from treatment to prevention (individual, environmental, behavioural and community). To help update its skills and educate its workforce, the ministry (in partnership with the Palau Community College) launched the College of Health, which is delivering essential training to all employees, ensuring core minimum standards and improving health outcomes for the people of Palau. We have placed a volunteer as the College of Health Administrator.

In 2012, Australia supported the Ministry of Health by providing a health human resource development adviser. A key achievement during this time was the development of an 18-month action plan. This adviser worked alongside a local counterpart to draft the 2011–16 health resource development strategic plan, as well as career ladder classifications for each health profession. The success of this plan has meant targets are on track. With this professional input, the ministry has strengthened its case to have its staffing wage budget managed internally, rather than through the Ministry of Finance. This is an important step in improving the Ministry of Health's ability to attract and retain required health professionals. The adviser has also instituted a feedback program for Palau's hospital, resulting in better understanding of strengths and weaknesses in patient care. Ongoing communication with the Ministry of Health and adviser reports show that strong progress has been made toward the broader goal of health human resources development. Due to these successes, the current adviser has been extended for another 12 months, which will result in a three-year placement.

In response to commitments made through original partnership negotiations, a biomedical engineer was mobilised to Palau in April 2013. The Ministry of Health has recruited two apprentices/technicians to work alongside the engineer and gain on-the-job experience and training. This placement is seen as an interim initiative to fill a gap until the biomedical qualification is finalised through the Fiji School of Medicine.

To support further reforms, DFAT has agreed to provide an additional adviser as Palau's new Director of Nursing to mentor and train a counterpart to be nominated by Palau. The appointment will be for an initial two years. Australia will also support an initiative to up-skill nurses through the Fiji School of Nursing and a leadership and management training program for health sector senior management. This is helping to achieve targets. The work being done by Palau in the health sector with Australia's support has a wider influence and is helping to inform a more strategic approach to health workforce development by other North Pacific countries, through information sharing by the Honolulu-based Pacific Health Officers Association.

### **Palau Objective 3: Survey and clearance of explosive remnants of war**

**Commitment:** Help Palau successfully continue to conduct capacity development, that is in line with International Mine Action Standard, of local workers in the location, removal and destruction of explosive remnants of war (ERW).

**Targets:** Continue to identify and address strategic locations in need of clearance, including tourist sites, agriculture and economic developments and residential and schools (on track).

Ensure a 24/7 emergency call out service is available for public discovery of ERWs (on track)

Build and maintain a local team of ERW experts (on track).

Establish an Explosive Ordnance Disposal school to provide local (and regional) training in ERW identification and management (on track).

**Rating:** Green: Significant progress was made in ERW clearance. All targets have been met (or exceeded) in the reporting period.

In 2011, Australia agreed to provide significant ongoing funding to help clear unexploded ordnance from World War II, which is significantly impacting on Palau's environment. At the May 2012 Partnership for Development Talks, it was agreed that unexploded ordnance clearance would replace budget planning and management as a priority under the Partnership for Development.

Australia has provided three grants under this objective to Cleared Ground Demining. In early 2012, our first grant supported the extension of the 'tourist jungle trail' in Peleliu to improve tourism opportunities for the island. Following this, we provided \$1.37 million in late 2012. The aims of this grant were to (a) improve understanding of ERW contamination in Palau, (b) reduce the threat of ERW through clearance and (c) build capacity to respond to emergency calls. The results so far indicate that these activities are contributing to these broader objectives, and the targets above have been largely met.

Through Australian support to-date, 7,039 items of unexploded ordnance have been cleared, weighing a total of just under 31,000 kilograms. Key achievements in 2012–13 include the establishment of a national bomb hotline (778BOMB) through which the public can report sightings of ERW. An Explosive Ordnance Disposal training school was launched in April 2013 and will benefit and up-skill clearance teams from across the Pacific.

In May 2013, we committed to a three-year program with Cleared Ground Demining worth approximately \$3 million. Analysis from current surveys and historical records predict that the most significantly impacted areas of Palau can be cleared of ERW in three to five years. It is anticipated that this program will see Palau almost completely cleared through Australian support. Under the upcoming grant, DFAT will also provide Cleared Ground Demining with increased technical support to help strengthen internal processes, including implementing a child protection policy, strengthening monitoring and evaluation systems, and documenting finance policies and processes.

### **Other Australian assistance**

#### **Tax reform**

In the Marshall Islands, a commitment outside the Partnership for Development was made for Australia to provide a tax reform adviser in early 2012. This adviser has worked closely with the tax reform team at the Ministry of Finance, and reform of the tax system is progressing well. We will extend support through a tax adviser, provided the legislation to introduce a

consumption tax is approved. In cooperation with the Asian Development Bank, we will consider further support for implementation, including funding for the customs and tax information technology system being used by most Pacific island countries.

