

Actions for Palau's Future

The Medium-Term Development Strategy

2009 to 2014

*The Medium Term Development Strategy – **Actions for Palau's Future**
– was prepared by the Government of Palau with the assistance of the
Facility for Economic and Infrastructure Management and the support of
the Asian Development Bank*

ACRONYMS

ACA	– Advisory Council for Agriculture
ADB	– Asian Development Bank
BCD	– Bureau of Commercial Development
BHRD	– Bureau of Human Resources Development
BOA	– Bureau of Agriculture
BOD	– Board of Directors
BOI	– Bureau of Immigration
BMR	– Bureau of Marine Resources
BPH	– Bureau of Public Health
BPS	– Bureau of Public Safety
BPW	– Bureau of Public Works
BRCT	– Bureau of Revenue Customs and Tax
BWA	– Babeldaob Watershed Alliance
CCF	– Climate Change Fund
CDC	– Center for Disease Control
CITES	– Convention on International Trade and Endangered Species
CIP	– Capital Improvement Project
COC	– Chamber of Commerce
COFA	– Compact of Free Association
CRC	– Compact Review Commission
CRMA	– Climate Risk Management and Adaptation
CSPP	– Civil Service Pension Plan
DEH	– Department of Environmental Health
DOI	– Department of Interior
DSAP	– Development of Sustainable Agriculture in the Pacific
EA	– Environmental Assessment
EIS	– Environmental Impact Statement
EQPA	– Environmental Quality Protection Act
EQPB	– Environmental Quality Protection Board
ESE	– Effective Soil Enhancement
FEIM	– Facility for Economic and Infrastructure Management
FAO	– Food and Agriculture Organization
FFS	– Farmer Field School
FIA	– Financial Institutions Act
FIB	– Foreign Investment Bank
FIC	– Financial Institutions Commission
FSA	– Farm Service Agency
FY	– Fiscal Year
GDP	– gross domestic product
GIS	– Global Information System
GOP	– Government of Palau
IMF	– International Monetary Fund
IPM	– Integrated Pest Management
JICA	– Japan International Cooperation Agency
KFC	– Kuniyoshi Fishing Company
MAP	– Management Action Plan
MCCA	– Ministry of Cultural and Community Affairs
MCT	– Ministry of Commerce and Trade

MNRET	– Ministry of Natural Resources, Environment and Tourism
MOA	– Ministry of Agriculture
MOH	– Ministry of Health
MPA	– marine protected area
MRD	– Ministry of Resources and Development
MPIIC	– Ministry of Public Infrastructure, Industry and Commerce
MTDS	– Medium-Term Development Strategy
MTFS	– Medium-Term Fiscal Strategy
NASDP	– National Aquaculture Strategy and Development Plan
NBSAP	– National Biodiversity Strategy and Action Plan
NDBP	– National Development Bank of Palau
NEPC	– National Environmental Protection Council
NGO	– nongovernment organization
NMDP	– National Master Development Plan
NRCS	– Natural Resources Conservation Service
OAT	– Office of the Attorney General
OEK	– Olbill Era Kelulau
OERC	– Office of Environmental Response and Coordination
PACA	– Palau Aquaculture Clam Association
PAN	– Protected Areas Network
PATS	– Pohnpei Agriculture Training School
PCAA	– Palau Community Action Agency
PCC	– Palau Community College
PCS	– Palau Conservation Society
PFA	– Palau Fisheries Advisory Committee
PFTAC	– Pacific Financial Technical Assistance Center
PIA	– Palau International Airport
PICRC	– Palau International Coral Reef Center
PITI	– Palau International Traders Incorporated
PMA	– Palau Maritime Agency
PMDC	– Palau Mariculture Demonstration Centre
PMIC	– Palau Marine Industries Corporation
PNCC	– Palau National Communications Corporation
PNRC	– Palau Natural Resources Council
PPLA	– Palau Public Lands Authority
PRA	– Participatory Rural Appraisal
PSC	– Project Steering Committee
RRPL	– Republic of Palau Public Law
SBDC	– Small Business Development Center
SID	– Support Impact Doable
SPLA	– State Public Lands Authority
SLMP	– Sustainable Land Use Management Project
SSF	– Social Security Fund
SPC	– South Pacific Commission
TAPC	– Tourism Action Plan Committee
TNC	– The Nature Conservancy
TTA	– Trust Territory Authority
TTM	– Taiwan Technical Mission
UNCBD	– United Nations Convention on Biological Diversity
UNCCD	– United Nations Convention to Combat Desertification
UNFCCC	– United Nations Framework Convention on Climate Change

- US – United States of America
- USDA – United States Department of Agriculture
- WB – World Bank

WEIGHTS AND MEASURES

- ha – hectare
- km – kilometer
- m – million

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1. Summary of Policies, Strategies and Actions

1.1 Role and Context for the MTDS

1. The medium term development strategy (MTDS) – described as “Actions for Palau’s Future” – sets out the key strategies and actions to help achieve economic, social, environmental and cultural goals over the 5 year period 2009 to 2014. The MTDS establishes meaningful priorities and recommends credible policies and practical actions to address those priorities.
2. In formulating the MTDS there has been an emphasis on consultation and on building on and prioritizing all of the good work that has been done to date on plans, policies, strategies, institutions and specific recommended actions. This includes the consultations in formulating the 2020 National Master Development Plan in 1996, the National-State Leadership Symposium in 2006, the National Economic Symposium in 2007, the Governors Economic Symposium in April 2008, a public forum on the Medium Term Development Strategy in June 2008 and a public forum on public enterprise reform in October 2008.
3. In addition, consultation was undertaken with many affected stakeholders in key areas. However, changes in circumstances, lessons learned and new analysis have led to some new recommendations in the formulation of the MTDS. There will be continued efforts to consult and communicate on the MTDS to ensure it takes account of current and emerging issues.
4. The MTDS has been designed to be flexible in addressing changing priorities and issues as they emerge. It is also important to recognize that the MTDS is essentially about developing and implementing policy actions to gain the maximum benefits from the resources that are available to Palau. It is not about preparing a “wish list” of projects or additional funding beyond historical levels to support economic development. Indeed many of the recommendations in the MTDS are about “doing more with less”.

1.2 Overall Goal, Strategies and Priorities

1.2.1 Overall Goal

5. The overall goal of sustainable national development is defined in **Actions for Palau’s Future** as:

A sustained and widespread improvement in general standards of living while preserving cultural and environmental values for the people of Palau.

1.2.2 Strategic Priorities

6. The strategic priorities in the MTDS can be thought of as key strengths, constraints and issues that need to be recognized or addressed in formulating an effective medium term development strategy.
7. The following strategic priorities have been identified to be an essential part of an effective medium term development framework:
 - i) Preserving key values and advantages which are:
 - *The environment.*
 - *Cultural values.*
 - *Political stability.*
 - *Public security and civil order.*
 - *Effective relationships with development partners.*
 - ii) Achieving consensus for change through:
 - *Transparency and opportunities for consultation.*
 - iii) Addressing binding constraints to economic development which are:
 - *The expectation that someone else should pay for a wide array of government, reflected in a 'lack of willingness to pay, work productively and support effective policies'.*
 - *Conflicts of interest that make it difficult to gain acceptance for and to implement effective governance arrangements and policies for the benefit of the community as a whole.*

1.2.3 Overarching Strategies

8. There are three overarching (or thematic) strategies that cut across sectors and issues and that encapsulate a wide range of more specific strategies and actions, as follows:
 - i) Paying the 'right price' (cost recovery and well defined, targeted, transparent subsidies).
 - ii) Reducing costs and ensuring conservation.
 - iii) Generating income opportunities.

1.2.4 Priority Policy Actions

9. The agenda for economic development in Palau is extensive and if meaningful progress is to be made it is critical to establish priorities. The MTDS is extensive but a comprehensive prioritisation process has been undertaken in each sector that establishes the main priorities and timing for policy actions over the next five years.
10. However, recognizing the limits of management capacity, as well as the limits of being able to make timely legislative changes that are acceptable to the community and the community's willingness and ability to adjust to change, it is important to establish key policy priorities at a high level. The following policy priorities encapsulate the main priorities in the MTDS and have been formulated as the policy actions that will receive the highest emphasis and support over the five year period of the MTDS:
 - i) Agriculture and Fisheries – *Foster sustainable agricultural and fisheries income opportunities.*
 - ii) Tourism – *Position Palau as the island of choice for environmentally conscious visitors and realize higher returns to the nation from tourism.*
 - iii) Infrastructure – *Make critical investments in sanitation, water and power and prioritize maintenance.*
 - iv) Foreign Involvement – *Refine foreign investment and foreign worker policies to generate maximum sustainable benefits for Palau.*
 - v) Sustainable Government – *Undertake reforms to ensure a cost conscious and highly productive government.*
11. Although these policy priorities will be given the most emphasis in the implementation of the MTDS, each sector will still be working on the implementation of its comprehensive action plan according to the priorities specified in such plans.

1.2.5 Expected Outcomes

12. The expected outcomes from effective implementation of *Actions for Palau's Future* essentially relate to the various dimensions in which progress is made in terms of the overall goal for sustainable national development. Key elements include:
 - i) *Improvements in general standards of living.*
 - ii) *Private sector development.*
 - iii) *Greater self reliance.*
 - iv) *Preservation of culture and the environment.*
 - v) *Social and political stability.*

vi) *Looking after the vulnerable.*

13. The goals and key strategies for each policy sector are summarized below.

1.3 Economic Policies and Institutions

14. The key issues for economic policies and institutions are:

- i) fiscal sustainability;
- ii) access and fair compensation for the use of land;
- iii) the labor market needs to function well from a business perspective while preserving cultural and environmental values;
- iv) the foreign investment regime is too restrictive and open to abuse;
- v) a well functioning and stable financial system is needed;
- vi) gaps in the commercial legal framework need to be addressed;
- vii) there is a need for more effective cooperation with respect to National and State relationships to support economic development.

15. The **Goal for Economic Policies and Institutions** is:

To establish an enabling environment to support sustained and widespread private sector development.

16. The **Expected Outcomes** from implementing the strategies and actions for Economic Policies and Institutions are *essentially*:

- i) *A stronger and more self reliant economy.*
- ii) *Palauans being in a better position to manage and benefit from foreign involvement in the economy.*

1.4 Reform of Government and Public Enterprises

17. There are two key areas of government services that are part of the Medium Term Development Strategy. The first relates to improving the performance of government in general. The second relates to improving the performance of public utilities and other public services that have a business aspect (often referred to as public enterprises).

18. The **Goal for Reform of Government and Public Enterprises** is: *To lower the cost and improve the performance of government, government business services and public enterprises.*
19. The key **Priority Action for Reform of Government** is to: Review the role, functions and activities of government departments and implement recommendations for the 'right size' of government and for streamlining employment and procurement requirements.
20. The key **Priority Action for Reform of Public Enterprises** as a whole is to: Prioritize and implement the Action plans on Corporatization and Privatization of Public Utilities and Other Public Services. The overarching goal of the plans for reform of public enterprises is: *To improve the quality of governance of public enterprises.*
21. The **Expected Outcomes** from implementing the strategies and actions for the Reform of Government and Public Enterprises are essentially:
- i) *A more streamlined, better focused and more efficient government structure delivering improved services at a lower cost.*
 - ii) *Public enterprises characterized by: clear, non-conflicting objectives, improved accountability, well defined regulatory arrangements and community service obligations and improved productivity.*
 - iii) *Greater scope for private sector involvement in operations and investment in sectors where government entities are currently involved in business services.*

1.5 Environment

22. Palau has a unique and diverse environment with great potential for tourism development. Preserving environmental values while also enabling development to occur is a major challenge for Palau.
23. The key issues facing the environment and natural resources sector are:
- i) the lack of an overarching policy framework;
 - ii) an outdated, inappropriate and cumbersome regulatory framework;
 - iii) over-lapping and conflicting mandates and functions;
 - iv) insufficient funding leading to difficulties in undertaking evaluation, review, monitoring, compliance, and enforcement activities; and
 - v) ongoing tensions between state and national governments as to land and resource ownership and management and EQPB requirements.

24. The **Goal for Environmental and Natural Resource Management** is: *To protect, conserve and manage the environment and natural resources of Palau, for present and future generations of Palauans, while providing for sustainable social, cultural and economic development.*
25. The strategies and actions in the Environmental and Natural Resource Management Action Plan have been designed to address the key issues for the sector set out above. The **Expected Outcomes** from implementation of the Environmental and Natural Resource Management Action Plan are as follows:
- i) *A more integrated approach to environmental management and infrastructure and natural resource development and use.*
 - ii) *More appropriate, more streamlined environmental laws, regulations and development requirements.*

1.6 Tourism

26. Within Palau it is widely acknowledged that tourism offers great potential to support sustainable economic growth and provide opportunities for employment for Palauans. However, the industry is vulnerable.
27. The key issues facing the tourism sector include:
- i) the need for careful environmental management of natural resources;
 - ii) a general industry trend to a lower quality product, associated with a rise in budget group packages;
 - iii) predominance of charter flights rather than regular scheduled services;
 - iv) a rise in adverse social and cultural impacts including prostitution;
 - v) lack of infrastructure for cruise ships and visiting private vessels; and
 - vi) difficulties in attracting and retaining Palauans in the industry.
28. The **Goal for Tourism** is: *To upgrade the image of Palau as a tourist destination and position Palau as the island of choice for environmentally conscious visitors. This will involve ensuring quality visitor experiences and high financial and other benefits to Palau on a sustainable basis.*
29. The **Expected Outcomes** from implementation of the Tourism Action Plan are as follows:
- i) *The image of Palau as a quality destination for environmentally conscious visitors.*
 - ii) *Preservation of Palau's unique environmental assets.*
 - iii) *Increased income and employment for Palauans from tourism.*

1.7 Aquaculture and Fisheries

30. The marine resources of Palau are an extremely important asset for the nation. The marine resources of Palau can provide sustainable long term economic development opportunities. However, to ensure success, compliance with national and state regulations must be achieved.
31. The main problems in the marine resources sector in Palau relate to:
- i) completion and adoption of various policies and legislation that are well advanced;
 - ii) effective enforcement of legislation and regulations;
 - iii) development and implementation of a nation-wide quarantine plan;
 - iv) confirmation and implementation of offshore fisheries policy, with emphasis on ensuring that the offshore sector optimizes its contribution to the economy of Palau;
 - v) the overstretched capacity of the Bureau of Marine Resources (BMR) and its role in commercial activities;
 - vi) the need to privatize the giant clam program operated by the Palau Mariculture Demonstration Center under the BMR; and
 - vii) ensuring the environmental sustainability of inshore fisheries.
32. The **Goal for Aquaculture and Fisheries** is: To achieve sustainable economic development and management of the marine and coastal resources of Palau.
33. The **Expected Outcomes** from acceptance and effective implementation of the Aquaculture and Fisheries Action plan are essentially:
- i) Development of marine resource income opportunities in a sustainable manner.*
 - ii) A greater role for the private sector in aquaculture.*
 - iii) Improved returns from offshore fishing.*
 - iv) Increased opportunities from the use of marine resources for tourism.*

1.8 Agriculture and Forestry

34. Within Palau, agriculture has become neglected as a government policy priority and the country is now highly reliant on imported food. There is great potential for agriculture in Palau but a range of issues need to be addressed to encourage the production of local produce.

