



# Republic of Palau Annual Program Performance Report 2011

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## Summary

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

## Context

### Political overview

Palau is an island country located in the western Pacific Ocean. It is part of the larger island group of Micronesia and has a population of around 21 000 people spread over 250 islands which form the western chain of the Caroline Islands.

Palau is a presidential republic in free association with the United States, which provides defence, funding, and access to social services. Legislative power is concentrated in the bicameral Palau National Congress.

Palau's economy is based mainly on tourism, subsistence agriculture and fishing, with a significant portion of GNP derived from foreign aid. Under the terms of the Compact of Free Association with the United States, agreed after the end of the UN trusteeship in 1994, Palau has received more than US\$800 million in direct assistance over 15 years. At the end of 2010, the value of a trust fund set up under the compact was approximately US\$160 million.

The compact arrangements with Palau are significantly different to those which the US agreed with the Republic of the Marshall Islands and the Federated States of Micronesia. Palau receives approximately US\$21 million of annual grant assistance, including payments to the trust fund. This figure is decreased annually.

In addition to financial assistance, the compact allows Palau's 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 continue to provide, at no cost to Palau, 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 Palau.

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



## Economic overview

Palau's population is approximately 20 472 (2010) with a GDP per capita of around US\$8370 (2010). The economy is dominated by government services and is largely reliant on external grants and income from its tourism sector.

Palau's per capita GDP makes it one of the wealthier Pacific Island states. Nominal GDP increased by an annual average of nearly 14 per cent from 1983 to 1990, and by an annual rate of over 10 per cent from 1991 to 1997. Growth turned sharply negative in 1998 and 1999 as a result of the Asian financial crisis, but a gradual rebound followed, and the economy has been growing at a healthy rate in recent years.

Tourism (and its related infrastructure changes) is Palau's main industry. The island's major attractions are its diverse and pristine marine environment, and its tropical island beauty. The number of visitors—31 per cent from Japan, 35 per cent from Taiwan, 17 per cent from Korea, and 8 per cent from the US—was over 100 000 in 2011, a 13 per cent increase from 2010.

The service sector dominates the Palauan economy, contributing more than 50 per cent of GDP and employing more than half of the workforce. The government alone employs about 30 per cent of workers and accounts for 20 per cent of the GDP.

## Development context

Palau's major long-term development challenges stem from a need 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.

Long-term prospects for the key tourist sector have been bolstered by the expansion of air travel, the rising prosperity of East Asian countries, and increased foreign investment in tourism infrastructure.

While tracking data is often inconsistent and out dated, recent estimates suggest that Palau is currently on track to reach most of its targets (with the exception of MDG 1 – eradicate extreme poverty and hunger, and MDG 8 – develop a global partnership for development).

In November 2011 Australia released the first detailed scientific projections for long-term climate change impacts in Palau 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

Palau receives substantial external assistance, with total official development assistance (ODA) of approximately US\$30 million (2010), which equates to 19.5 per cent of gross national income.

Australia's bilateral aid contribution of A\$3.49 million makes it a small donor in comparison to the United States and Japan. The US contributes approximately US\$21 million a year in ODA, while Japan, through the Japanese International Cooperation Agency (JICA) contributes approximately US\$8 million. In 2011 Australia contributed to a World Bank-led telecommunications project. The Asian Development Bank plays a valuable role in the water and sanitation sector and public sector reform in Palau.

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 Palau, heralding a significant shift from previous aid funding arrangements towards a bilateral partnership relationship. From a scholarships program and small grants program in January, the program has grown over the following 18 months to include three adviser placements, four 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 Palau:

- increasing the competency and quality of the teaching workforce
- supporting improvement in the competency and skills base of health sector workers
- improving budget planning and management.

It was agreed at the May 2012 talks that the Partnership would be updated to remove budget planning and management as a priority area due to poor progress, and – at Palau's request – to replace this with support for clearance of unexploded ordnance clearance as a new priority outcome.

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

Human resource gaps have been identified by the Palau Government as an important need in the priority Partnership sectors, leading to a higher demand for, and provision of, technical advisors. 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, of whom four were in Palau, in areas targeting Partnership



priority sectors. Community and government consultations have highlighted the high demand and respect for Australian volunteers. Palau 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 Palau will enhance Australia's general visibility in the country.

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 agreed outcomes under the Partnership start to be achieved. Funding for unexploded ordnance (UXO) clearance (\$1.38 million in 2011-12) was provided outside the three Partnership priorities in 2011. As explained above, UXO clearance will become a Partnership priority in 2012 in place of Objective 3, Budget Planning and Management. This decision was formalised in the May 2012 Partnership talks with strong support from the Palau Government.