### **Emergency response**

On 15 April 2013, the Marshall Islands declared a state of emergency due to the prolonged period of drought on the northernmost atolls, with approximately 5,000 people affected by the severe drought conditions. Another 11,000 people, including those living on Ebeye Island, experienced less severe drought conditions.

On 27 April 2013, the Government of RMI sent an official request for assistance to the Australian Government. In response, we provided \$100,000 for four portable desalination units and essential replacement parts to be procured. An additional \$385,000 was provided in response to the ongoing needs addressed in the Marshall Island's Immediate Response Plan. These funds will assist in transporting life-saving water and emergency food by sea and air, and repair existing desalination equipment.

### **Scholarships**

Since 2012, 57 scholarships have been awarded to North Pacific students. These include long-term awards; Australia Awards and Australia Award Pacific Scholarships (AAPS were previously Australia Regional Development Scholarships) and short-term awards; Australia Awards Fellowships and short courses.

In 2012, there was a low level of scholarship applications for AAPS. In part this was due to a general preference of many students to pursue tertiary education in the United States, particularly Hawaii and Guam. This prompted a significant scaling up in promoting our awards and active disseminating of information about studying in Australia. As a consequence, 2013 saw a dramatic increase in applications.

Based on data over the last 10 years, the completion rate for North Pacific AAPS is on average 61 per cent. Low graduation rates were raised as a concern in the 2011 APPR.<sup>1</sup> Feedback from the University of the South Pacific's Marshall Islands campus and the Australia-Pacific Technical College (the two main regional institutions which AAPS scholars attend) attributed this low graduation rate to weak education results from primary and secondary education.

To improve completion rates, DFAT is working closely with partner governments to strengthen selection, placement and preparation processes. DFAT staff based in FSM Post are promoting program benefits program at high schools and community colleges to ensure more eligible students apply.

The AAPS program is also finalising a monitoring and evaluation framework, to improve DFAT's support processes. An alumni association will be established in the North Pacific to engage former students and to promote and disseminate information to new awardees.

Historically, 20 scholarship placements have been offered every year across the North Pacific. However, if applicant quality and success rates improve, this is expected to increase.

In addition to these scholarships, over the last 10 years the bilateral program has funded other student placements at the University of the South Pacific's Marshall Islands campus. Notably, there has been a 100 per cent graduation rate since 2009 (23 students). In addition, Australian

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<sup>1</sup> Prior to 2012-13 Aid Program Performance Reports were called Annual Program Performance Reports

Government grants to the university have contributed to overall campus development, provided qualified resources and benefited students through face-to-face instruction.

### **Small Grants Scheme**

The Small Grants Scheme supports projects addressing poverty reduction and sustainable development. Because of its flexibility and accessibility, the scheme remains popular across the North Pacific region. While it is available to government bodies, a significant number of beneficiaries are from non-government organisations and community groups. As such, the scheme remains an important mechanism to engage with civil society.

From January 2012 to June 2013, 29 grants were awarded across the North Pacific, worth approximately US\$657,000.

### **Fisheries**

Australia is a major donor of core and project funding to the Forum Fisheries Agency and the Secretariat of the Pacific Community, both of which provide fisheries and aquaculture assistance to the North Pacific to manage marine resources. The Forum Fisheries Agency project—Regional Economic Integration—promotes regional cooperation in fisheries economic development. Through this project, more than 1,000 jobs have been created in the region and projects worth more than \$120 million successfully completed.

### **Climate change**

Australian Government bilateral funding for activities related to climate change adaptation in Marshall Islands and FSM in 2012–13 was allocated to the International Organization for Migration for the Climate Adaptation, Disaster Risk Reduction and Education Program—a three-year investment of \$3 million.

The program seeks to enhance the resilience of 50 vulnerable schools and communities in the FSM and the Marshall Islands to the effects of natural disasters and climate change. It delivers a school education program, enhances school preparedness, raises awareness of the general public, and works with 15 to 20 communities to develop local early action plans. The program has three key outcome areas—awareness, preparedness and adaptation.

Since it started in March 2012, the Climate Adaptation, Disaster Risk Reduction and Education Program has achieved solid results:

- > 1,205 students of a target of 5,000 have taken a modularised course (24 per cent complete), and 6,500 students of a target of 5,000 have benefited through public events, drills and school preparedness activities (100 per cent complete)
- > 40 local community leaders of a target of 50 (80 per cent complete) and three local non-government organisations of a target of up to six (50 per cent complete), working on school-based and community-based climate change and/or disaster risk reduction, have increased capacity to disseminate essential information on these programs
- > 28 of a target of 50 preliminary school assessments have been conducted for resilience to identified hazards and capacity as evacuation centres (56 per cent complete)
- > 5 communities of 50 (10 per cent complete) have completed hazard, vulnerability and capacity mapping exercises
- > 150 community members of 500 (30 per cent complete) have participated in mapping exercises
- > 35 of 50 (70 per cent complete) schools and communities have developed climate adaptation and disaster risk management plans.