35. The key issues affecting sector productivity are:
- i) poor market access and weak market chain linkages;
 - ii) lack of clear focus in Bureau of Agriculture with an emphasis on conservation at the expense of agricultural production;
 - iii) limited quality soil;
 - iv) lack of interest in traditional subsistence agriculture; and
 - v) pests.
36. Key issues affecting BOA institutional productivity include:
- i) limited staff resources;
 - ii) inefficient resource use;
 - iii) a need for inter-agency collaboration; and
 - iv) incomplete management plans providing the framework for sustainable development and coordination with other agencies.
37. There needs to be both government commitment and community effort in order for agriculture to realize its full potential. Palauans also need to understand that they need to be managers of their natural resources and their production potential. This extends to effective management of foreign workers in developing agriculture. Proposals for better managing foreign workers are set out in other parts of Actions for Our Future.
38. The **Goal for Agriculture** is: *To Diversify and significantly increase the level of agricultural production and develop productive forests.*
39. The **Expected Outcomes** from acceptance and effective implementation of the Agriculture and Forestry Action Plan are essentially:
- i) *Less reliance on imported food.*
 - ii) *Diversification of employment and incomes for Palauans*

1.9 Infrastructure

40. The issues for the infrastructure sector are wide ranging and the agenda is potentially vast. An extensive consultation and evaluation process was undertaken to establish priorities in the infrastructure sector.
41. The **Goal for Infrastructure** is to: *Provide, protect and maintain infrastructure on an efficient and equitable basis to improve access, standards, reliability and value-for-money.*

42. A core agenda has been developed for infrastructure that specifies **six high priority programs and six high priority projects**.
43. The **high priority programs** are:
- i) Maintenance and supervision.
 - ii) Applying building codes and land use zoning.
 - iii) Appropriate pricing, reorganisation and regulation of services.
 - iv) Appraising investment and maintenance choices.
 - v) Setting a tourism strategy identifying implications for infrastructure.
 - vi) Setting a strategy for management of environment and resources.
44. The **high priority projects** are:
- i) Sewerage solutions for Koror and south Babeldaob.
 - ii) Water system conservation, upgrading and cost recovery.
 - iii) Public buildings and facilities – conservation, best uses, and schools, especially the strategy for Babeldaob.
 - iv) Waste reduction, management and future landfill preparation for Aimeliik.
 - v) Electricity: conservation, adequate PPUC revenues, and adequate capacity in generation, transmission and distribution.
 - vi) Airport operations and business leases.
45. The **Expected Outcomes** from acceptance and effective implementation of the infrastructure action plan are essentially:
- i) Improved maintenance outcomes ensuring longer asset lives.*
 - ii) Lower cost solutions, improved management and improved conservation.*
 - iii) Land use and infrastructure that facilitate tourism development.*

1.10 Financing Education

46. The focus for the education sector, in Actions for Palau's Future, is in implementing the best approach to financing education policies and strategies.
47. The education system in Palau relies heavily on US federal grants which are subject to ongoing review. If US funding for education were to be discontinued, the fiscal strategy for the sector would require across the board reduction of 12.5% in existing expenditures, over a five-year period. But at the same time, new programs have been suggested that need prioritization and funding so that the financing challenge of education is very demanding.
48. The key issues for a sustainable financing plan for education are:
- i) establishing clear priorities between and within sub- sectors;
 - ii) implementing both cost saving and revenue generating measures in a realistic time frame;
 - iii) implementing a communications strategy that involve stakeholders in the planning and monitoring to ensure their support.
49. Education is an essential component of national development. The proposed sector-wide Vision in the Education Master Plan for 2006-2016 is: Our students will be successful in Palauan society and the World.
50. The **Goal for Financing Education** Strategies and Actions is: *To provide Palauan students with access to quality educational opportunities from preschool through to post- secondary level.*
51. The **Expected Outcomes** from effective implementation of the financing education action plan are essentially:
- i) *Lower costs of providing education, particularly lower costs for school buildings.*
 - ii) *Increased revenue including new sources of revenue for education.*
 - iii) *Better targeting of scholarships.*
 - iv) *A well developed and properly guided educational process from pre- primary to post secondary education levels*
 - v) An increase in number of graduates and less drop outs.

1.11 Financing Health

52. Health is an essential component of national development. The vision for financially sustainable health services builds on the Vision already articulated by the Ministry of Health and is described as follows: Healthy Palau in a healthful environment at a cost affordable to government and people.
53. The focus for the Health sector the focus in Actions for Our Future is on strategies and actions to finance the goals for health. There is a need to achieve a combination of higher revenues and reduced expenditures in the context of expected availability of government funding and the objective of being self reliant with respect to financing expenditures that are of a current rather than capital nature.
54. Reflecting these considerations the **Goal for Financing Health** is: *By 2013, to implement a combination of strategies that will achieve fiscal adjustment equivalent to \$3.3 million.*
55. The **Expected Outcome** from the Action Plan for Financing Health is essentially:
- i) *A more efficient and more sustainable health system for Palauans.*

1.12 Social Services for Vulnerable People

56. Consultations with service providers and the broader community confirm that several populations have been identified as having special needs due to their social or physical characteristics. These are:
- i) persons with disabilities and other special health care needs;
 - ii) adolescents;
 - iii) women and children who are victims of abuse or (in the case of children, neglect);
 - iv) certain other categories of women who are under stress; and
 - v) certain categories of elderly.
57. The proposed vision for vulnerable people is "life with dignity". This vision is supported by three goals:
- i) *To ensure the basic needs of all residents are met.*
 - ii) *To reduce vulnerability by preserving and strengthening safety nets.*
 - iii) *To provide compassionate, timely assistance to people falling through the "safety nets".*

58. The expected outcomes from acceptance and effective implementation of the action plan for addressing the needs of vulnerable people essentially relate to achieving the goals of:
- i) Meeting basic needs.*
 - ii) Strengthening safety nets.*
 - iii) Ensuring appropriate and timely assistance for people who fall through the standard safety nets*

2. Role and Purpose of the MTDS

2.1 Context and Rationale for an MTDS

59. The Republic of Palau has a long-term National Master Development Plan (NMDP) that sets out policies and plans to 2020. The NMDP was finalized in 1996 and is a very comprehensive document covering virtually all sectors, institutions and policies in Palau that were relevant at the time. Since then there have been numerous other plans and policies that have been formulated, although nothing as comprehensive as the NMDP. Many sectors have to deal with a range of plans and requirements that make it difficult to establish strong priorities and help ensure the most effective use of the country's natural resources and human resources.
60. It is now an opportune time to assess where we are as a nation in terms of economic and social development and the state of our natural resources and to develop a clear and practical strategy for national development with a medium-term 5 year focus. Two key problems with the NMDP are that it has such a long term focus and it provides limited guidance on priorities to reach our long term goals.
61. Palau needs a Medium-Term Development Strategy (MTDS) that establishes meaningful priorities and recommends credible policies, institutions and practical actions to address those priorities. An effective MTDS also needs to be flexible in being able to be adjusted to address changing priorities and gaps or weaknesses that only become recognized as time passes, and it needs to be accessible and well understood by the community.
62. This document sets out the details of Palau's MTDS and provides some of the key reasons for suggested policies, priorities and actions. Separate papers are available on various sectors and topics that were used in providing analysis and details to help formulate the MTDS. These are listed in the reference section and are available on request. In addition, a separate summary booklet is available for the purposes of making the MTDS accessible and easy to understand for the community.

2.2 The NMDP and Other Development Plans

63. The Government of Palau has a number of medium-term development and investment plans as follows:
 - i) An initial Economic Development Plan was prepared in 1994 to comply with Compact requirements. It was largely an infrastructure plan.
 - ii) This was followed by the Palau 2020 NMDP, adopted by Olbill Era Kalulau (OEK) in 1996. This is a comprehensive development plan covering all sectors as well as infrastructure.
 - iii) A detailed "Sustainable Tourism Policies and Action Plan" was prepared in 1997-2001.
 - iv) Sustainable Human Development in Palau, 1997.

- v) A Japan International Cooperation Agency (JICA) report in 2000 also focused on infrastructure and particularly infrastructure for tourism.
 - vi) Palau 2000 Master Plan for Educational Improvement.
 - vii) The Public Sector Investment Program (PSIP) formulated in 2002 provides an update of infrastructure needs and summaries of prioritized projects.
 - viii) A medium-term economic development framework was formulated in 2001 which is still current. However, this is only an outline of broad economic and fiscal objectives.
 - ix) Management action plans were also developed in 2001 which are still current. These usefully summarize policy and institutional objectives and directions and actions for numerous sectors.
 - x) Strategic development plans were being developed by each Ministry in 2008 but apart from the strategy for solid waste management, these are at a very preliminary stage of development.
 - xi) There are also various other plans for sectors and specific subjects that are well formulated but where limited action has been taken.
 - xii) The Compact Review Commission (CRC) also finalized its (confidential) report in August 2007, with implications on policies, needs, capacity and future options.
64. Many of these documents are still highly relevant in terms of the policies, strategies, institutional changes and specific actions that they recommend. They have also involved considerable consultation with stakeholders and the wider community in their formulation. More recently extensive community consultation was undertaken by the activities of the CRC and in particular in the form of the National Economic Symposium held in 2007 and the National/State Leadership Symposium held in 2006.
65. Thus in formulating the MTDS there has been an emphasis on building on and prioritizing all of the good work that has been done to date on plans, policies, strategies, institutions and specific recommended actions. However, the identification of key constraints to successful implementation as well as some changes in circumstances and some gaps in earlier studies necessitated some specific new work in several general policy areas and key sectors, in the formulation of the MTDS.
66. In addition, consultation was undertaken with affected stakeholders in key areas and wider communication with the public was undertaken in areas with major community impacts. Further consultation and communication will be an important part of gaining community understanding of the MTDS and support for successful implementation.

2.3 Approach in Developing the MTDS

2.3.1 Resources and management structure

67. The government began the process of preparing a MTDS with support from the Asian Development Bank in September of 2007. A Facility for Economic and Infrastructure Management (FEIM) was established with a team of international and domestic consultants contracted to help prepare the MTDS. The team was supported by Palauans in various Ministries and Bureaus that were a focus of the project. The team provided assessments and advice and consulted with stakeholders on a range of policy, planning, economic, social, environmental and infrastructure issues.
68. A Project Steering Committee (PSC) was established by Presidential Directive (No. 07-003) to supervise the preparation of the MTDS. It comprised representatives of the Ministry of Finance, the Ministry of Resources and Development, the Ministry of Health, and the Ministry of Education and the Office of the President as well as representatives of the Governors association, the Chamber of Commerce and the Alliance of Non-State Actors. The Project Steering Committee met regularly to supervise and guide the work of the FEIM team, which was mostly undertaken from October 2007 to October 2008.

2.3.2 Process for conducting assessments

69. The MTDS team undertook assessments of the situation for a range of policies, institutions and sectors. Reports were prepared setting out the findings and recommendations for policies, strategies and actions for consideration and approval by the PSC. Once the reports were approved by the PSC, the findings and recommendations were incorporated into the MTDS.
70. In preparing the MTDS, the team built on the work and results of previous consultations and symposiums as noted above. In addition sector and subject experts consulted extensively with stakeholders in various sectors in the formulation of their recommendations. Key findings and recommendations were communicated to the public and leadership in various presentations and press releases.

2.4 Purpose and Coverage of the MTDS

2.4.1 Purpose

71. The purpose of the MTDS is to provide a credible, clearly focused, practical and action-oriented strategy that the community as a whole will identify with. The MTDS is not a detailed operational plan but rather a strategic plan that sets priorities and the details of key actions, responsibilities and timing over a 5 year period.

2.4.2 Coverage

72. The MTDS covers key policies, institutions and actions that should be the focus of the government to work towards the goal of sustainable national development over the next 5 years.

3. National Development Situation and Issues

3.1 Economic Performance

3.1.1 Economic growth

73. Since Palau achieved independence in 1995, its trend economic growth rate has been 2 percent per annum, slightly in excess of average annual population growth rate of 1.4 percent. Growth rates accelerated in the 2004-2006 period, averaging over 5 percent per annum, while the population growth rate slowed to less than 1 percent per annum.
74. This implies quite a strong performance in terms of the growth of gross domestic product (GDP) per capita and contrasts with the general community views of deteriorating standards of living. But consistent with this latter perspective, according to household income and expenditure data real average household incomes increased by only about 4 per cent in period from 1997 to 2006. In addition, there is some uncertainty about the reliability of GDP estimates and the 1997 household income and expenditure data so it is difficult to draw firm conclusions about average incomes.
75. Overall economic growth slowed considerably in 2007 and weaker growth is expected for 2008 as well. Nevertheless, Palau's growth performance in recent years is much better than in Micronesia and the Pacific as a whole.
76. The recent growth performance has been supported by tourism and aid-funded infrastructure projects. Over the course of a year visits by tourists exceeded the total population of the country by a factor of four or more in the 2004-2007 period and travel receipts as a proportion of GDP were over 60 percent in 2006. Palau also receives more per capita aid than any other independent Pacific state, has no visible poverty and has the advantage of being situated relatively close to Asia. A positive feature that distinguishes Palau from other Pacific Island countries in terms of development potential is that there is considerable individual ownership of land and Palau is also a top performer in terms of the time and cost for registering property.
77. Reflecting these various characteristics, Palau compares well with other Pacific Island countries in terms of income per capita. In 2004, per capita GDP was a regionally high \$6,480—compared with \$2,438 in the Fiji Islands and \$2,096 in the Federated States of Micronesia. By 2007, GDP per capita was approaching \$8,000 (ADB 2007, p.10).
78. However, economic growth and average income figures also need to be considered in the context of the income distribution and the extent to which gains are equitably shared. Data are not available to calculate the impacts on the income distribution of growth over the last 10 years but the 2006 household income and expenditure data suggest a relatively high degree of expenditure inequality in Palau relative to other countries (Table 1).

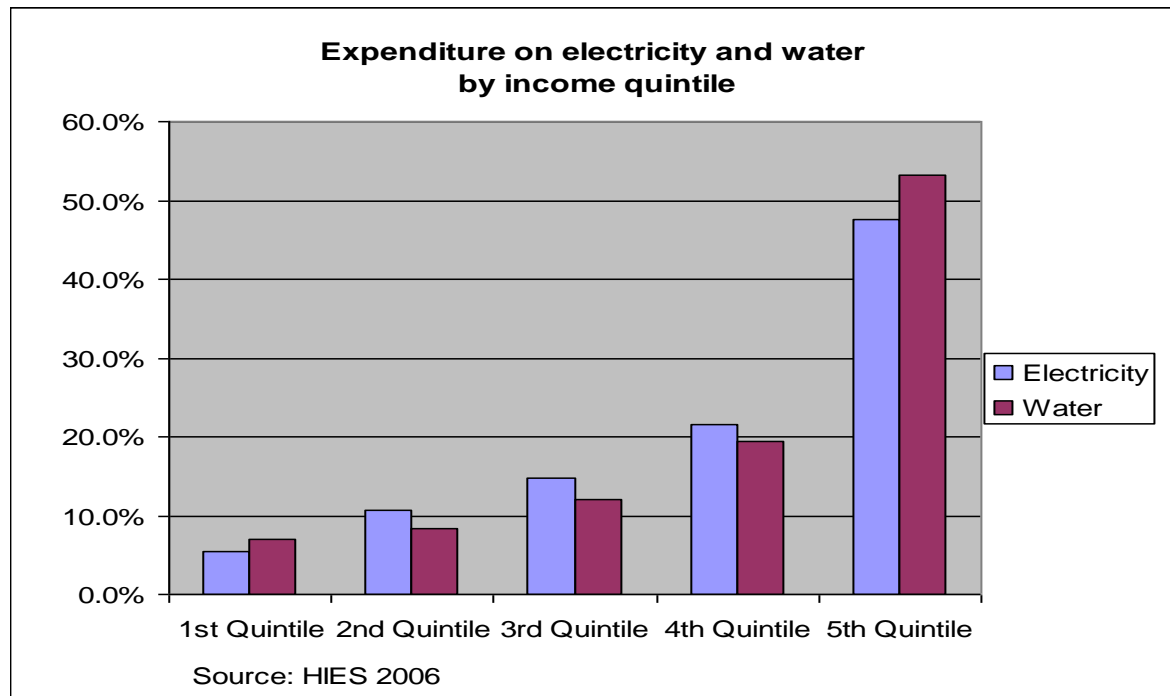
Table 1: Expenditure Distribution for Palau and Developing Asian Economies

Country	Year	Top 20 Percent/ Bottom 20 Percent Average Expenditure
China	2004	11.4
India	2004	5.5
Indonesia	2002	5.1
Malaysia	2004	7.7
Palau	2006	6.4
Philippines	2003	9.1
Thailand	2002	7.7
Vietnam	2004	6.2

Source: Calculations based on Republic of Palau 2006, Tables 21 and 22 and ADB 2007, p. 29.

79. Another perspective on income inequality is related to the extent to which government subsidies have disproportionate benefits for higher income families. Electricity and water services are highly subsidized in Palau. However, higher income groups spend proportionately considerably more on electricity and water services than lower income groups. This means that the wealthy benefit disproportionately because they spend more on these services and hence receive a much higher proportion of the total subsidy than lower income groups. As shown in Figure 1 the top 20 percent of income earners spend 47 percent of total household expenditure on electricity and 53 percent of the total household water expenditure.

