



Republic of the Marshall Islands Annual Program Performance Report 2011

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This report summarises the aid program's progress in 2011 in the Republic of the Marshall Islands, together with our ongoing aid delivery strategy. It is the first Annual Program Performance Report to be prepared for the Marshall Islands country program. As a program that is still being established, this report outlines some of the key successes and challenges in providing effective aid across the country.

Context

Political overview

The Marshall Islands is a presidential republic in free association with the United States of America, which provides defence, funding grants, and access to social services. Having few natural resources, the island's wealth is based on its service economy, as well as some fishing and agriculture, with a large percentage of GDP coming from US official development assistance (ODA). The Compact of Free Association with the United States, first signed in 1986, allows islanders to live and work in the US and establishes economic and technical aid programs. Under the current compact arrangement, which was negotiated in 2002, the Marshall Islands received approximately US\$33.2 million in grant financing in 2011. A further US\$12.2 million was provided to the Republic of Marshall Islands Trust Fund and approximately US\$17 million was delivered to the people of Marshall Islands as compensation for the impact of missile testing. As a result, total US assistance to the islands in 2011 was approximately US\$65.9 million. From 2023, it is expected that the trust fund will replace direct financial assistance from the US and will begin perpetual annual payouts.

Currently, the trust fund holds approximately US\$150 million. By 2023, it is anticipated that a further US\$150 million will be deposited. However, the fund has suffered over recent years as a result of the global financial crisis and the expected outlook for 2023 is under review with a likely change to be made to fund strategies.

In addition to the financial assistance detailed above, the compact allows Marshall Islands citizens access to US federal programs and favourable provisions for travelling and working in the US. The compact and its subsidiary agreements also commit the US to provide many services including air safety, weather prediction and assistance in the event of natural disasters. Under the compact, more than 40 US Government agencies such as the Federal Aviation Administration and US Postal Services, operate programs in, or provide assistance to, the Marshall Islands.

The compact is administered by the Department of Interior. USAID is not present in the North Pacific.

Economic overview

The population of Marshall Islands is approximately 54 150 (2011) with a GDP per capita of around US\$3015 (2010). The economy is dominated by government services and is largely reliant on external grants, with only a modest private sector. Government downsizing, drought, a drop in construction, a decline in tourism, and less income from fishing vessel licenses have held GDP growth to an average of 1 per cent over the past decade. Agricultural production—primarily subsistence—is concentrated on small farms and the most important commercial crops are coconuts and breadfruit. Small-scale industry is limited to handicrafts, tuna processing and copra. The tourism industry, currently a small source of foreign exchange employing less than 10 per cent of the labour force, remains a hope for future added income.



Development context

The major long-term development challenges 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 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 Marshall Islands is currently on track to only meet MDG 4 (reduce child mortality) and MDG 5 (improve maternal health). Net enrolment in primary education decreased from 87 per cent in 1988 to 83 per cent in 2007. Gender equality in primary and secondary education has improved over the past decade. In 2009, the ratio of girls to boys in primary and secondary school was 0.99 and 1.05 respectively.

Marshall Islands is off-track to meet MDG 6 (combat HIV/AIDS, malaria and other diseases). Tuberculosis rates are now the highest in the Pacific and double the rate of Papua New Guinea, at 831 cases per 100 000 people. Hansen's disease (leprosy) has been identified as a key national concern. According to the World Health Organization, countries should have a goal of one case per 10 000 people. In Marshall Islands, 136 cases have been identified in June-December 2011.

In November 2011 Australia released the results of the first detailed scientific projections for long-term climate change impacts in Marshall Islands 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 over time.

Source: 2012 MDG Tracking report.

Program objectives and strategy

Donor overview

Marshall Islands receives substantial external assistance, with total ODA of approximately US\$91 million (2010), which equates to 45.9 per cent of gross national income.

Australia's bilateral aid contribution of A\$3.5 million makes it a small donor in comparison to the US and Japan. The US contributes approximately US\$65 million a year in ODA, while Japan, through the Japanese International Cooperation Agency (JICA) contributes approximately US\$10 million. The Asian Development Bank, to which Australia provides significant funding, also plays a key role in the Marshall Islands. In 2011 Australia also contributed to a World Bank-led telecommunications project.

With strict conditions on spending US compact funding, Australia can play a key value-adding role by increasing the level of technical assistance we provide. 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 its conclusion 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 the Marshall Islands, heralding a significant shift from previous aid funding arrangements towards a bilateral partnership relationship. From a scholarships program and small grants program in January 2011, the program has grown over the following 18 months to include five adviser placements, six volunteer placements, several grant agreements, a large partnership with an international non-government organisation, and a potential joint water and sanitation program with the Asian Development Bank.

The Partnership for Development identifies two key priority areas for AusAID's aid to the Marshall Islands:

- affordable, accessible and sustainable energy
- affordable, accessible and sustainable water provision.