## **Gender equality and disability programming**

While DFAT does not have a dedicated gender equality or disability program in the North Pacific, support is provided to relevant non-government organisations and civil society organisations through the Small Grants Scheme and volunteer program. In 2012:

- > small grants were awarded to women's organisations, including the Pohnpei Women Advisory Council in FSM
- > a volunteer was placed with Woman United Together Marshall Islands.

Australia's Pacific Women Shaping Pacific Development initiative 2012–22 was announced by Australia's Prime Minister at the Pacific Islands Forum in August 2012. The initiative will advance the political, economic and social status of Pacific women. The initiative focuses on: reducing violence against women and expanding support services; improving women's leadership; and increasing economic and decision making opportunities for women.

At the 2013 Partnership for Development Talks, Australia and the Marshall Islands agreed to work together to progress the PWSPD initiative and a draft PSWPD country plan for the Marshall Islands was produced in May 2013.

DFAT will support Secretariat of the Pacific Community to work with FSM and Palau to develop gender policies and an implementation plan.

## **Quality at Implementation ratings**

In 2013, QAIs were completed and reviewed for two initiatives under the FM1 Program Fund: the Climate Adaptation and Disaster Risk Reduction Education Initiative and the Republic of the Marshall Islands Partnership for Development. These two initiatives had budgets exceeding \$3 million. Other initiatives with budgets less than \$3 million underwent an informal QAI process. Because these QAIs were the first to be undertaken for these initiatives, there are no trends to comment on.

Assessment of progress against each Partnership priority was informed by the Pacific Technical Assistance Mechanism adviser assessments and completion reports, and on-the-ground monitoring by DFAT. Implementation schedules are being developed for each partnership priority sector which will articulate the targets and evaluation questions to enable better tracking of progress.

(For QAI ratings of these initiatives, see the table in Annex B.)

## **Management consequences**

It is now clear that more information and analysis is needed to deepen our understanding of the development needs in FSM, the Marshall Islands and Palau, particularly around the nature and extent of poverty, and to identify the most appropriate ways to deliver Australia's assistance. In 2013–14, DFAT will prepare country situational analyses to provide a strong evidence base for planning, and a Performance Assessment Framework will be developed for comprehensive evaluation and results reporting.

Future programming decisions will need to account for the significant differences between the three countries in their overall economic status and prospects for growth. These differences will be examined in the country situational analyses, focusing on the nature of poverty in each country, priority development needs and most appropriate forms of aid.

While limited staff resources to manage the program remain an issue, the recommendation from the 2011 Annual Program Performance Report of quarterly travel to the North Pacific region by the country program manager has made a marked difference in building and maintaining productive relationships with senior government counterparts. Forward

programming will need to continue to take account of DFAT's limited resources (human and technical) in the region and find ways to address existing limitations in aid delivery options.

The North Pacific program will continue to pursue co-financing opportunities to encourage further engagement from multilateral organisations capable of having an impact at scale:

- > In the Marshall Islands, we will continue to work with the Asian Development Bank on options to improve the water and sanitation situation on Ebeye, as well as progress the tax reform agenda with support from the Pacific Financial Technical Assistance Centre (PFTAC)
- > In FSM and Palau, we will continue to work with the Asian Development Bank and PFTAC on economic governance and tax reform.

Australia is in a fortunate position in the North Pacific to be able to work closely with the United States. As the major donor in the region, the United States invests large amounts of money in the countries of the North Pacific. While the partnership priority outcomes were selected primarily in sectors not supported by United States compact funding, there are opportunities to develop a strong rapport and work in partnership with the United States which DFAT will seek to explore further.

The poor graduation rate of North Pacific scholars from regional institutions continues to be a key concern. Greater attention will be given to working with partner governments to improve scholarship selection, placements and preparation processes to improve completion rates.

The 2013 FSM Partnership for Development Talks highlighted a few 'tipping points' for Australia's support in each FSM priority sectors. These tipping points signal the need for DFAT to make decisions on whether to continue assistance.

- > In tax reform, a vote by Congress in July will demonstrate if there is sufficient political will in the FSM for tax reform and if national and state leaders can work constructively together to implement changes. PFTAC will conduct an assessment and provide advice to DFAT on if and/or how our support should be taken forward if existing legislation becomes null and void in July.
- > In ODA coordination, the willingness of the Government of the FSM to lead the policy will affect Australia's support.
- > In environmental management, a strong strategic plan is required to be able to move forward.