Figure 1: Palau Expenditure on Electricity and Water by Income Quintile, 2006



80. The high degree of income inequality in Palau is consistent with community concerns about progress with economic development. In addition, there are widespread concerns regarding the country's economic sustainability and long-term future as it prepares for the 15 year review of the Compact. In particular, it faces the issue of whether, to what extent and under what terms and conditions, the United States of America (US) may continue to provide substantial grants for development purposes.
81. The main demand factors that underpin economic growth in Palau are tourism, aid-funded construction projects and to a lesser extent fisheries. It is suggested that these are the main demand factors that will contribute to growth over the medium-term but there is much uncertainty about the continuation of US aid at its present scale and in its present form and also for the future of the fishing industry. Tourism has considerable growth potential but will need to be supported by and managed with appropriate government policies to ensure environmental values are preserved and development is sustainable and of maximum benefit to Palau. Agriculture and fisheries also have potential that is not been tapped and could provide income and employment opportunities if policies outlined in the MTDS were adopted and effectively implemented.
82. In the present environment, growth prospects are very uncertain but the MTDS has been designed to focus on the best prospects irrespective of the extent to which US aid is available.

3.1.2 Macroeconomic policies

83. Macroeconomic policies are dominated in Palau by fiscal policy because Palau adopts the US dollar as its currency and because the government plays such a large role in the economy both in providing basic public services and its involvement in public utilities.
84. The continued use of the US currency is considered to be the most suitable currency arrangement for Palau. The main advantages are that inflation cannot be generated by deficit spending within the country, so that a fundamental potential source of monetary instability is removed, and there is a saving in terms of the institutional costs of establishing and maintaining a central bank. For small countries, these advantages are considered to be likely to more than offset the benefits from any profits accruing to the government from printing money. In addition, over the medium-term the use of the US dollar as the currency should help to improve the international competitiveness of Palau if the dollar depreciates against currencies in the region. Thus the continued use of the US dollar is strongly recommended mainly because it is considered to be the most effective way of ensuring monetary stability for Palau.
85. In terms of fiscal policy, the large aid flows to Palau have underwritten the fiscal position of government and created an "entitlement mentality" and vulnerability in the event of a reduction in aid, as is in prospect in the context of the 15-year review of the Compact in 2009. The fiscal situation is explored in more detail in the following section.

3.1.3 Fiscal situation

86. The key fiscal features in Palau are as follows:
- i) large financial support from the US;
 - ii) declining assistance from the US but increasing assistance from other countries;
 - iii) the prospect of significantly lower financial support from the US from fiscal year (FY) 2009/2010;
 - iv) relatively low domestic revenue;
 - v) an underdeveloped and inefficient tax system;
 - vi) relatively low general government debt but significant debt in some public enterprises;
 - vii) relatively low expenditure on maintenance;
 - viii) significant underfunding of liabilities in the Civil Service Pension Plan (CSPP) and the Social Security Fund (SSF);
 - ix) a Trust Fund with a balance well below what was expected under the assumptions that were adopted when it was established; and
 - x) a budget planning, resource allocation and monitoring framework that is in a formative stage of development.
87. The separate background paper on the Medium-Term Fiscal Strategy (MTFS) summarizes government revenues and expenditures since the mid-1990s and discusses the above features in detail. It highlights the heavy reliance on US grants, increasing assistance from other countries mainly for capital expenditure and relatively low and declining domestic revenue.
88. Despite the heavy reliance on aid, Palau has nevertheless made some progress towards fiscal sustainability. The overall fiscal deficit including grants averaged over 20 percent of GDP from fiscal year 2000 to 2002 but declined to around 1.3 percent of GDP in 2006 before rising to 3 percent of GDP in 2007.
89. A longer term sign of improvement is that domestic revenues now cover a higher proportion of current government expenditure than in the mid-1990s. This has largely come about as current government expenditure as a proportion of GDP has declined. Local revenue as a proportion of GDP increased somewhat after 1999/2000 but has recently declined again, reflecting weaknesses in the tax system.
90. The decline in current government expenditure since 2001 has mostly arisen as a result of a decline in purchases of goods and services. There has been a smaller reduction in expenditure on wages and salaries as a proportion of GDP, but the

reduction is still significant. However, the government wages and salaries bill as a proportion of GDP at around 20 percent is still considered to be relatively high; for example around twice the level observed in five major Pacific Islands in the South Pacific (Fiji, Samoa, Solomon Islands, Tonga and Vanuatu as shown in the International Monetary Fund, IMF, 2006a, p.18).

91. Transfers comprise subsidies to public enterprises, block grants to fund State expenditures and other transfers. Transfers as a proportion of GDP have declined noticeably since fiscal year 2000 but State block grants, as a component of total transfers, have risen. Public enterprise subsidies are currently around 1 percent of GDP.
92. Importantly, in terms of sustainability it should be recognized that just over half of total (current and capital) government expenditure is financed by aid, while domestic revenues finance only around 60 percent of current government expenditure. This should be a key concern given the uncertainty of aid funding in the medium- and longer term.
93. A MTFS has been formulated as a key component of the MTDS. The central focus of the MTFS is increasing the extent to which Palau is able to finance its current expenditures from current revenues. The MTFS is outlined in detail in a separate report prepared for the MTDS (Medium Term Fiscal Strategy for Sustainable Economic Development) and summarized in a separate chapter of this report on the MTDS.
94. Palau has relatively low government debt with gross external public debt being less than 10 percent of GDP. This comprises an outstanding balance of around \$15m for the relocation of the capital and \$1.5m for the Palau International Airport (PIA) upgrade. However, this relatively low public debt is misleading. There are additional debts at the major public enterprises that are not included in these figures. In particular, a debt of \$39m incurred by the Palau National Communications Corporation (PNCC) in the late 1990s and \$7m by the Palau Public Utility Corporation in 2006. These two loans constitute around an additional 28 percent of GDP and both these public enterprises are facing financial difficulties. Ultimately the debts of major public enterprises providing essential services are the responsibility of government for government would not allow them to fail to continue to operate. In addition even in the absence of these debts the fact that Palau finances all of its capital expenditure and 40 percent of its current expenditure with external assistance implies that the standard debt sustainability indicators are not relevant for Palau. The MTFS specifies that additional public debt will only be incurred if it can clearly be directly financed from the project it supports.
95. A longstanding sustainability issue is that there has been inadequate attention to maintenance of infrastructure and other publicly owned assets in Palau. This underfunding of maintenance has been identified as a priority issue for the MTDS.
96. Taking a comprehensive view of fiscal sustainability, the commitments and financial position of the CSPP and the SSF are also of concern. An actuarial report in October 2005 showed an unfunded liability of \$41m for the CSPP. There have been numerous

attempts to address the Pension Plan liability, including proposals for increased government contributions, increasing the retirement age and moving from a defined benefit to a defined contribution plan but none of these attempts has been successful. The financial position of the SSF is understood to be not as serious as the Pension Plan. However, the position of the SSF is improved by the fact that foreign workers make contributions but do not receive the full benefit of their contributions. Addressing that problem in an equitable manner would require additional funding.

97. As part of the aid agreement under the Compact, a Trust Fund was established with an endowment of \$70m provided between 1994 and 1996. The purpose of the Trust Fund was to provide a steady stream of income that would replace grants after 2009. It was assumed that the Trust Fund would earn an average annual nominal rate of return of 12.5 percent. In 2006-2007 the value of the Trust Fund had increased to \$174m, however, returns have been far less than 12.5 percent and the current balance is well below what had been expected based on the original assumptions. As explained below, the real per capita value of the trust fund will be rapidly depleted unless there is a major fiscal adjustment.
98. Considerable progress has been made in recent years in building the capacity for more effective budgeting, planning and performance monitoring. However, further work needs to be done in terms of linking funding to priorities and the setting of priorities in the context of financial constraints and in the monitoring of performance. With a tight budget constraint, effective performance monitoring will be especially important to ensure the efficient determination of priorities and the allocation of budget resources. The key elements of a medium term expenditure planning and monitoring framework are set out in the separate paper titled "Medium Term Fiscal Strategy for Sustainable Economic Development" and summarized in a separate chapter in this report.
99. The prospect of significantly lower financial support under the Compact after 2010 heightens the need for an effective MTFS. However, irrespective of US assistance it is important for Palau to formulate and implement a MTFS that recognizes the need to achieve greater self reliance while also contributing effectively to other development goals. It is also expected that good progress on a MTFS along these lines would be likely to enhance the prospect of attracting further external assistance from various sources for certain, well specified purposes that are also consistent with the goal of greater self reliance.
100. As noted Palau is heavily reliant on grants and programs funded by the US and other countries to finance its budget. An extreme scenario has been studied in the separate paper on the MTFS to help formulate a robust MTFS. The extreme scenario assumes there are no US grant funds and no access to US federal programs but other donors continue to provide aid based on recent trends and the real per capita value of the trust fund (see below) is be preserved at current levels. Under this extreme scenario the fiscal deficit would rise to 20 percent of GDP in the absence of an adjustment to government expenditure or domestic revenue. This is equivalent to about \$34m in 2006/2007 terms. This is clearly not a sustainable fiscal position as sustainability would require a deficit that could be financed without reducing the aggregate wealth of the country. Thus under the extreme scenario it would be necessary both to reduce

government expenditure and increase government revenue very significantly in order to achieve fiscal sustainability and maintain the real per capita value of the trust fund. Without a significant fiscal adjustment (of around 20 percent of GDP) or renewal of US aid, the deficit would have to be financed by rapid depletion of the trust fund.

101. Given the scale of the adjustment it is suggested that the 20 percent fiscal adjustment be set as a long-term target, with the medium-term, 5 year target being an adjustment of 10 percent of GDP achieved by a combination of expenditure reductions and tax revenue reform. The fiscal adjustment is discussed in more detail in the separate chapter in this report on the MTFS.
102. It is important to recognize that this estimate of the required fiscal adjustment does not take account of the need to increase expenditure on maintenance and to address concerns about fiscal holes for the CSPP and the SSF and the potential need to fund retrenchment packages if public sector employment is scaled back significantly. The CSPP is an especially important issue for the medium-term given the size of the actuarial deficit that has been estimated. The maintenance requirement is an urgent, priority medium-term issue as is the need to make meaningful progress in 'rightsizing' government. Given the scale of the adjustment apart from these issues, it is suggested that they be addressed separately as part of a coherent strategy and relying on the assistance of donors where possible.
103. An alternative way to determine the size of the desirable fiscal adjustment over the medium-term, even assuming there is a substantial increase in aid is to determine what would be required to ensure that domestic revenues could fully finance domestic expenditure and assuming a reasonable revenue target. But as shown in the separate paper on the MTFS, it turns out that the adjustment is also around 20 percent of GDP assuming that maintenance, fiscal holes and retrenchment packages can be dealt with by separate funding mechanisms and the real per capita value of the trust fund is to be preserved. If separate funding is not available, then the priority in the medium-term would be to raise additional revenue to finance much needed maintenance expenditure.

3.1.4 External aid

104. The main source of aid since independence in 1994 has been through the Compact of Free Association with the United States. The Compact covers a span of 50 years and a major review was scheduled for the 15 year mark in 2009. Under the Compact the US undertook to provide: some \$600 million in grants over a 15 year period from 1994; \$70m for the Trust fund; a commitment to construct a "Compact Road" around Babeldaob; eligibility for additional assistance from various US agencies; and defense protection. In return Palau agreed to provide the US with the rights to maintain military facilities and have free access to Palauan water for military vessels. Both countries agreed to give the citizens of each other the right of residency and work.
105. Aid received under the Compact turned out to be substantially more than projected in the NMDP finalized in 1996. In addition, aid from other countries has turned out to be more than expected. This has delayed the significant fiscal pressures that the NMDP had suggested would be the case by now. However, fiscal pressures are now

developing and Palau faces the prospect of a major fiscal adjustment if the US does not continue to provide significant financial support following the review in 2009.

106. At the time of preparation of this MTDS there is much uncertainty about the extent, form and conditions of US aid following the 2009 review. From an economic perspective, it is well recognized that too much aid can be a curse for a country in the same sense that substantial mineral and oil resources are curses for other developing and developed countries. This is because substantial resources in the form of aid or natural resources can undermine incentives to work, save and invest in productive activity and can instead lead to a structure of government and a society focused on distributional activities rather than productive activities.
107. As explained in the chapter on Binding Constraints to Sustainable National Development, the two fundamental development constraints that are most relevant to Palau relate to: (i) attitudes about the role of government that could be described as an 'entitlement mentality' or 'subsidy dependence' and; (ii) conflicts of interest that mean that policies and activities are often pursued contrary to the national interest.
108. The entitlement mentality is related to the scale and nature of aid over a long time frame, while conflicts of interest are related to the small market and governance weaknesses. These weaknesses are clearly identified in the MTDS and strategies for addressing them have been formulated based largely on commitments to improved transparency in decision making and policy implementation, more effective consultation and communication, and systematic and meaningful performance monitoring. However, the nature and depth of the problems associated with the binding constraints suggest that there is a role for donors to play as a coordinated group in establishing high level performance conditions when aid is disbursed.
109. Irrespective of the extent, nature, and terms and conditions of future aid, it is emphasized that the MTDS has been designed to address the binding constraints with improved policies and strategies, including, in particular, a greater commitment to transparency of decisions and policy implementation and performance monitoring of all public sector activity.

3.1.5 Private sector development

The importance of private sector development and the role of an enabling environment

110. The public sector has dominated the economy since independence, providing direct employment to a large share of the workforce and coordinating significant aid-funded construction contracts. However, despite numerous impediments, the private sector has made an important contribution to economic growth in recent years in particular in the construction and tourism sectors.
111. As aid is scaled back, the role of the private sector will become increasingly important for economic development in Palau. However, even if aid continues at present levels private sector development offers the best prospect of improving standards of living on a widespread and sustainable basis, provided an appropriate enabling economic environment and role for government are established.

112. Economic growth is driven fundamentally by mobilizing the labor, land and capital resources potentially available to an economy and by improvements in the productivity of those resources. Economic theory and experience confirm that the private sector is best placed to identify and pursue economic activities that are profitable and of maximum benefit to the nation, provided the government has established an appropriate enabling economic environment supported by well founded laws, regulations and core public services. As explained in the separate paper “Economic Policies and Institutions for Sustainable National Development” prepared for the MTDS, there are numerous improvements that could be made to policies and institutions to better ensure successful private sector and national economic development. The actions for improving policies and institutions relevant to the private sector are also summarized in various chapters in this report.
113. Experience in the development process for numerous countries over a long time frame has confirmed that sustainable private sector development is most likely to occur in economic environments where:
- i) the rule of law is well established and effective;
 - ii) there is macroeconomic stability;
 - iii) there are well defined and enforced property rights and business regulations so that uncertainty and the transactions costs of doing business are minimized;
 - iv) the sector of the economy exposed to trade and reliant on foreign investment is relatively free of regulation and protective elements; and
 - v) infrastructure and public utility services and associated governance arrangements are effective.
114. Palau has performed reasonably well with respect to ensuring the rule of law from a public security perspective and macroeconomic stability. However, macroeconomic stability is being threatened by the prospect of significantly lower aid and ensuring public security will need continued vigilance on the part of government authorities. The economy is also very open to trade in goods but less so to trade in services and its approach to foreign investment. In terms of property rights and business regulations there is a mixed performance, with Palau performing relatively well in some aspects compared with other developing countries and less so in others. Finally, there are various weaknesses associated with infrastructure, public utility services and governance arrangements that are detailed in a separate chapter and which constitute a high priority for improvement in the MTDS.

Business Climate Indicators

115. Understanding the business environment is important for establishing the need for policy actions and priorities. A useful starting point for understanding the business environment in Palau is the World Bank's data base on business climate indicators (World Bank 2008). The data base provides quantitative indicators on business regulations and the protection of property rights that can be compared across 178 countries and over time.
116. Table 2 provides a summary of the World Bank's (WB) latest business climate indicators for Palau. In terms of the overall ease of doing business Palau ranks 82nd out of 178 countries and slightly worse than the average for 10 Pacific Island countries. According to the WB's data base no reforms to improve the business environment were made for the year ended 1 June 2007. In terms of individual indicators Palau performs relatively well in terms of the time to start a business, the rigidity of employment regulations and particularly the time taken for registering property (in the form of land and a building). However, Palau performs relatively poorly in terms of the strength of legal rights (with respect to collateral and bankruptcy laws), protecting investors (with respect to disclosure of information relating to transactions, liability of directors and ease of investors to pursue legal suits), and enforcing commercial contracts.
117. The specific circumstances with respect to land, labor, foreign investment, the finance sector and commercial laws are summarized below in order to identify key weaknesses that need to be addressed.