Apart from UXO clearance, support to activities outside the Partnership priority areas in 2011 comprised scholarships, small grants, and funding for telecommunications from the Pacific Region 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: Improve teacher workforce	0.48	15.04
Objective 2: Health HR development	0.25	7.84
Objective 3: Budget planning and management	0.16	5.02
Other: Unexploded ordnance clearance	1.38	43.26
*Outside partnership priority outcomes	0.92	28.84

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: Improve the quality of the teacher workforce	
Objective 2: Health HR development	
Objective 3: Budget planning and management	

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: Improve the quality of the teacher workforce

Currently there are 271 public school teachers in Palau. The majority of these are young and inexperienced, and do not have the right qualifications to ensure strong learning outcomes for students. While teachers have access to short-term in-service training, they lack the financial resources to sufficiently upgrade their educational qualifications. The table below shows the qualifications of the current teaching workforce:

Diploma/degree	Number	Percentage
High school	115	42
Associate	92	34
Bachelor	50	18
Masters	16	6
Doctoral	0	0

Australia's assistance to education in 2011 was focused on strengthening the teaching qualification at the Palau Community College by providing an English as a second language adviser. This adviser worked with the college to develop a best-practice curriculum, which will be integrated into the teaching associate degree requirements.

This new curriculum will be trialled with a group of in-line teachers in mid-2012. Once approved, the adviser will continue working with teachers at the college to modernise teaching practices and ensure they are implemented effectively.

Progress in education is advancing slowly, and to meet the objectives outlined in the partnership, Australia's assistance will need to increase to include teaching scholarships. AusAID is considering the feasibility of providing annual grant funding directly to the Palau Ministry of Education to enable an agreed number of scholarships to be granted to in-line teachers each year.





## Objective 2: Health human resources development

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 of Health (in partnership with the Ministry of Education) has 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.

In 2011, Australia supported the Ministry of Health by providing a health human resource development adviser. This adviser worked alongside a local counterpart to draft the 2011–2016 health resource development strategic plan, an 18 month action plan, and is now working on career ladder classifications for each health profession. With this professional input, the ministry has been able to strengthen 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 the required health professionals.

This partnership priority area has progressed well and is anticipated to meet its objectives. In 2012, Australia's assistance will be expanded to help Palau address an urgent biomedical engineering gap. This will be achieved through the Pacific Technical Assistance Mechanism.

## Objective 3: Budget planning and management

The Ministry of Finance strives to ensure accountability, continuous productivity of government services, and economic growth by promoting sound policy and management of expenditures, revenues, financing and human resources. The Government of Palau identified that a lack of funding has been the main constraint to obtaining qualified and skilled personnel. It requested Australia's assistance to update processes and manuals, and to train staff.

In 2011, Australia provided a finance and accounting specialist in the Ministry of Finance to review procurement process, update procedures and train relevant officers. Through the adviser's input, the partnership's objectives have been partially met.

The Asian Development Bank also has a significant investment in strengthening the capacity of the Palau Ministry of Finance, including on tax reform, statistics and MDG tracking. After 18 months of engagement (and in light of increasing pressure to work in other sectors), it was agreed at the May 2012 partnership talks that assistance to budget planning and management would be removed from the Palau–Australia Partnership for Development.

## Unexploded ordnance clearance

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 talks, it was agreed that unexploded ordnance clearance would replace budget planning and management as a priority under the Partnership for Development.

Funding was approved in 2011 for Cleared Ground Demining – an international non-government organisation – to expand its work on unexploded ordnance clearance in Palau. Implementation did not commence until 2012, so results will be reported in next year's APPR.



## Other AusAID assistance

### Scholarships

Over the last five years, seven Australian Leadership Awards and Australian Regional Development Scholarships (ARDS) have been awarded to Palauan students.

In 2011, two ARDS scholarships were awarded, one to a man and the other to a woman.

Based on data over the last 10 years, the completion rate for Australian Regional Development Scholarships in Palau is around 77 per cent. The sub-optimal graduation rate is a concern for the North Pacific scholarships program and AusAID will need to dedicate significant resources to strengthen the scholarship preparation and support processes.

AusAID and Palau have agreed to work closely to strengthen future selection and preparation processes to improve this statistic.

In 2011, there were no Australian Leadership Awards scholarships awarded in Palau.

### 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 and provides a strong complement to the Partnerships for Development.

In 2011, four grants were awarded in Palau totalling approximately US\$70 000, mainly targeting education and environmental management.

### 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 Palau and the 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 1000 jobs have been created in the region and projects worth more than \$120 million have been successfully completed.

### Climate change

AusAID funding for activities related to climate change adaptation in Micronesia 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.

This year 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. With funding support from Australia, 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 Palau program in 2011. As program expenditure is expected to exceed the A\$3 million threshold in 2012–13, 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.

The Palau 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. 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 Palau 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 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.

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 Australia will seek to explore further.