In addition, Australia continues to assist the Marshall Islands 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 Marshall Islands Government 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. These are largely administered by two AusAID staff in Pohnpei.

In line with recommendations of the independent review of Australia's aid program, AusAID's program to the Marshall Islands is targeting the poorest of the population. At the 2012 Partnership for Development talks, it was agreed that the majority of Australia's assistance will directly benefit the population of Kwajalein Atoll, the second most populated island in the Marshall Islands, which faces greater development challenges than Majuro.

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. Community and government consultations have highlighted the high demand and respect for Australian volunteers. The Marshall Islands Government has also identified that Australian volunteers fill a distinctly different role to those from other donors including the US 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 Marshall Islands will enhance Australia's general visibility in the country.

Australia is also working with the International Organisation for Migration to help Marshall Islands 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 the 2012 APPR.

2011 effectively marked the transition to the new Partnership arrangement and an increased focus on achieving results under the two 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 activities, 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: Energy	0.8	23
Objective 2: Water	0.5	14.8
* Outside partnership priority outcomes	2.09	61.1

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

*Comprises scholarships, climate change, 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: Energy	
Objective 2: Water	

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: Affordable, accessible and sustainable energy

Marshall Islands has faced considerable pressure as a result of the acute rise in global fuel prices since late 2007. The extent was such that on 3 July 2008, the country's president declared a state of economic emergency to signal the government's recognition that the nation was facing a crisis in its energy sector, and that steps on both the demand and supply side were needed to quickly avert further deterioration of the situation. Despite the recent easing of global oil prices, the situation remains precarious because of the country's high dependence on imported fuel. The government recognises that the nation must update its energy policy, with an emphasis on proven renewable energy technologies and better energy efficiency. Australia helped develop the Marshall Islands national energy policy and medium-term energy action plan in 2010 by providing guidance through the Pacific Technical Assistance Mechanism.

In 2011, Australia's support to the energy sector was focused primarily around building the capacity of the Energy Planning Division of the Ministry of Resources and Development, through technical support from an energy adviser. The Energy Planning Division has two full time energy officers, who were mentored by the adviser.



Australia's support also led to improved community awareness of the importance of energy efficiency. AusAID supported the Ministry of Resources and Development to equip its building with energy efficient air-conditioners, lights and laptops, resulting in a 67 per cent cost saving. This example has been used to increase government and private sector interest in energy efficient retrofitting, with support from the AusAID Small Grants Scheme.

In 2011, Energy Planning Division staff carried out energy audits on Robert Reimers Enterprises, the Marshall Islands campus of the University of the South Pacific, the Marshall Islands Resort and the Majuro Hospital, all of which are high consumers of energy. Each of these audits identified significant energy savings that could be made from small investments.

AusAID's future support to the energy sector will include increasing technical assistance and expanding into other areas of energy reform, particularly transport and fuel consumption. A further consideration will be how Australia's assistance can benefit the people of Kwajalein Atoll. While the power operations at Kwajalein Atoll Joint Utility Resources are running better than the water operations, there is concern about the annual US\$2 million subsidy currently being paid by Marshall Islands to enable fuel to be shipped to the island of Ebeye, the main population centre on Kwajalein Atoll. In 2012, a fuel adviser positioned with the Ministry of Resources and Development on Majuro will support the Kwajalein utility.

Objective 2: Increased access to clean water and sanitation

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

All atolls and islands, urban or rural, now face water quantity and quality challenges, with data showing serious problems related to household drinking water. In 2012, the Environmental Protection Agency completed WHO-standard water quality testing of school water catchment tanks. Of the 23 schools tested, 22—or 95 per cent—failed due to high levels of contamination. Tests on groundwater wells, particularly in densely populated urban areas, show similar results. These findings suggest that a significant proportion of water sources throughout the Marshall Islands are unsafe for human consumption.

The Marshall Island Water and Sewerage Company manages Majuro's public water supply, which runs for six hours a day, two and a half days a week. The company's rainfall catchment tanks currently hold 15.7 million gallons of water, equating to 15 days of water in storage. The Marshall Islands is predisposed to drought and any prolonged period of low rainfall would significantly impact on the population's access to water.

The situation on Kwajalein Atoll is significantly worse. The island of Ebeye depends entirely on desalination, but Kwajalein Atoll Joint Utility Resources has three out of date desalination units, of which only one is working, according to most recent reports¹. In late 2011, all three desalination units broke down, which meant no water production was possible for the population of Ebeye for three months. To meet the people's needs, water was shipped from the nearby US Kwajalein military base. On this occasion, four shiploads of water were required to

¹ Last updated in October 2012.



sustain the population, at considerable expense to the government. Currently, the single working desalination unit produces enough water for public services to run for 45 minutes a week. At all other times, the people of Ebeye must collect water in buckets from the water plant or catch the ferry across to the Kwajalein military base.