Table 2: Selected Business Climate Indicators for Pacific Islands, 2007

Indicator	Fiji	Kiribati	Marshall Islands	Micro-nesia	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu	Pacific Average	World's Best
Ease of doing business ranking (1 to 178)	36	73	89	112	82	84	61	79	47	62	73	1 Singapore
Number of reforms improving business environment	1	0	0	1	0	0	0	0	1	-1	0.5	5 Egypt
Time to start a business (days)	46	21	17	16	28	56	35	57	32	39	35	2 Australia
Rigidity of employment regulations index (0 to 100)	14	17	0	7	4	10	10	17	7	24	11	0 Bangladesh
Registering property (days)	48	513	No data	No data	14	72	147	297	108	188	173	2 New Zealand
Strength of legal rights index (collateral and bankruptcy law, 0 to 10)	5	3	2	7	2	5	4	4	3	4	3.9	10 Hong Kong
Protecting investors index (disclosure, director liability, ease of shareholder suits, 0 to 10)	6.0	6.0	3.3	2.7	2.7	6.0	6.3	5.7	4.7	5.3	5.1	9.7 New Zealand
Enforcing contracts (days) - 2007	397	660	476	965	885	591	455	455	350	430	566	120 Singapore

Source: World Bank 2008. Note: Data relates to 1 June 2007.

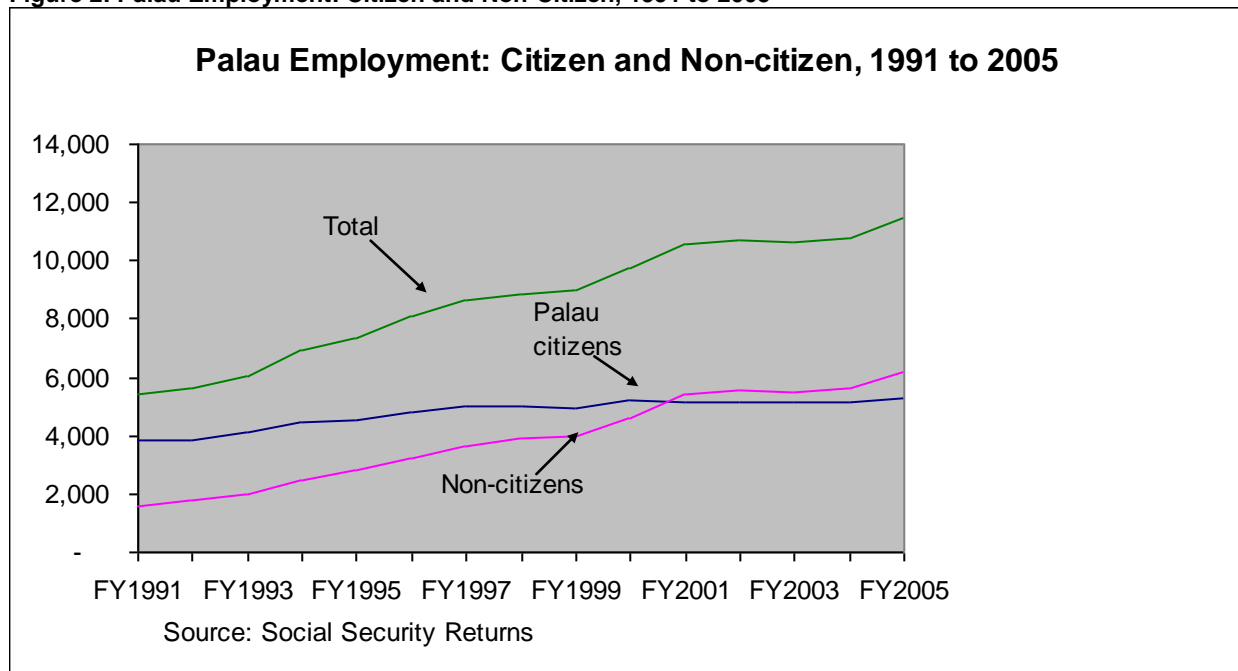
Land

118. Land is an important factor of production and clear, well defined and well enforced property rights to land are one of the fundamental reasons for the development of high income countries and for unlocking the potential wealth of developing countries (de Soto 2000). Land is important for the direct income flows that it can generate through economic use as well as being one of the best forms of security for finance when property rights are well defined. However, land use needs to balance economic, environmental and cultural interests and values and this requires adequate land use planning and regulatory capacity, which is a weakness in Palau.
119. As explained in more detail in the separate paper “Economic Policies and Institutions for Sustainable National Development” prepared for the MTDS there are a number of misperceptions about the status of property rights in Palau and the key constraints for mobilizing land for development purposes.
120. What is not well understood is that the process for registration of land in Palau is relatively well advanced as confirmed by the World Bank business indicators data. In addition, unlike most Pacific Island countries Palau’s land laws enable clear Certificate of Title in the names of individuals or groups of individuals, (with revocation only occurring in exceptional cases). Furthermore, around half of all land claims have been issued a Certificate of Title, 99 year leases are now allowed for government land and there are a number of tourism projects in the pipeline and due for completion in the next few years indicating access to land has been possible despite the uncertainties and absence of freehold title.
121. However, there is still considerable uncertainty with respect to property rights and the potential value from better utilization of land in Palau. Well connected and well resourced Palauans and foreign investors may be able to deal effectively with the land tenure arrangements. However, information weaknesses and associated uncertainty disadvantage most Palauans and foreign investors who are not highly familiar with the land ownership and leasing situation in Palau. In addition there are weaknesses in land use planning with respect to the usage rights for public land and although a 99 year lease is available for foreigners for government land, the lease term for private land is limited to 50 years with the option of renewal (subject to agreement by the owners) for 49 years. This may still be an important restriction for the financing of tourism resorts with significant financing requirements, although incentives to provide greater certainty about lease renewals could be improved by land owners negotiating a reasonably sized equity share in large projects.
122. In summary, it is suggested that the main issues that currently restrict the effective mobilization of land for economic development purposes in Palau relate to:
- i) weaknesses in land use planning capacity and the impacts on the environment; and
 - ii) information weaknesses for Palauans about the value and potential use of land and how to market land; and for foreigners about the status of property rights with respect to land for foreigners.

Labor

123. Palau's growth since the early 1990s has been dependent on a significant increase in the foreign labor force (Figure 2). Since 1991 employment of Palauans has grown at an annual average rate of 2.4 percent while foreign employment has grown at an annual average rate of 10 percent. In 2005, foreign workers comprised 54 percent of total formal sector employment, around 94 percent of foreign workers were employed in the private sector and around 60 percent of Palauan workers were employed in the public sector.

Figure 2: Palau Employment: Citizen and Non-Citizen, 1991 to 2005



124. Foreign labor has a generally negative connotation in Palau yet Palauans recognize that foreign labor is needed to help develop the economy. The front businesses and illegal or dishonest practices associated with the use of foreign labor clearly contribute to the negative connotations. But at the same time these practices benefit many Palauans, including influential ones, so that it is difficult to effectively address them so that more transparent and more effective arrangements that benefit of the community as a whole can be introduced.
125. The challenge is to develop a policy that recognizes the contribution that foreign investment and foreign workers can make to Palau but which entails improved institutional and management arrangements for foreign involvement. For the labor market the key policies relate to minimum wages, the foreign worker fee and vocational training for Palauans.

126. Labor market regulations in Palau together with economic factors favor the hiring of foreign workers in low skilled jobs. However, it should be recognized that this work category does seem to be the main area of labor demand growth and Palauans have indicated their unwillingness to do many manual tasks. The main features of labor market regulations in Palau are discussed in the separate paper "Economic Policies and Institutions for Sustainable National Development" prepared for the MTDS.
127. The Division of Labor Rules and Regulations Statement of Policy (Part II) specifies that preference be given to Palauan citizens in employment and that employment of non-citizen workers should not impair the wages or working conditions of Palauan workers. There are numerous regulations covering the terms and conditions of employment for foreign workers that specify various minimum living and employment conditions.
128. The main specific labour market regulations are as follows. In 2008 the legislated minimum wage for Palauans was \$2.50 per hour, for both the public and private sectors but with exemptions for non-profit organizations and businesses whose annual gross revenue is less than \$100,000. According to the Division of Labor Rules and Regulations (Part VII, 7.1) there is a minimum wage for skilled non-resident workers of \$250 per month or \$1.50 per hour (gross) and unskilled non-resident workers of \$100 per month (net). It is understood that the wage for an unskilled foreign worker is typically \$1.50 per hour.
129. There is also a tax incentive to hire resident workers as the Palau National Tax Code (Title 40) allows employers to deduct wages for residents from sales revenue for the purposes of determining the tax base for the gross revenue tax. Foreign companies that employ foreign workers have to pay an annual fee of \$500 per year. This fee does not have to be paid by Palauan firms or individuals who hire foreign workers and who pay a two year fee of \$250 for unskilled worker. In addition, permission to do business is conditional on foreign employers ensuring that at least 20 percent of their workforce is Palauan or they have a minimum investment of \$500,000. These arrangements are considered to encourage the use of cheap foreign labor in many low skilled tasks and combined with the restrictions on foreign investment contribute to the number of the "business fronts" that exist in Palau.
130. An issue that was canvassed frequently in the preparation of the MTDS was to what extent there should be uniform terms and conditions for foreign and Palauan workers. There were many views on this issue and apparently very limited scope for consensus. In addition, the impact on the labor market and the economy from insisting on uniform minimum wages is uncertain so that a clear overall economic benefit could not be established.
131. In this respect, it should be recognized that if the foreign minimum wage is set at the same level as the Palauan minimum wage this will raise the cost of construction, and other services where foreign workers are intensively used, and may not necessarily encourage a significant reallocation of labor towards higher skilled workers, since the main demand for foreign labor currently, and in the medium term, is for construction workers, tourism workers and domestic helpers.

132. In these circumstances and recognizing the reluctance of Palauans to be involved in construction, hotel and restaurant services and domestic work, unskilled foreigner workers may simply get paid more and prices would increase for construction, certain tourism services and domestic help. However, on the plus side a uniform minimum wage may not deter specific aid funded projects although they might cost more, while the government would benefit from higher taxes as wages increased for foreign workers. Thus it is suggested, that the final outcome from uniform wages is uncertain in terms of overall impact.
133. There would also not seem to be much point in specifying the same minimum living conditions for Palauans as foreigners, as Palauans are generally likely to have better living conditions than the minimal barrack style and small rooms that are provided to foreign workers, and in any case this has already been done for national government construction contracts.
134. In addition, complete uniformity of employment conditions would entail removing the tax incentive to employ Palauans and would conflict with the legislated policy objective to give preference to Palauan workers over foreign workers. Although there may be merits in modifying this policy objective it is considered that it would be very difficult to get a community and political consensus and the overall economic effects are in any case uncertain. For these reasons, no changes have been recommended with respect to legislated minimum wages and working conditions for foreign workers in the MTDS.
135. The policy favoring a Palauan worker over a foreign worker could however be effectively implemented by the combination of requiring appropriate advertising as is done now, and using the foreign worker fee to limit the total number of foreign workers when the number is considered to exceed a reasonable number consistent with overall economic, social and cultural objectives.
136. Concerns have also been expressed in various public symposiums and other fora about the emigration of skilled Palauans and the lack of interest in taking up vocational training. In responding to these concerns, it is important to recognize that the opportunity to emigrate to the United States is an important advantage for Palauans that needs to be retained and taken advantage of. Rather than restricting the scope for Palauans to emigrate (beyond restrictions implied by the current policy to repay education grants) it is suggested that a better response to concerns about emigration and concerns about foreign workers is to improve the overall business and employment environment for businesses generally. This will in turn benefit Palauans without resorting to discriminatory approaches that favor foreign workers or Palauan-owned business ventures. This underlies the importance of other recommendations in this MTDS to support economically sustainable development.
137. However, a specific aspect that merits more attention, relates to ensuring there is sufficient encouragement and educational resources for vocational occupations. In the medium and longer term there is likely to be considerable demand for vocational employment in Palau. However, at this stage there is very limited interest by Palauans

in vocational employment reflecting the dominance of foreign workers in vocational jobs. There is a pure economic aspect in terms of the unattractiveness of the level of remuneration as well as a view that vocational work is not valued by the community and should be left to foreign workers. If there is a uniform minimum wage and foreigner worker fees are also increased to a uniform level, and the growth of foreign workers is restricted, the economics should improve for Palauans and there would then be a need to ensure there were adequate educational resources being invested in vocational fields as well as efforts to encourage a work career in a trade vocation. Thus assuming the remuneration can be made sufficiently attractive with labor market policies, efforts to increase the number of Palauans with vocational skills should be an important additional feature of labor market policy.

138. Another issue that was raised was whether Palau should introduce occupational health and safety and workers compensation legislation. This will be investigated as part of the MTDS. However, it is suggested that care needs to be taken in adopting legislation that is appropriate for a small developing economy that already finds it difficult to enforce a wide range of legislation more suited to larger more developed economies.
139. Another issue that was raised was the possible need for licensing trades and occupations. The main rationale would be based on information weaknesses as a form of market failure. That is buyers of the services of certain trades may not have adequate information to determine the quality of work. The main problems with licensing of occupations are: that licenses can lead to anti-competitive and costly outcomes as licensing is used as a barrier to entry including for relatively simple tasks; there is no guarantee that a license will lead to a quality outcome in any case (building codes and certification of completed buildings are more effective here), establishment and enforcement would be costly and the extent to which there is a market failure is not clear. For these reasons no recommendation is made in relation to licensing.

Foreign Investment

140. As is the case for foreign labor, foreign investment has been important in contributing to the economic growth of Palau despite the various restrictions on foreign investment that exist and concerns by Palauans about foreign domination of the economy.
141. In the 2005 to 2006 period foreign direct investment averaged 13 percent of GDP which was slightly more than total capital expenditure for the government indicating that sizeable foreign investment is occurring. There are various views about the extent to which the foreign investment legislative regime in Palau should be liberalized. There is considerable advocacy of a greatly liberalized regime but there is also advocacy of a regime that provides reasonable protection of local business interests and prevents foreign domination of the economy. However, generally there is recognition that foreign investment is needed for the development of Palau, particularly in the tourism sector, and investment is occurring in this sector. But despite this, there is also a history of lengthy negotiations, litigation and failure of significant projects to pass the regulatory requirements or obtain access to land in a reasonable commercial time frame.

142. The importance of foreign investment reflects the following factors:
- i) Palau faces the prospect of less foreign assistance and needs to develop its private sector;
 - ii) The local financial sector is undeveloped (to a large extent because of land and property right issues), so that it is difficult to finance local investment with equity or debt and offshore commercial loans are not likely to be a viable option;
 - iii) The financing of private sector development will therefore have to come to a large extent from foreign direct investment;
 - iv) Foreign direct investment (in contrast to foreign indirect investment in the form of debt or equity holdings of local ventures) usually involves the direct involvement of foreign managers, employees and improved methods of production, marketing and technology. In time this means the transfer of general business 'know how' and technical and marketing skills; and
 - v) The public sector is the long term dominant employer of Palauans with potential business skills and there are limited incentives for Palauans to aspire to business activity, so that foreign investment is likely to be needed to provide a catalytic role in successful private sector development.
143. The current foreign investment regime in Palau is very restrictive and the legislative and institutional focus is anti-competitive, in conflict with recommendations in the NMDP. The Foreign Investment Board (FIB) has discretionary power that allows it to prevent foreign investment if it considers the investment does not meet any of a long list of criteria, one of which is protective and anti-competitive and many of which it is not qualified to make assessments on.
144. The Foreign Investment Act also contains a substantial list of activities in which foreigners may not engage. Businesses that are reserved exclusively for citizens of Palau include: wholesale and retail trade; land transportation; water transportation; tour businesses, including all guiding; travel and tour agencies; and commercial fishing for other than migratory species. In practice the requirements for certain activities to be reserved for Palauans are circumvented by the operation of "business fronts" where Palauans are formally nominated as the owners but in fact it is foreigners who are running the business. There is considerable community criticism of the "business front" practice but there are many Palauans who have an interest in the system being maintained as it is an easy way for them to collect "rents" from foreign involvement.
145. Although the FIB is dedicated to its mission of enforcing the foreign investment regime, the main problem is that regime itself is a major hindrance to long term, quality foreign investment. If the regime is maintained the main issue is providing the FIB with the authority and capacity to properly implement the regime. One important change would be to make the operation of a business front a civil rather than criminal offense which would make it much easier for the FIB to enforce the objectives of the legislation. A well defined reserve list, with improved enforcement powers for the FIB, would then be less vulnerable to being circumvented by the establishment of business fronts.