## Annex A

### Progress in addressing 2011 management consequences

Management consequences Identified In 2011 APPR	Rating	Progress made In 2012-13
Level of staff resources required to develop and implement the program effectively will require close monitoring and review.	Green	Because of previous concerns over staff resources, the Assistant Director General of the program decided that the Canberra-based program manager would undergo quarterly travel to each North Pacific country. This has helped improve program management. The Assistant Director General has also committed to prioritise graduate placement in the program.
Need to find ways to address existing limitations on aid delivery options in the North Pacific. The Australian Government will actively seek co-financing opportunities to encourage further engagement from multilateral organisations capable of having an impact at scale.	Amber	The Australian Government has increased engagement with multilateral organisations and secured some co-financing opportunities across the North Pacific. For example, The Australian Government is working with the Asian Development Bank on options to improve the water and sanitation situation on the island of Ebeye. The outcomes of these co-financing arrangements will depend on the Australian Government's budget commitment. The North Pacific program has scheduled monthly discussion with the Asian Development Bank, PFTAC and the United States Office of Insular Affairs to increase ongoing engagement and cooperate on regional issues such as tax reform.
Increase opportunities to develop a strong rapport and work in partnership with the United States, which the Australian Government will explore further.	Green	The program has monthly discussions with the United States Office of Insular Affairs on regional issues. The United States has committed to increasing engagement in the Pacific in the area of unexploded ordnance clearance. During the 2013 Partnership for Development Talks, the Australian aid program delegate met with the United States Ambassador to Palau. Further cooperation was sought with United States' representatives at the Regional Pacific ERW Clearance Workshop in June 2013.
Greater attention will be given to strengthening scholarship selection and preparation processes in partnership with each partner government to reduce the poor graduation rate of North Pacific scholars from regional institutions.	Amber	The Australian aid program staff in FSM have a plan to address this issue. Improved program promotion at high schools and community colleges is intended to highlight program benefits, change negative perceptions of students and build a stronger pool of applicants. Annual survey of current students and the establishment of an alumni association in the North Pacific will feed into program monitoring and evaluation to ensure lessons are learned and support to students offered when necessary. This plan is underway. Evaluation will be required to assess effectiveness.
Australia needs to be conscious of not spreading aid in Palau too thinly across each partnership priority. As ongoing assistance to unexploded ordnance clearance is expected to be considerable, the Australian Government needs to work with Palau on prioritisation.	Green	The 2013 Partnership for Development provided opportunity for discussion across the three priority outcome areas. The ERW survey and clearance is the aid program's flagship program in Palau and support to health and education is being targeted for greatest impact.

- Note:
-  Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.
  -  Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.
  -  Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

## Annex B

### Quality at Implementation ratings

Initiative name	Approved budget and duration	Qal year	Relevance	Effectiveness	Efficiency	Monitoring and evaluation	Sustainability	Gender equality	Risk management
CADRE	\$3.3 million 30 January 2012– 30 June 2015	2012	5	4	5	5	4	6	I
RMI P4D	\$3.5 million 1 July 2010–30 October 2014	2012	6	4	4	4	4	5	I

Definitions of rating scale:

Satisfactory (4, 5 and 6)

■ = 6 = Very high quality

■ = 5 = Good quality

■ = 4 = Adequate quality, needs some work

Less than satisfactory (1, 2 and 3)

■ = 3 = Less than adequate quality; needs significant work

■ = 2 = Poor quality; needs major work to improve

■ = 1 = Very poor quality; needs major overhaul

Risk Management scale:

■ Mature (M). Indicates the initiative manager conducts risk discussions on at least a monthly basis with all stakeholders and updates the risk registry quarterly.

■ Intermediate (I). Indicates the initiative manager conducts ad-hoc risk discussion and updates the risk register occasionally.

■ Basic (B). Indicates there are limited or few risk discussions and the risk register has not been updated in the past 12 months.

## Annex C

### Evaluation and review pipeline planning

No evaluations were completed<sup>2</sup> during the reporting period

List of evaluations planned in the next 12 months

<b>Name of Initiative</b>	<b>Aidworks number</b>	<b>Type of evaluation</b>	<b>Purpose of evaluation<sup>3</sup></b>	<b>Expected completion date</b>
ERW survey and clearance	INK403	Joint internal/external	Mid-term review	July 2014

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<sup>2</sup> 'Completed' means the final version of the report has been received.

<sup>3</sup> E.g. .To inform a future phase of program, improve existing program, or to verify program outcomes.