In 2011, Australia's assistance to the Marshall Islands resulted in a more significant investment in water quality and access. Funding was provided to support the Marshall Island Water and Sewerage Company in Majuro through technical assistance and to Kwajalein Atoll through the provision of 150 household water tanks. The mandate for the AusAID adviser stationed with the Marshall Island Water and Sewerage Company was also expanded to support Kwajalein Atoll Joint Utility Resources.

To allow water policy to follow the proven successful path of energy, the Marshall Islands Government identified the need for a comprehensive water policy and water action plan. AusAID's adviser worked with a water taskforce to draft a national water policy, but turnover of key stakeholders (including the adviser) has stalled progress.

As mentioned above, a key challenge for successful reform of the water sector is the lack of a permanent agency mandated with the responsibility for water policy, programming and management. While the Ministry of Resources and Development seems an appropriate agency, it has capacity constraints and it is therefore likely that water will remain with its temporary home in the Environmental Protection Agency. For this to be effective, the government has committed to establishing and staffing a national water office within the agency.

A comprehensive reform strategy has been prepared for the Marshall Island Water and Sewerage Company and Kwajalein Atoll Joint Utility Resources. This strategy has become a guiding document and is used by management to direct operations under three pillars: strengthening service provision and performance, recovering asset efficiency, and improving company systems and capacity.

Due to the considerable challenges outlined above, progress in the water sector is likely to only partially achieve partnership objectives within the given timeframes. Better progress from this priority outcome is expected if Marshall Islands can identify a 'water champion'. The energy crisis resulted in an influx of attention and investment. Without the same level of prioritisation internally for water management, it is unlikely that sustainable change will be achieved.

Other AusAID assistance

Scholarships

Over the last five years there have been 19 Australian Leadership Awards and Australian Regional Development Scholarships (ARDS) awarded to Marshall Islands students.

In 2011, there were 100 applications for Australian Regional Development Scholarships and two were awarded, one man and one woman.

Based on data over the last 10 years, the completion rate for Australian Regional Development Scholarships (ARDS) in the Marshall Islands is around 47 per cent. Feedback from the University of the South Pacific's Marshall Islands campus and the Australia-Pacific Technical College (the two main regional institutions which ARDS scholars attend) has attributed the low graduation rate to weak education results from primary and secondary education. AusAID will work closely with Marshall Islands in the future to strengthen the selection and preparation processes to improve completion rates.



In 2011, AusAID provided two Australian Leadership Awards scholarships to Marshall Islands citizens.

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. Over the life of this relationship, AusAID has supported 50 students, who achieved an 83 per cent graduation rate. Notably, there has been a 100 per cent graduation rate since 2009 (23 students). In addition, many other students have benefited directly from the face-to-face instruction made possible through their AusAID grants. The grants have contributed substantially to the overall development of the campus, and provided Marshall Islands with qualified resources in areas where no specialised training had previously been available.

Small Grants Scheme

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

In 2011, five grants were awarded in the Marshall Islands totalling approximately US\$100 000. Support was provided for youth development and gender mainstreaming, in partnership with the Ministry of Internal Affairs, which helped strengthen grassroots development.

Another two grants were awarded to support energy efficient activities. Through the Ministry of Resources and Development's capacity to complete energy audits, AusAID was able to better target the scheme to enable organisations to retrofit energy efficient equipment. As reported above, in the Ministry's building, this resulted in a 67 per cent cost saving on monthly electricity expenditure.

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 Marshall Islands and greater Pacific region to manage marine resources.

The Forum Fisheries Agency project, Regional Economic Integration, promotes regional cooperation in fisheries economic development. Through this project, over a thousand jobs have been created in the region and projects worth more than \$120 million have been successfully completed.

Climate change

AusAID bilateral funding for activities related to climate change adaptation in Marshall Islands in 2011 was allocated to the international non-government organisation, International Organisation for Migration. Implementation of its climate change project will begin in 2012 and progress will be reported on in the 2012 APPR.

In 2011 an Australian-funded Secretariat of the Pacific Community publication delivered research outlining the impacts of climate change on coastal and oceanic fish resources for individual Pacific nations, including the Marshall Islands. With Australian funding support, the Secretariat is supporting Pacific Island countries to implement the findings into their national policies.



Program quality

Due to the small size of activities, Quality at Implementation (QAI) reports were not required for the Marshall Islands program in 2011. As program expenditure is expected to exceed the A\$3 million threshold in 2012–13, QAI reports will be completed in future years.

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.

As the Marshall Islands program develops, it is anticipated that assistance to the outer island of Ebeye will be increased.

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. In 2012, a volunteer will be placed with Woman United Together Marshall Islands.

Management consequences

2011 marked a period of transition for Australia's aid to the Marshall Islands under the new bilateral Partnership for Development. This transition has included a process of consolidation and review, where our aid has shifted from supporting a range of small, unrelated activities to focusing on two broad development outcome areas 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 in 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. For example, we are currently working with the Asian Development Bank on options to improve the water and sanitation situation on Ebeye.

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.