146. However, there would still be three major weaknesses, namely: (i) the existing legislation encourages a focus on protecting existing businesses and hence is anti-competitive; (ii) the FIB capacity for assessing economic and commercial impacts of investment proposals is always likely to be inadequate; and (iii) the FIB would have the discretionary power to prevent foreign investment if it considered the specified criteria were not satisfied, and this provides scope for conflict of interest issues and abuse of the system to occur.
147. To sum up, it is apparent that the goals of foreign investment policy to promote foreign investment for the benefit of the country as a whole while retaining local ownership and preventing foreign domination are not being achieved. "Business fronts" occur in all areas nominally reserved for Palauans and quality long term investment is not occurring.
148. Liberalization of the foreign investment regime was identified as an important reform in the NMDP to support private sector development and also in the recent ADB (2007a) report on private sector development. However, virtually no progress has been made in the past 10 years in improving the foreign investment regime. Increased foreign investment is important for providing both finance and developing business skills and also for laying the platform for the transfer of skills and technology. It is suggested that foreign investment reform should be a relatively high priority as an economic policy.

Domestic Finance

149. Palau has adopted the US dollar as its currency which greatly simplifies its monetary arrangements and is most suitable for a small country with strong links to the US. It also means that fiscal policy is the main tool for macroeconomic managements.
150. The financial sector is dominated by the branches of four foreign banks. There are also three small local banks. With this banking structure, there is no pressing need for a lender of last resort function if there was a systemic or major failure in the banking sector. Around half of banking system deposits is invested in international financial markets, with formal lending focused on salary-secured small consumer loans. There is a wide spread between deposit and lending rates of 8–15 percent. The government-owned National Development Bank of Palau (NDBP) is the major provider of mortgages because as a local institution it has foreclosure powers in relation to land.
151. Banking regulation has been strengthened in recent years and most recently with the passage of RPPL No.7-41 in early 2008 to amend the Financial Institutions Act 2001. The amendments enable the Financial Institutions Commission (FIC) to: (i) issue regulations for the finance sector without veto by the legislature; provide legal immunity to officers of the FIC; (ii) require annual audits of all banks; and (iii) levy a fee on Banks to help finance the FIC. The FIC will also take over the responsibilities of the Financial Institutions Unit which has responsibilities for addressing money laundering issues. The main need now in terms of regulation and supervision is to strengthen the capacity of the FIC.
152. In the 1990s, Palau's banking system was a major embarrassment, and Palau was threatened with being cut off from the international financial system. A major effort was

- undertaken to clean up the system, and 25 banks of dubious quality were closed. A Financial Institutions Act was passed in 2001, anti-money laundering legislation was passed, a FIC was created and charged with banking supervision, and a government Financial Institutions Unit was created to deal with issues such as money laundering.
153. Despite all the effort, regulatory weaknesses in relation to prudential supervision authority were reflected in the failure of the Palau Savings Bank which was put into receivership in November 2006. At the time of failure the bank had \$23m in deposits, representing 20 percent of the system total. The 2008 legislative amendments represent an important breakthrough as they had stalled in Congress since 2003 and they provide the FIC with powers that may have enabled it to prevent the failure of the Palau Savings Bank.
 154. The government-owned NDBP was created in 1986 and ran into financial difficulties in its early years because of non-performing loans; but in 1999 it began to develop sound operating policies within the context of a five-year strategic plan and with the support of a \$3m capital infusion from the government. Most of the non-performing loans were eventually recovered, and NDBP now follows standard prudential practices, including provisioning against possible loan losses.
 155. The NDBP's charter as specified in legislation requires it to be the central financial institution responsible for initiating and promoting economic development, with priority for projects which involve the development of new enterprises and import substitutes. However, more than half of the portfolio is for lending to residential housing which is interpreted by the bank as consistent with the economic development objectives of the legislation. The next most important sector is commercial buildings and apartments and a couple of large loans for hotels. The bank also acts as a guarantor for loans of other banks and for the US Department of Agriculture rural development program (focused on housing) and more recently for the US farm services agency (focused on farm business). The guarantor function is important because land in Palau cannot be owned by a foreign-owned bank.
 156. Lending for agriculture and fisheries is insignificant. This reflects the largely subsistence nature of these sectors (except offshore fishing) and the absence of an agricultural production program, cooperatives and management and distribution systems for the country. The NDBP has recently started a micro-credit scheme to provide simplified lending. If part of a stable income stream can be assigned to the bank, it will lend up to \$10,000 at 6 percent with no additional security. Larger amounts require additional security which can take the form of real estate, cars and other goods. For security, a chattel mortgage document is filed in the courts but the process for following up delinquent loans is time consuming and uncertain.
 157. Typically the resolution of a non-performing loan takes 2-3 years but successful resolution of non-performing loans is only about 50 percent. The overall failure rate on loans is 15 percent, but this is improving with new management. The failure rate is mostly due to failure of business loans, particularly for commercial buildings. There is a very low failure rate for residential housing. Lending can be provided on the basis of a business plan and prospective cash flow but some security is always sought. Loan periods depend on the nature of the project. They can vary from an approved line of

credit which can be drawn down with a notice to a loan term of 30 years for housing. Interest rates in 2008 were 6 percent for agriculture, 8 percent for fisheries, small business and first time home owners and 10 percent for everything else. The main concerns about the bank are its lack of emphasis on business loans. However, its main commercial investment in financing the Palau Micronesian Air (PMA) business was not successful. Development banks have not had a good record with commercial projects in most jurisdictions as the fundamental problem is identifying viable projects together with suitable collateral. However, one alternative that is proposed in the MTDS is for the government to give the development Bank the mandate to invest in infrastructure, particularly infrastructure that is needed for large, new commercial projects and with instruments to be able to levy usage charges to recover the cost of the finance.

158. There is also the Palau Housing Authority (PHA) which provides low interest loans to low income residents. It is financed by a revolving fund that was originally established with US grant funds but there has been no additional grant funding since 1998. The PHA provides loans totalling about \$250,000 per year at interest rates of 3 percent for citizens and 4.5 percent for other applicants. It has 4 staff and a 5 person Board appointed by the President.
159. The other major entities involved in the financial sector are the CSPP and the SSF which provide a large part of the savings base in Palau. The main issue for these funds is ensuring their long term viability. In particular the CSPP benefits will need to be substantially reformed if it the Fund is to be viable in the long term while benefits will not be able to be increased for the SSF.
160. Also relevant to the finance sector is the Small Business Development Center (SBDC) which is partly funded by the Government and partly by the US Small Business Administration. It is run by one person on small budget and provides various small business training courses and advice on how to start and improve business. This includes advice on how to prepare business plans and access finance.

Commercial Laws

161. The recent ADB (2007a) report on the private sector identified many deficiencies in the collateral framework for movable property that restrict the ability to borrow and increase the risks of lending. In particular, the report concluded that the legal framework in Palau does not enable clear, unambiguous and low cost specification of property rights and efficient enforcement for facilitating the pledging of security in commercial transactions. There is no legal requirement for the registration of security interests, so the priority of assets cannot be determined and courts have refused to authorize repossession based on the registration of property as collateral for lending. There is also no scope for using accounts receivable as collateral for lending.
162. The ADB study concluded that there is a need for a new law and system to facilitate secured transactions so that in the event of a loan default, the secured property can be quickly repossessed and sold to allow the repayment of debt. This would require the drafting of a comprehensive statute, regulations and filing system governing the entire process.

163. Private sector development is also impeded by an outdated and incomplete commercial legal system. The Palau legal system is based on the Constitution, customary law and common law as understood and applied in the US. In practice, much commercial law is based on common law because neither the Constitution nor customary law addresses commercial issues to any great degree. This situation causes serious practical problems: in the US commercial transactions are governed by the 1953 Uniform Commercial Code (UCC), but Palau has no equivalent of the UCC. Therefore, courts are forced to search for US precedents among decisions that were taken prior to 1953. Since US commercial practice has evolved substantially over the past 50 years, Palau's commercial legal system is hampered by having to rely on outdated precedents. There is a draft bill in the OEK to abolish the use of US common law and precedent, but legal practitioners in Palau strongly oppose the bill on the grounds that it would create confusion in the application of the law. Nonetheless, elements of a UCC are needed.
164. The lack of a modern legal framework for dealing with bankruptcy has also been identified as a weakness in Palau. An effective legal framework for dealing with bankruptcy is important from both an economic and social perspective. This is because it is better to release economic resources that would otherwise be tied up in bankruptcy and debt default procedures provided those involved are appropriately restricted in terms of ability to borrow in the future. It is important to recognize the distinction between bankruptcy and secured lending. Secured lending facilitates debt collection and provides stronger incentives for lending. Bankruptcy discharges debtors from at least part of their liabilities but constrains their ability to borrow in the future.
165. In Palau there is no means by which any debts can be discharged, so that some people have no hope of getting out of debt and this is considered to greatly restrict their ability to attain a reasonable standard of living. A bankruptcy system that discharges debtors from at least part of their liabilities, but which constrains their ability to borrow in the future could help resolve this but any legislation must protect the rights of creditors.
166. The commercial legal system also lacks a law of sales governing obligations and rights when goods and services are sold, and mechanisms for low cost arbitration and effective enforcement of legal judgments (largely due to deficiencies in the legal framework). These gaps create uncertainties and impose significant costs on doing business.

3.1.6 Tourism Situation and Issues

Key Problems and Priorities

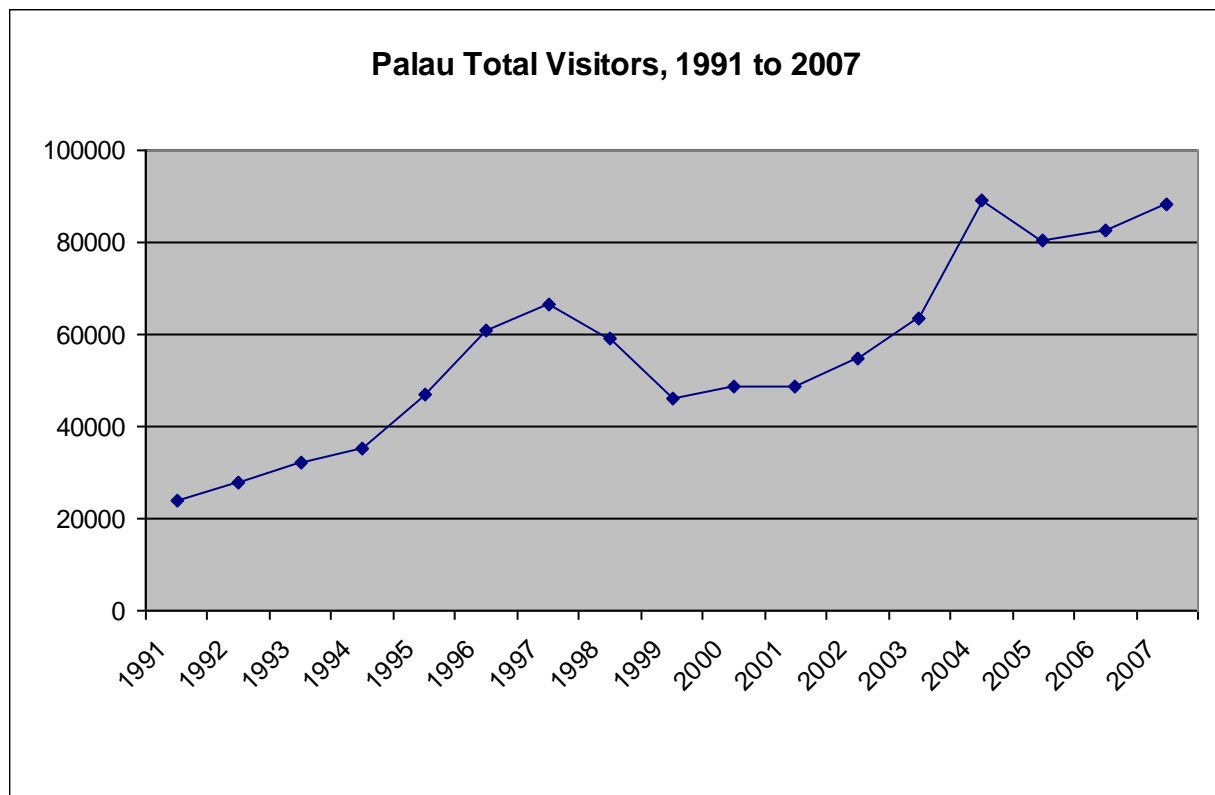
167. Tourism offers the greatest potential to support sustainable economic growth and to offer opportunities for widespread involvement of Palauans. However, in order to achieve sustainability there will be a need to give due recognition to the vulnerability of Palau's unique natural environment. The key policy issue that Palauans have been debating is how to achieve high yield growth rather than an approach based on mass tourism and low per visitor expenditures on the local economy.

168. In general there is little direct involvement by government in facilitating tourism other than through the provision of infrastructure - sewerage, water, power, communications - many aspects of which need attention and the funding of the Palau Visitors Authority (PVA). The industry is largely private sector driven. Typical government functions in a successful tourism destination, such as the provision of attractive tourist precincts in urban areas or adjacent to the coast, are absent. The industry recognizes a major challenge to engage with government to ensure the aesthetic quality and standards consistent with its high-end aspirations.
169. Workforce participation rates by Palauans in hotels range from 80% (Palau Pacific Resort) to none. The FIB permits stipulate 20% Palauan staff as a minimum or a minimum investment of \$500,000. The industry would like to see Palauan participation raised to at least 50%, but acknowledges issues of attitude towards the industry and skill levels to be addressed. Tourism has potential to employ Palauan youth and expatriate Palauans returning home. However, to realize this will require a long-term, dedicated capacity building program.
170. In summary the main concerns of the tourism industry are:
- i) the need for careful environmental management of the natural resource base of tourism caused by careless operators and congestion;
 - ii) a general industry trend down-market caused by a rise in cheap group packages;
 - iii) air access constrained by the predominance of charter flights;
 - iv) a rise in social and cultural impacts including prostitution;
 - v) lack of infrastructure for cruise ships and visiting private vessels; and
 - vi) difficulties in attracting and retaining Palauans in the industry.
171. In addition to the immediate concerns, there are also some long-standing issues in the industry. The tourism sector suffers along with others from the absence of strong Palauan entrepreneurial capacity and the uniquely Palau problem of "front business". International players are generally the first to realize tourism development opportunities. Government institutions do not always understand or respond to private sector needs. Industry leaders agree that the latter problem was worse in the past. Closer cooperation is contributing to better understanding.
172. A positive aspect of these concerns is that they have brought the industry together. The three driving organizations of the industry are the Palau Tourism Authority (PVA), from the government side; the Belau Tourism Association (BTA), representing the industry; and the Palau Chamber of Commerce (PCOC), representing the wider private sector. These three organizations have formed the Tri-Org with an agenda to address the industry concerns. Representing all sectors of the industry, the Tri-Org has significant potential as an agent for change.

Contribution to the Economy

- 173. Tourism is the major private sector-led component of the economy. Visitor receipts are estimated to have been equivalent to 45 percent of GDP in 2005. In terms of the number of tourist arrivals relative to the population, Palau now ranks second only to the Bahamas among small island economies. In 2007, Palau received four times as many visitors as it has population. Assuming the current tourism profile, visitor numbers could increase to 100,000 by 2013.
- 174. Total visitor numbers have increased from a little over 20,000 in 1991 to well over 80,000 in recent years (Figure 3). There was a slump in visitor arrivals in the 1998-2003 period following such external shocks as the Asian financial crisis (1997/1998), the 9/11 terrorist attacks (2001) and the Severe Acute Respiratory Syndrome outbreak (2003). Visitor numbers recovered to peak at 89,000 in 2004, partly owing to the hosting of the ninth Pacific Festival of Arts in July of that year. Visitor numbers were around 88,000 for 2007. Tourist visitors are typically around 95 percent of total visitors.

Figure 3: Palau Total Visitors, 1991 to 2007



Source: Palau Visitors Authority

Tourism Attractions and Environmental Impacts

175. Palau's tourism resource base includes 1,706 sq km of reefs, lagoons, passes and mangroves and at least 70 marine lakes. Palau's marine ecosystems have the highest diversity of reef fish species within Micronesia. Terrestrial habitats are highly culturally significant but largely unexplored by tourism. States have a prominent role in the management of natural resources. Koror State is responsible for much of the marine resource base of tourism, managed under the Koror State Rock Islands Management Plan. The Ministry of Resources and Development (MRD) has had oversight over resource management at national level. In the future this will be the responsibility of the new Ministry of Natural Resources, Environment and Tourism (MNRET).
176. Palau has 28 conservation areas established under state and/or national legislation, covering 48% of near-shore, 19% of land and 20% of forests. The Palau Conservation Society (PCS) and The Nature Conservancy (TNC) play significant roles in conservation efforts. Both work with communities. The Environmental Quality and Protection Board (EQPB) is responsible for enforcing environmental regulations. While to date, concern about tourism's environmental impacts have been confined to the relatively minor damage to reefs at popular dive sites, the recent virtual destruction of a prominent rock island on Makalal has created a backlash of resentment against inappropriate development.
177. Palau's major visitor attractions are diving and snorkeling. Palau is regularly ranked in the top three dive destinations of the world. Other water-based activities are developing, including sea kayaking and sport fishing. There are a limited number of cultural attractions. Festivals and events are important to the industry, for example the Micronesian Games International, a multi-sports event, and the Olichotel Belau Fair, an annual cultural show. There are approximately 44 tour operators promoting Palau, of which 13 are dive operators.
178. Foremost among the examples of potential tourism impacts on natural resources is Ongeim'l Tketau Jelly Fish Lake. 57% of all visitors to Palau visit Jelly Fish Lake, up to 300 in a day and up to 6,000 in a month. In 2007, the Koror State Government increased permit fees from \$10 to \$35 and has studied the results. Early indications are that there was a decrease in numbers. Careful management, the cooperation of the whole industry, education and interpretation are required to help avoid impacts.

3.1.7 Aquaculture and Fisheries Situation and Issues

Key problems and Priorities

179. Marine resources constitute an extremely important component of the nation's social and economic development. The marine sector includes commercial, artisanal and subsistence activities. These can be broadly divided into two major components; offshore and inshore (including aquaculture) fisheries.

180. The main problems in relation to the fisheries sector in Palau relate to:
- i) completion and adoption of various policies and legislation that are well advanced;
 - ii) effective enforcement of legislation and regulations;
 - iii) development and implementation of a nation-wide quarantine plan;
 - iv) confirmation and implementation of offshore fisheries policy, with emphasis on ensuring that the offshore sector optimizes its contribution to the economy of Palau;
 - v) the overstretched capacity of the Bureau of Marine Resources (BMR) and its role in commercial activities;
 - vi) the need to privatize the giant clam program operated by the Palau Mariculture Demonstration Center under the BMR; and
 - vii) ensuring the economic and environmental sustainability of inshore fisheries.
181. The policies, regulations and development plans associated with this sector over the past decade are in general, well founded and provide a good basis for the sustainable development and management of the nation's marine resources. The key issue is the need for action to implement these policies.
182. The medium- to long-term development strategies for this sector as detailed in the 1996 NMDP remain relevant. In summary the specific objectives and strategies include:
- i) sustainable economic development of the industry;
 - ii) increased participation of nationals in all sectors of the industry;
 - iii) providing an enabling environment for sustainable development; and
 - iv) managing and protecting the resources for all users.

General Policy, Legislative and Institutional Issues

183. Policies and legislation associated with fisheries and the marine resource sector of Palau have undergone a progression of amendments and changes since their inception during the former Trust Territory times. Each amendment articulated the government's stance at the time, driven mainly by current issues and in most cases focusing on economic development. This trend has continued over the past several decades, but with considerations for resource management and environmental protection being progressively incorporated into the policy framework.

184. The nation is strongly committed to developing and implementing a policy that provides for the sustainable use of its marine resources. Key issues to be addressed include:
- i) the development of a single concise piece of legislation;
 - ii) greatly improved management and enforcement in the fisheries sector; and
 - iii) the development and implementation of a nation-wide quarantine strategy and development plan.

Offshore Fisheries

185. Offshore fisheries is the largest component of the fisheries sector in terms of formal sector economic contributions. The offshore fisheries sector contributed 5.7 percent of total domestic revenues in 2007 from the fish export tax, and the foreign fishing vessel license fee. There would be additional revenues generated from the fuel excise tax, import duties for equipment and revenues generated from local expenditure (Morishita 2006).
186. However, there is a widely held view in Palau that the sector is not making a contribution to government revenues and the economy as a whole, consistent with the value of the resources it is accessing and exploiting. The contribution to GDP for the fisheries sector as a whole was less than 2 per cent in 2007. This view is consistent with frequent reports and examples of non-compliance of the industry with respect to illegal fishing, record keeping and the payment of taxes. In addition, no Palauan-owned company appears to be involved in tuna long line fishing activities nor is there any significant Palauan involvement in the shore-based processing and support services. Similarly, the BMR has been unable to maintain Palauans as fishery observers on fishing vessels due to wage and working conditions that they find unattractive.
187. Palau's offshore tuna based fishery is a regulated open access fishery that includes a number of bilateral fishing arrangements primarily utilizing long line fishing techniques targeting species of tuna. This includes fishing agreements with three locally based joint venture foreign companies. Palau, along with fifteen other Pacific Island countries, is party to a multilateral treaty with the US to permit the operation of up to 50 tuna purse seine vessels to fish within Palauan waters. Two of the long-line fishing companies (Palau Marine Industries Corporation (PMIC) and Palau International Traders Incorporated (PITI)) have large processing, chilling, freezing and ice making facilities adjacent to their wharfs whilst the third company Kuniyoshi Fishing Company (KFC) utilizes the main shipping port for its processing operations and uses freezer containers to store product.
188. Palau's Exclusive Economic Zone (EEZ) is located on the periphery of the south Pacific tuna fishing grounds and therefore production rates vary depending on the movement of fish stocks. Nevertheless, regional program reports indicate Palau can sustain a viable and profitable offshore fishing industry. Catch rates have fluctuated over the past several decades reaching peaks in the late 1980s and declining in the

early to mid-1990s. Recent catch rates and discussions with fishing representatives have confirmed the industry has stabilized and this is expected to continue. Detailed discussion of the industry can be found in McCoy (2004).

189. Large scale onshore fish processing operations and canneries are not considered to be viable for Palau. Current constraints associated with the source of fish required by these operations and the labor requirements, including the policies for foreign workers would need to be addressed along with the environmental implications.
190. Current congestion at the main fishing port is a concern. However, ongoing non-compliance issues and the lack of clear long term policy commitment suggest that the development of a long line port should not be a priority.

Bureau of Marine Resources

191. The BMR has the task of implementing and managing a policy and regulatory framework for the sustainable development of fisheries resources.
192. The roles and responsibilities of the BMR are ambitious, particularly in light of existing budget allocations and staffing levels. These constraints have hindered the development of this sector and are expected to remain problematic. Professional development of staff skills, continued education and leadership skills are needed.
193. The BMR's roles and responsibilities need to be adjusted to focus on priority resource management issues to ensure sustainable development. The sustainable management of the nation's marine resources should be the priority role of the BMR. To better support the goal of sustainable development of Palau's fish resources, the BMR needs to further develop its function as a manager and facilitator, and reduce its involvement in commercial production. This will include continuing its efforts to further improve linkages and synergies with other government agencies, educational institutions, nongovernment organizations (NGOs) and the private sector.
194. The streamlining of legal and institutional policies and processes, as presented in the key recommended actions for the sector will also provide a more useful framework that will facilitate support of the nation's public agencies whilst encouraging private sector partnerships (local and foreign) and investment.

Aquaculture

195. Aquaculture has been promoted by the Palauan government to be an important national development sector, as well as an alternative livelihood and income generating opportunity. This interest reflects the increasing domestic (local and tourist) and international demand for seafood and the potential to reduce current fishing pressure on the natural inshore fish stocks.
196. However, despite the financial and legislative support that has been provided to the sector for the past two decades (e.g. especially for giant clams) the industry is still in its infancy. And there are a number of misperceptions about the appropriate role of government and what would be effective policy for the sector that are constraining its development.

197. The industry has been led by the public sector supported by a range of government and donor funds. These programs have focused on the biological issues associated with the culture of these commodities. There appears to be a perception that the successful culture of an aquaculture organism by itself directly leads to a commercially successful industry. However, this is clearly not the case because of the need to find buyers and realize sufficient sustainable revenues, a function for which the public sector is poorly suited. There is also a perception that the production of organisms from aquaculture activities will play a leading role in assisting the nation to conserve and manage its natural resources through reseeding programs. However, this perception is also not well founded because individual growers will not have incentives to stock a common resource that the general public can exploit.
198. The artificial culture of giant clams has been an on-going research and development project for Palau for over two decades. The goals of this project were to develop the techniques required to culture these animals, delineate potential markets (both domestic and international) and their economic benefits, distribute this information through extension services to the wider community and ultimately “handover” the entire system to the private sector. The program has been successful in attaining these goals except for the final and most important step, the full privatization of the industry. There has been interest in the past to commercialize the production of giant clams from the private sector (nationals and expatriates) however agreements between the parties have yet to be reached. Privatization of giant clam production and marketing is feasible but there needs to be greater clarity of government roles and responsibilities and improvements in governance arrangements in order to implement suggested actions.
199. The successful and sustainable development of the aquaculture industry as a whole faces many challenges over the next decade. The industry requires scientifically sound and applicable research that is taken up and developed by the private sector on an economically viable basis. These development requirements need to be supported and managed by the BMR in collaboration with all stakeholders. Past aquaculture projects developed solely on the biological attributes of a species must be phased out and replaced with an integrated approach with greater effort to realize the end goal of commercial success of the project. The roles of the public and private sectors in applying these principles need to be clarified and supported by appropriate legislation and government functions.
200. Research and extension undertaken by the BMR have successfully developed a number of aquaculture programs that have directly led to private sector development and profitable economic returns. One such example is the culture of hard and soft corals. The original research work was undertaken at the Palau Mariculture Demonstration Center (PMDC) (formerly Micronesian Mariculture Demonstration Center - MMDC) through grant assistance and government funds. Successful culture techniques were developed, training manuals produced, trial marketing undertaken and pilot programs in partnership with private sector companies developed through training and extension. The BMR relinquished its role to the private sector once skills were transferred and subsequently the culture (hard and soft) of these animals has been fine-tuned by two private sector companies. The cultured products make up an important component of the nation's profitable aquarium export business. These types

of programs need to continue to be identified and developed. Several other species are considered to have similarly good commercial prospects in the short to medium term (e.g. giant clams, mangrove crabs, milkfish, grouper, rabbit fish). However, in the short term the successful privatization of coral culture needs to be repeated for the BMR giant clam project.

201. Most of the issues affecting the aquaculture sector are being addressed in the working document titled: "The National Aquaculture Strategy and Development Plan" (NASDP). This plan is currently at a draft stage and the highest priority should be given for its completion and integration into the proposed new fisheries legislation package.

Inshore Fisheries

202. The inshore marine resources of Palau provide food security and economic opportunities for Palauans. This sector includes subsistence, artisanal and commercial fishing activities as well as commercial activities associated with the tourism sector. Inshore marine fish resources have been reported to be on a steady declining trend, as a result of increased fishing pressure driven by domestic and international market demands and advances in fishing technology. Considerable environmental degradation has also occurred reflecting inshore sedimentation due to terrestrial runoff, foreshore dredging and reclamation activities and over-exploitation of resources. Non-compliance with inshore fisheries legislation is also widespread.
203. As a result of these impacts the national and state governments of Palau in partnership with a number of NGOs, community groups and the private sector have instigated a nation-wide program to ensure the sustainable management and development of the inshore resources. These programs have incorporated a wide range of activities including marine management and conservation areas and species-specific management plans which have been supported by legislation and enforcement. Recent advances in marine management and conservation programs (e.g. many state and community managed marine areas and the Protected Area Network (PAN)) have assisted in the sustainable management of these resources. The continued development of these programs and improved community awareness and compliance to regulations are required in order for successful environmental outcomes to be realized.
204. The nation's tourism industry has been developed around the natural beauty of Palau's marine and coastal environments. The further development of this industry and the revenues earned are intrinsically linked to these resources. The importance of a healthy functioning inshore marine ecosystem is vital for the economic development of the nation and cannot be understated.
205. The most important action required to be addressed for inshore fisheries is to develop and implement a policy that provides a sustainable framework that balances the needs of all users. The policy needs to consider the sustainable development of all fishery activities (subsistence artisanal and commercial) while also ensuring the sustainable management and conservation of these resources. The main challenge for the inshore fisheries sector is to maintain a sustainable compromise between all user groups that

will provide for the conservation and management of all resources, while still providing for livelihood development opportunities.

206. Palau has made considerable advances in developing policies and a legal institutional framework to protect, manage and use its inshore natural resources. These policies need to be further developed through stakeholder participation to reflect the conservation, management and economic use of these resources to achieve the nation's aspiration for this sector. These policies include; the Micronesia Challenge to set aside 30 percent of the total inshore reef areas of each country to be allocated to conservation and the PAN Act.
207. The directives for these policy developments have been based on an ecosystem approach that has incorporated regional and international codes of conduct for responsible fisheries and resource management. These policies should be integrated directly into the proposed "comprehensive fisheries policy" for the nation and incorporated into legislation. The implementation of these policies is a key component to the successful management of the inshore fisheries and resources.
208. If subsistence fishing was undertaken in compliance with the national laws it would be unlikely to threaten the long term sustainability of the marine resources. However artisanal and commercial inshore resource activities can and have added to resource stock depletions and the degradation of the environment. Careful monitoring of these fishing practices and strict compliancy with regulations can be effective in addressing these issues.

3.1.8 Agriculture and Forestry Situation and Issues

Key problems and Priorities

209. The agriculture, forestry and fishing contribution to GDP is very small – less than 4 percent – and about one fifth of the Pacific Island average. In addition, most of the sector's contribution to GDP comes from fishing activities. Imports of food have grown significantly, and food imports are duty free. The free-on-board value of food imports in 2004 (\$15.5m) was 133 percent greater than it was in 1995. During the same period, the population increased by about 20 percent. Palau is highly dependent on aid and food imports, despite the considerable potential that exists for local food production.
210. The main issue for the agriculture and forestry sectors is the neglect of support for production activities and lack of functioning management plans.
211. The National Master Development Plan (NMDP) 2020 recommended a number of outputs for the agriculture sector. Of continuing relevance are recommendations to:
 - i) update research and extension capability;
 - ii) establish a central market in Koror; and
 - iii) undertake market research in key agricultural products.

212. The Republic of Palau's Economic Development Strategy Framework (2001-2004) stated that the specific policy for agriculture was to "expand production to meet domestic consumption".
213. The key issues affecting sector productivity include: (i) poor market access and weak market chain linkages; (ii) lack of clear focus in Bureau of Agriculture (BOA) with an emphasis on conservation at the expense of agricultural production; (iii) limited quality soil; (iv) lack of interest in traditional subsistence agriculture; and (v) pests. Key issues affecting BOA institutional productivity include: (i) staff resources; (ii) inefficient resource use; (iii) a need for inter-agency collaboration; and (iv) incomplete management plans providing the framework for sustainable development and coordination with other agencies.
214. Recent important developments in the agriculture and forestry sectors include:
- i) use of foreign (generally Filipino) migrant labor, but with a small number of Chinese entrepreneurs also farming on their own account, producing mainly vegetables;
 - ii) the 51km road around Babeldaob Island which facilitates market access but also increases access to previously undeveloped areas and protected watersheds;
 - iii) the proposal for a central produce market in Koror; the development and implementation of a nation-wide quarantine strategy and development plan;
 - iv) declaration by the United States Department of Agriculture (USDA) that the Acacia species is an invasive species, when Acacia species are legumes, and provide an excellent soil fertility building role on poorer soils.

Agriculture

215. Although Palau has considerable potential for local agricultural production, the commercial potential of the sector has been given little meaningful attention in government policy actions and expenditure allocations to support stated policies.
216. There is also a tension between agricultural development and conservation of the environment, although it should be possible to make progress towards both goals without major compromises. Productive agriculture by definition involves some modification of the natural environment. But the environment, especially soil and water resources used in agriculture, must not be modified or exploited to such an extent that future generations are unable to also benefit from the environment to support both their traditions and their standards of living.
217. Agricultural production has a role in terms of both commercial potential and the exchanges of food that play a very large part in the social obligations of the Palauan culture. Many Palauan households face issues of both food security and financial security (especially at times of social obligation e.g. funerals). The increasing reliance on imported foods for both everyday needs and social obligation is placing financial strain on many Palauan families. These social obligations are trapping an increasing

number of poorer Palauan families in a debt cycle, often financed with informal lending at high interest rates. Thus, indirectly, there are significant social and financial benefits to be had from producing for social obligations. However, this requires a commitment of time and effort. It is in this context that subsistence agriculture is important.

218. With the advent of migrant labor, the productivity of some aspects of commercial agriculture in Palau has increased – especially fresh vegetables. Further opportunities exist in commercial production of fresh fruit, root crops and a wider range of fresh vegetables. There is considerable untapped potential in the markets for these products. Capturing these opportunities would entail substitution of domestic production for imports and increase income for Palauans. The tourism sector cannot provide a truly “Palauan” experience while hotels and restaurants are forced to rely on a limited assortment of imported fruits and with a large tourist market, the problem of marketing and transporting to overseas markets does not exist. There is a large potential, ready-made food market in Palau waiting to be tapped. Recent sharp increases in the price of imported food also provide more scope for profitable local production of food.
219. Farming systems in Palau are either traditional subsistence systems, producing root crops, cassava, betel nut and pepper leaf, or more conventional systems that rotate vegetable crops on an annual basis, using a mix of organic and inorganic inputs. Traditional subsistence systems predominantly involve production by women. Commercial farms mostly specialize in high value crops such as cucumber, green onion, Chinese cabbage, green peppers, beans, kankum and egg plant. The commercial sub-sector is largely driven by foreigners, either as laborers from the Philippines, or entrepreneurs from China.
220. Commercial production of fruit, vegetables or traditional crops is constrained by a range of factors, but perhaps the most immediate problem facing most commercial farmers is a lack of market access. A central market infrastructure in Koror has become an issue of some urgency, especially given the inevitable increases in production resulting from the improved access to Babeldaob Island since the completion of the Compact Road.
221. In reality, farmers are getting nominal support from government. Almost all operational funding comes from donors. Funding available to the sector could be made more effective with rationalization of institutional and donor efforts. The BOA has a very challenging task. With limited resources, it is charged with several important responsibilities, including: support to productive agriculture (both subsistence and commercial); support to forestry (both conservation and productive); livestock development; and provision of quarantine protection services. But despite these challenges, subsistence and commercial agriculture have the opportunity to grow, based on substitution for some imported foods.

Forestry

222. In relation to forestry, there are tracts of poor quality soils that could be afforested with considerable benefit, both to the economy and to the landowner. These benefits would potentially include lumber sales at harvest, but also income realized from carbon trading during the life of the forest. Carbon trading has developed out of the Kyoto Agreement where polluting industries are able to buy carbon credits from non-polluting activities. Because trees have the ability to remove significant amounts of carbon from the atmosphere, forestry is a favoured source of carbon credits. For further information, visit www.pointcarbon.com.

Institutional Arrangements

223. The agriculture sector is “institutionally complex”. There are 12 main agencies involved in regulating or servicing the sector (FEIM 2008 Agriculture Sector report). The Director of BOA is responsible for leading the sector – a challenging task. There are politicians, individuals and lobby groups pushing various agendas; agencies delivering services that impact on BOA; NGOs and government agencies undertaking activities that overlap with BOA, or undertaking complementary activities that require input from BOA (e.g. SBDC); donors working within the BOA structure, but implementing their own programs (e.g. South Pacific Commission (SPC), Food and Agriculture Organization, (FAO), Taiwan Technical Mission (TTM) and Palau Community College (PCC); farmers looking for technical services (subsistence and commercial); market demands for product and services; and the need for effective quarantine services. On top of this, each State has its own agenda for agriculture development. In this environment, managing staff, finances, inter-agency collaboration, and service delivery is difficult.
224. There are a number of Acts and associated regulations for implementation that apply to the agriculture sector. The Quarantine Section operates under the Plant and Animal Quarantine Regulations of the Plant and Animal Control Act. The Environmental Quality Protection Act (EQPA) gives EQPB the authority to regulate and maintain water and soil quality, and includes pesticide regulations. The Environmental Health Regulations that give authority to the Department of Environmental Health (DEH) were adopted into law in 2004. The Babeldaob Watershed Alliance is an agreement between States to cooperate on matters pertaining to watershed management, including maintenance of water quality and bio-diversity. The Government's authority to gather revenue is enabled by Title 40 – Revenue and Taxation. Chapter 13 deals with the imposition of import tax, including foodstuffs being duty free. Chapter 23 Act deals with tax incentives for agriculture.

3.2 Binding Constraints to Sustainable National Development

3.2.1 Binding Constraints

225. Palau has considerable potential for economic development, compared with many other small island states. This reflects the advantages it has from its natural environment, location, political stability, public security and the capacity of its people. The Compact Agreement also constitutes an important strategic asset for the country. However, it is clear that the development aspirations reflected in the NMDP have not been realized to the extent that was expected at the time.
226. In particular when the Compact came into effect with Palau's independence in 1994, it was envisaged that by the end of the 15-year period when a review of the Compact would be undertaken, Palau would have become largely self reliant. But at this point Palau is far from being self reliant with local revenues covering only 60 percent of current government expenditure and all capital expenditure being funded by external assistance. Although there has been improvement since independence, the fact remains that more than half of total government expenditure is financed by aid and, as should be clear, from recent performance the budget is currently under considerable pressure. In addition, if effective action is not taken in the near term, the pressures will build and be particularly acute if external assistance declines.
227. The development of a medium-term strategy needs to take account of the strengths of the Palauan socio-economic environment but also recognize the financing pressures in specifying priorities and key actions. A medium-term strategy also needs to recognize that as well as fiscal constraints there are important social, political, human resource and management capacity constraints that need to be addressed and that it is difficult to make effective progress across a wide front in addressing the many constraints to economic development in Palau. This means that an effective medium term strategy should recognize the importance of identifying and addressing the key binding or critical constraints rather than trying to be overly ambitious with respect to reform efforts.
228. There is considerable support for such an approach in recent economic development literature. Hausmann et al (2006) note that in trying to understand why performance over a long time frame has been relatively poor, even though many countries have implemented a wide range of recommended reform programs, it is important to recognize that addressing some constraints will have little noticeable impact unless the key binding constraints are addressed. Thus they recommend that countries need to figure out the one or two most binding constraints on their economies and focus on lifting those constraints. The point is that the binding constraints need to be addressed as a priority if meaningful progress is to be made. The key binding constraints identified for Palau are set out below.
229. In addition to addressing the binding constraints relevant to Palau's economic development, it is recognized that there is a need to address specific concerns about potential foreign domination of the economy and to preserve environmental and cultural values in devising appropriate policies. The goals and priorities of the MTDS are set out in more detail in subsequent Chapters of this paper. However, at this stage

it is relevant to highlight the binding constraints.

230. It is suggested that it is clear from the experience reflected in numerous reports and from wide public and more focused consultation, that there is a good degree of agreement that the **key binding (or fundamental) constraints for sustainable economic development are:**
- i) the expectation that someone else should pay for a wide array of government services and responsibilities and that government services to firms and individuals will be heavily subsidized, that in turn affects incentives to work and to adopt effective policies; and
 - ii) conflicts of interest that make it difficult to gain acceptance for, and to implement, effective governance arrangements and policies for the benefit of the community as a whole.
231. These constraints to a large extent reflect the scale of aid that has been available over a long time frame and the small population of Palau. Many of the recommendations for improvements presented in this report and in other sectoral reports have been made in the past but not adopted. A question that needs to be asked is why is it so difficult to get better progress with effective policy design and implementation in Palau? It is suggested that to a large extent the answers lies in the inadequate recognition of the above binding constraints and measures to address them. The constraints are so fundamental and widespread that they are difficult to overcome.
232. Extensive subsidies are a problem because they affect work and responsibility incentives and hence productivity and the ability to implement policies that are sustainable and also productive. Conflicts of interest also affect the ability to design and implement sustainable policies that will benefit the nation as a whole. However, it is not surprising that there is subsidy dependence in a country receiving so much aid and that there are conflicts of interest in small nations. It is suggested that both aspects need to be more explicitly recognized in developing policies and institutional arrangements. Communication and transparency are important for addressing both. Subsidies should be made transparent in the annual budget and subject to regular performance reviews; the community should be persuaded to take more responsibility for certain public functions to reduce the cost of and reliance on government; and there needs to be a facility or institutional arrangement to make policy formulation and implementation more transparent to address conflicts of interest.
233. The pressure for the fiscal adjustment that could arise in the event of a reduction in aid would have the benefit of helping to create the necessary consensus to address the binding constraints. However, if aid was to continue at substantial levels, the motivation for reform could also be facilitated by the efforts of donors in terms of requiring commitment to and evidence of reform when aid is delivered.

3.2.2 Other Weaknesses to be Addressed

234. **Other key weaknesses** that also need to be addressed as a matter of priority but which to a large extent follow from the above binding constraints include:
- i) the regulatory and administrative constraints on foreign investment and foreign labor;
 - ii) weaknesses in land use planning to ensure that land is used for economic development purposes is consistent with the goal of sustainable national development and environmental values in the MTDS; and
 - iii) inadequate governance, planning, management, regulatory and financing arrangements for infrastructure, public enterprises and public services.
235. These weaknesses are addressed in more detail in other sections of this report.

3.3 Government Services and Public Enterprises Situation and Issues

3.3.1 Dominance of the Government Sector and Its Implications

236. The government and government owned businesses dominate the economy in Palau but despite this the private sector has been an important contributor to growth in the past five years, largely reflecting the growth of tourism and construction activity supported by government contracts.
237. The general experience with economic development and growth is that economies with large government sectors tend to achieve lower economic growth over the long term on a per capita basis compared with economies where the private sector plays a more important role. This reflects the extent to which valuable human resources work in government rather than the private sector as well as the incentive structure in government and public enterprises in relation to productive activities.
238. The NMDP (1996, pp. 3-15, 3-16) identified the importance of reducing the relative size of government and improving the performance of public enterprises. Since 2003 the government has been implementing a "Cost Reduction Plan" that strongly recommends that all government agencies practise measures for cost control and the reduction of expenditures (Republic of Palau 2002). The Cost Reduction Plan has achieved some success but the emphasis has been on control of non-wage expenditure limiting the effectiveness of operations in some sectors and there is a need to rationalize and improve the productivity of many government functions and activities.
239. The National/State Leadership Symposium (2006, p. 26) also identified concerns about the community's belief that "the government must subsidize as many services as possible to ensure the welfare of the people" and stressed the importance of streamlining government structures and the outsourcing of certain services in government. It recommended that (National/State Leadership Symposium 2006, p. 27): "... the entire structure of national and state governments be reviewed to identify

duplicate functions in the area of service delivery and make decisions to streamline and distinguish functions at the different levels of government.” It also recommended that outsourcing be implemented by the end of 2009. The National Economic Symposium Recommendations (2007, p. 7) included recommendations to: reduce the government payroll, explore the feasibility of public-private partnerships in infrastructure services and transform the role of government away from a “big brother” to a “facilitator” for private sector development.

240. The issue of the attitude that government should subsidize as many services as possible and assume considerable responsibility for a wide range of functions has been identified by the FEIM team as a key binding constraint. The MTDS has recognized the need for an effective communication process to help change this attitude, so that the recommendations in the MTDS receive community and leadership support.
241. One of the fundamental reasons why a government in a developing country has a tendency to do so much, if it can secure the financial support through, for example, aid, is that transactions costs of engaging in economic activity preclude the emergence of profitable market solutions but there is a general or political consensus that the function or service or product should be provided. Another factor that precludes a market solution in many circumstances in Palau, is that property rights for land may preclude the purchase or long term lease of land on which to build certain infrastructure and requires government intervention to make progress.
242. This in turn leads to direct involvement of the government into areas where it is difficult for a government to perform as well as a private individual or firm. There is, however, likely to be considerable scope for the government in Palau to withdraw from direct provision of many services. But it may still need to be prominently involved in helping to fund those services and in regulating services where there are monopoly concerns.
243. In considering the role and responsibilities of government the following suggestions are offered for working guidelines in relation to defining the role of government and the scope for greater involvement of the private sector. Government should take responsibility for:
- i) Direct provision of the core functions of government that are likely to constitute public goods as defined by economics. Public goods are goods or services where the same level of service provides general benefits to a wide group of people at the same time and it is difficult for the private sector to provide the service profitably. Law and order is classic example of a public good. Thus a public good is not something that is merely of benefit to the general public: to qualify as a public good it must be such that it benefits the public or a wide group of the public and is only financially feasible if it is provided or funded by the government. Certain education and health services particularly basic education and primary health care and environmental management are likely to qualify as public goods in Palau
 - ii) Direct provision by government of other functions that the private sector is not willing to provide but which clearly will provide an overall benefit to Palau, taking full account of the ability and cost of government provision.

- iii) Specification of rules and policies that are considered to benefit the general public, taking full account of the costs of the rules and policies.
- iv) Establishment of partnership arrangements with the private sector that clearly recognize the roles and responsibilities of government relative to the private sector and the respective advantages and disadvantages of the private and public sectors.

3.3.2 Governance, Planning and Management Weaknesses

244. There are a number of governance, planning and management weaknesses in the provision of government services and government funded services in Palau. First there is the problem of widespread conflicts of interest which have been identified as a key binding constraint. Second there is the issue of the capacity to formulate effective policies, plans, regulations and specific actions. Third human resource capacity is spread over a wide agenda greatly limiting the scope for effective implementation.

Conflicts of Interest

245. Palau has a Code of Ethics Act (RRPL No. 5-32) adopted in 1998, that contains a specific provision defining a conflict of interest as follows (Section 6 a):

“No employee may take, participate in taking or use his or her government position to attempt to influence any official action where it is reasonably foreseeable that the action could have a material financial effect on that employee, or any financial interest of that employee, that is different from the effect on the public generally.”

246. The Act contains a number of specific prohibitions and also requirements for all public officials to file annual financial disclosure statements. The Act (p.2) applies to any "nominated, appointed, or elected officer or employee of any state government or the national government". The Act also establishes an Ethics Commission to enforce the Act. Criminal and civil penalties are also specified by the Act.
247. However, due to resourcing constraints, it appears that the Ethics Commission has very limited capacity to properly monitor and enforce compliance with the Code of Ethics Act, particularly in relation to serious conflicts of interest. There are two part-time board members, a full-time manager and a full-time secretary with a total annual budget of around \$40,000. There is no investigator or legal counsel. Most matters that require investigation or enforcement are referred to the Attorney General's Office and it is not clear to what extent matters are effectively investigated.
248. Examples of conflict of interest that arose in the time frame when the MTDS was being prepared include:
- i) Elected officials voting on or discussing matters that directly or indirectly affect businesses where they have a direct or indirect personal interest.
 - ii) Individuals with authority influencing policy and regulatory decisions that would impact on their business.

- iii) A party being involved as both a regulator and a firm or major investor in the sector being regulated.
 - iv) A party being involved in providing government services to a sector and who also has a business interest in that sector that could be advantaged by those services.
249. Of particular concern in assessing conflict of interest issues in Palau are situations where congressmen and other public officials may have various business interests but do not abstain from discussion or voting or making decisions on legislation or policies that may directly or indirectly affect those businesses.
250. It is recommended that as part of the MTDS a review be undertaken of the effectiveness of the current institutional arrangements and legislation with respect to conflicts of interest to ensure that conflict of interest issues are effectively addressed.
251. However, it is recognized that in a small population that still contains significant elements of traditional culture, as in Palau, there will inevitably be conflicts of interest and it will not be possible to adopt measures to address conflicts of interest as in larger high income countries. The main measures that are likely to be effective relate to ensuring that policies and legislation are well researched and analyzed and information and analysis are made transparent and readily available.

Assessment Capacity

252. In addition it is suggested there is a need for independent and transparent evaluation of policies, programs and projects. This is relevant to addressing the issue of conflicts of interest as well as the problem of limited capacity in the formulation of policies, programs and projects. Recommendations to improve the policy planning, expenditure and monitoring framework have also been made to address these issues in the Economic Policies and Institutions chapter of this report.

General Planning, Management and Implementation Capacity

253. The various sectoral reports have also highlighted weaknesses in planning, management and implementation capacity as key issues. The following examples have been identified:
- i) In the agriculture sector, key issues affecting institutional productivity include: (i) limited staff resources; (ii) inefficient resource use; (iii) a need for inter-agency collaboration; and (iv) conflicts between service delivery and environmental management roles.
 - ii) In the fisheries sector key issues to be addressed include: (i) the development of a single concise piece of legislation; (ii) greatly improved management and enforcement; and (iii) the development and implementation of a national quarantine strategy and development plan.
 - iii) In the infrastructure sector the appraisal and supervision of investments and maintenance has been identified as one of six reforms with the highest priority.

- iv) In the provision of utilities the Bureau of Public Works (BPW) is handicapped by significant weaknesses in planning and performance reporting processes. A strong recommendation has been made to introduce an improved rolling three year plan that focuses on outputs, with financial projections and prioritized capital investment proposals.
- v) In the environment sector the key weaknesses are the: (i) absence of an overall policy framework for environmental management and integrated institutional arrangements at both the ministry and bureau level; (ii) lack of capacity which is related to limited funding.
- vi) At the State level limited capacity for land use planning and zoning and for complying with EQPA and Bureau of Arts and Culture regulations.

3.3.3 Government Provision of Business Services

254. The government is involved in the provision of a wide range of business services either directly through the Bureau of Public Works (BPW) and other government Departments or indirectly through government owned public enterprises. The main business service activities that involve government provision or government ownership include:
- i) The BPW provides a range of business and other government services, including: building, equipment and road maintenance; design and engineering services; operation of water, sewerage and waste management services.
 - ii) Palau International Airport (PIA) is a Department of the Ministry of Commerce and Trade. PIA is responsible for day to day operations and the Ministry of Commerce and Trade provides oversight of all operations and also determines tariffs. PIA has not been commercialized (required to cover its operating costs, including maintenance) or corporatized (required to operate as a profitable business). (The Ministry of Commerce and Trade was replaced by a law passed in May 2008 that creates a new Ministry of Public Infrastructure, Industries and Commerce, effective from January 2008.
 - iii) Palau National Communications Corporation (PNCC) which operates land line, cellular, internet and cable TV services on a national and international basis. PNCC has been fully corporatized. It competes with Palau Mobile Corporation, under Taiwanese ownership, which offers limited coverage national and international cellular services and Palau Telecommunications, under Palauan ownership, which offers wireless internet services in Koror only.
 - iv) Palau Public Utilities Corporation is responsible for the provision of electricity. It has been formally corporatized.
 - v) Transportation and lunch services provided by the Ministry of Education.

255. In evaluating the effectiveness of the governance arrangements and commercial focus of public enterprises it is important to have regard to the following principles:
- i) Clear and non-conflicting objectives.
 - ii) Management autonomy and authority.
 - iii) Strict accountability for performance.
 - iv) Competitive neutrality so that a public enterprise has no significant advantages or disadvantages relative to the private sector competitors or potential competitors.
256. It is important to recognize the implications of the principle of strict accountability for performance in the case of public enterprises in Palau. There are many public entities undertaking business and other functions in Palau that have been established with a degree of independence but are still fundamentally government owned or funded entities. For example, there are various entities with separate boards appointed by the President and where those entities have a mission established by legislation and some broadly defined reporting arrangements.
257. However, what is missing is a well defined agreement between the executive authority and the Board as to what it is strictly required to do and how it will be held accountable on a regular basis. In the private sector the owners of an entity hold the Board accountable if the organization is not performing well and they will be keen to do so when financial performance is weak. However, in the case of public entities the substitute for this market accountability mechanism is often weak or virtually missing and often overlooked. In this respect it is suggested that an important priority should be assigned to developing improved governance and accountability mechanisms for all government entities in Palau.
258. In addition to this governance weakness other priority issues include the need for effective regulatory arrangements, particularly for those public services with monopoly or market power characteristics and the need for well defined and transparent subsidy arrangements.
259. For those entities that are still government departments, key weaknesses include extremely limited financial, productivity and planning information and performance monitoring processes and lack of responsibility for finances as revenues are paid directly to the National Government.

3.4 Environment Situation and Issues

3.4.1 Environmental Threats

260. Environmental issues in Palau are similar to those for many other Pacific Island countries. They include, but are not limited to:
- i) risks associated with population growth, development and urbanization, particularly inadequate facilities for disposal of solid waste;

- ii) threats to the marine ecosystem from sand and coral dredging, illegal fishing practices, and over-fishing;
- iii) threats to biodiversity;
- iv) threats to the tourism sector as the environment is damaged;
- v) weak enforcement of existing laws, regulations and policies; and
- vi) the global threat of climate change.

3.4.2 Legal and Policy Framework

Legislation

- 261. All laws and regulations in Palau make up the National Code, which comprises, amongst other things, acts that ensure the protection of resources and environmentally sound development. The Environmental Quality Protection Act (EQPA) is very wide reaching in that it requires that, to the fullest extent possible, all other policies, regulations, and public laws be interpreted and administered in accordance with it.
- 262. In addition to the EQPA, Title 24 of the National Code contains acts on Wildlife Protection and Preserved and Protected areas. The EQPA is the most comprehensive environmental law in Palau, and is the main vehicle through which the government meets its responsibilities in relation to environmental objectives.
- 263. In general, although Palau's legislative mechanisms are supportive of protecting the environment and promoting sustainable resource management, strengthening is required. As the EQPA was adopted during the Trust Territory Authority (TTA) period and was largely adapted from the US's National Environmental Protection Act (NEPA) it needs to be revised to better reflect the Palau's political, administrative and socio-economic environment, and be updated to include risks that were not applicable or identified when the EQPA was approved.
- 264. Aspects that need to be revised in existing legislation or addressed by new regulations include (for more details see FEIM Environmental Overview and Stocktake Report):
 - i) the EPQA and links to and rationalization with relevant legislation passed in recent years and with pending or proposed legislation;
 - ii) fresh and Marine Water Quality Regulations revised to better reflect inter-related nature of land use development and impacts on coastal zone and coral reef areas in respect of sedimentation and turbidity;
 - iii) air pollution regulations – revised to address the major risks in Palau; and
 - iv) promulgation of zoning rules and regulations (largely driven by states) linking with

watershed and forest management plans and use of coastal zone, land in watershed areas or drainage basins, and development of the aquaculture sector; building codes linking with energy policy in respect of conservation initiatives.

265. Addressing cumulative impacts and synergistic effects across legislation is important, especially in respect of development and intensified use of watersheds, coastal zone and mangrove areas, and a developing aquaculture sector.

Policy Framework

266. A number of the resource management issues and risks identified in the 2020 NMDP are still pertinent:
- i) the need for integrated erosion control and rehabilitation of degraded watersheds on Babeldaob through gully erosion control head-works, re-vegetation programs, and fire control;
 - ii) dredging of coral;
 - iii) destruction of wildlife, and lack of a flora and fauna survey to provide systematic information on botanical, ecological and wildlife resources to assist environmental planning and management;
 - iv) heritage protection, particularly archaeological sites in the face of increasing tourism;
 - v) solid and liquid waste disposal;
 - vi) lack of clearly defined roles and responsibilities of National and State Government in respect of resource and environmental management with nationally set legislation and regulations mirrored at state level; and
 - vii) lack of a water 'master plan' (including groundwater, surface, mangrove areas, near-shore area, and watersheds).
267. However, the NDMP, as is generally the case for other economic and infrastructure planning documents does not set out the process or mechanism (in terms of policy framework or institutional arrangements) for achieving environmental objectives. The NMDP also notes that a number of organizations either have, or assume, responsibility for various aspects of environmental management resulting in considerable overlap, duplication of effort in some areas, and neglect of matters in other areas. This is discussed further in the following sub-section.
268. The key issue in respect of environmental management is the lack of any overarching policy framework to:
- i) meet the basic resource management needs (i.e. of Palau for Palau);
 - ii) fulfil obligations under various international agreements (i.e. of Palau for regional

and global community); and

iii) achieve the defined vision and goals as identified in the NMDP and guide future planning and development activities.

269. Currently Palau is endeavouring to meet its international obligations under various conventions and agreements in the absence of a national environmental policy framework, e.g. watershed, land-use and forest policies are required for Palau to be able to ensure an integrated and consistent response to these issues and to meet its obligations under the United Nations Convention to Combat Desertification (UNCDD).
270. The NMDP clearly set out a tiered approach to master planning starting with the definition of a national vision and national goals which are to be supported by national strategies, policies, programs and activities. However, these latter mechanisms have been lacking and result in the absence of a cohesive development framework.
271. In order to fill the gaps in the existing framework envisaged in the NMDP, policies in each of the key sectors establishing how different levels of government, including civil society organizations, fit into the framework are required. National policies will provide the objective statement, guidelines and minimum standards in terms of resource protection and resource management; where relevant, sectoral environmental management policies at ministry level will focus the national objective statements and guidelines; strategic action plans will set out the key activities and tasks of each sector; and management plans will provide the mechanisms for 'operationalization' of the strategic action plans.
272. There are also a number of environmental management plans covering specific aspects of the environment and international conventions and agreements to consider in developing an effective environmental policy framework for Palau. These are discussed in detail in the FEIM Environmental Overview and Stocktake Report (2007) prepared for this report.
273. A particularly important initiative is the Sustainable Land Use Management Project (SLMP) managed under the Palau Automated Land and Resources Information System (PALARIS) office. The rationale for this project is that without a formalized and implemented planning and regulatory mechanism, uncontrolled development will lead to land degradation due to unsustainable land use practices. Only a few states have developed land use plans, and these have varying focuses and requirements, and no state has established comprehensive land use and development policies or the necessary legislative framework for their implementation.
274. The major outcomes anticipated of the SLMP include: improved institutional mechanisms, and capacity for equitable and integrated land use planning; greater community awareness of and involvement in addressing land degradation and land use planning needs; and stronger regulations, incentive structures, and policies for integrated land use planning and sustainable land management at the state and national level including establishment of master land use plans (covering resource availability and demand, land use opportunities and constraints, population growth, land use designation, appropriate densities, and design standards); a National Building

Code (plot size, housing size, location, soil suitability, buffer zones); and drafting of a land use law.

275. The project will also enable states to choose which type of resource management planning document would best suit their needs; some states may opt for a land use plan while other states may opt for a watershed management plan. In addition to any protected areas management plans they may already have or propose, either a watershed management plan or a land use plan, along with zoning regulations and a building code will be sufficient for integrated resource management.

3.4.3 Institutional and Management Arrangements

276. The EQPA establishes the Environmental Quality Protection Board (EQPB) and requires all government agencies (national and state) to address environmental protection, resource management and sustainable development issues at some level.
277. At national government level, the ministries most closely associated with sustainability issues as they relate to economic development are the Ministry of Resources and Development (MRD) and Ministry of Commerce and Trade (MCT). Both are mandated to source sustainable economic development opportunities that emphasize minimal negative environmental and social impacts to Palau's people and natural habitats. The MRD focuses on community-based economic opportunities while the MCT is primarily focused on large-scale economic development. Under a law passed in May 2008 MRD will be split, with some components placed in the Ministry of Public Infrastructure, Industries and Commerce and other components placed in the Ministry of Natural Resources Environment and Tourism (MNRET).

Ministry of Resources and Development

278. The MRD has a very wide, and somewhat conflicting mandate covering the promotion, exploitation, development and conservation of the natural resources of Palau. MRD's responsibilities also include the maintenance of public buildings and facilities, public works, capital improvement projects, and some activities related to land management. MRD has overlapping jurisdiction with each of Palau's 16 state governments for all resources that are located within 12 nautical miles of the high-tide watermark.
279. The PAN Office includes the PAN Coordinator to facilitate the implementation of the PAN Act and Regulations. With technical assistance from The Nature Conservancy in the form of a Protected Area Network counterpart, the state governments will have access to technical expertise and financial resources that are often lacking at the local level to properly develop marine protected areas (MPAs).
280. The BOA and BMR are tasked with management and development of their respective sectors as well as conservation. As noted in the FEIM Environment and Agriculture Reports, the functions of BOA are too heavily focused on conservation and some of its functions overlap with other environmental programs.
281. An Energy Office is established in MRD to prepare and implement strategies and actions covering energy planning, energy conservation, energy efficiency, and renewable energy. A Recycling Office is to be established within MRD to implement

the objective of the Recycling Program Act passed in October 2006.

282. The MAP concluded that the organizational structure of the then Bureau of Natural Resources must be reviewed to give clear functional direction to each division, and to restructure existing divisions, where appropriate. This directive is endorsed for the MTDS.
283. There are two issues related to MRD's mandate in respect of resource management, namely: (i) it is confused and conflicting which results in a mismatch between the drive (and therefore activities) to exploit and develop on the one hand and to conserve on the other, however, the separation of functions into two new Ministries, effective from January 2008, should at least at the Ministerial level, help solve this problem; and (ii) there is a disconnect between the service delivery requirements of the agriculture, forestry and fishery sectors and over-arching environmental management needs such as forest policy and management, watershed management, sustainable land use development, and degraded land rehabilitation.

Environmental Quality Protection Board

284. The EQPB is a semi-autonomous agency of the Executive Branch, and is responsible for implementing the mechanisms required to achieve the objectives of the EQPA. EQPB oversees regulations regarding earthmoving, marine and freshwater quality, pesticides, Environmental Impact Statements (EIS), and air pollution control and is the clearing-house for all physical development activities within Palau. The EQPB also administers a permit system for the discharge of pollutants and pesticides; conducts monthly water quality monitoring at various sites around Palau; and conducts public awareness campaigns on environmental health issues.

Office of Environmental Response and Coordination

285. The Office of Environmental Response and Coordination (OERC) was established in 2001 to coordinate and implement the United Nations Framework Convention on Climate Change (UNFCCC), United Nations Convention on Biological Diversity (UNCBD) and UNCCD, and to develop a broad and coordinated planning approach to issues of environmental response.

National and state relationships

286. Under Article I, Section 2 of the Constitution each state has "exclusive ownership of all living and non-living resources, except highly migratory fish, from the land to twelve nautical miles seaward of the baseline". Article X, Section 5 of the Constitution states that the national government holds the right to regulate ownership, exploration, and exploitation of natural resources and to regulate the use of navigable waters. These two articles, and the definition or intent of the words "from" and "baseline", have been interpreted differently by National and State Governments, leading to a tension over ownership and management of land and resources upon the land.
287. Title 35 (Public Lands Act) of the National Code establishes the Palau Public Lands Authority (PPLA) to hold title to, administer, and manage public land for all the people

- of Palau. This includes establishing and maintaining formal records, safeguarding the public nature and use of land; and enforcement of land use in accordance with zoning, environmental and historical preservation laws.
288. The PPLA is also to establish the guidelines and procedures for the operation of state authorities in respect of public lands. Article 215 of the Act provides for states to establish a State Public Lands Authority (SPLA) to receive public lands from PPLA, and for which the PPLA may delegate powers and duties (with the exception of eminent domain powers) to SPLA in respect of transferred public lands. The PPLA administers and regulates SPLAs, and is required to monitor their activities and compliance with applicable laws and regulations.
289. The Public Lands Act provides for PPLA to establish rules and regulations and propose legislation pertaining to its obligations, powers, duties and programs. Regulations Affecting the PPLA and SPLAs were approved in 1999. These regulations detail duties, operations, and the process for leasing public land, and the homesteading program. There have been no land-use planning guidelines or zoning regulations promulgated by PPLA. However, Koror re-activated its Planning Commission in 2005 and is putting into effect laws and regulations passed in the previous 30 years that specify zoning standards and regulate the use of land and buildings.
290. Despite any tension between national and state Governments in respect of land ownership, the states have a crucial role in effective resource management. States have established, and manage, protected areas, and have established SPLAs, although the SPLA is not functioning adequately in all states. Monitoring and enforcement, as at national level, is patchy, with some states performing well, such as Koror State which has established Koror State Rangers and Koror State Department of Conservation and Law Enforcement, while other states do not even have a conservation officer.
291. Even without the constraints of a limited fiscal envelope, resource management efforts need to be rationalized, particularly in a small country like Palau. At the time of the 2006 Housing Income and Expenditure Survey it was estimated there were less than 5,000 occupied households in Palau, of these, nearly two-thirds were located in Koror, followed by Airai State accounting for 14 percent.
292. Depending on their circumstances, states should be able to choose which type of resource management planning document would best suit their needs, some states may opt for a land use plan while other states may opt for a watershed management plan.
293. Requiring that every state, regardless of its population size, prepares a land use plan is administratively cumbersome. Given that Babeldaob comprises ten states and a population of only around 6,000, a more holistic approach would be to prepare plans that aim to manage resources along watershed/water catchment lines, this would also mean that states that share watersheds can share the planning and management of resources. The Babeldaob Watershed Alliance (BWA) has been established, by states themselves, for this very purpose.

294. Zoning regulations and building codes are under the purview of states. Given the likelihood that many of the smaller States will have different circumstances to those where there is more intensive economic development it is considered appropriate for States to be able to set their own zoning rules. However, it would be desirable to have uniform technical standards in building codes across all States as this will be most cost effective for the country.
295. As long as management of resources complies with national policy and law, a state should be able to enforce more stringent or additional measures if it chooses, as Koror has done. This would mean that minimum environmental standards are set by national government by way of regulations and/or policy, and states (with support from bureau level) prepare and implement key resource management plans such as watershed management plans and protected area management plans.
296. A weakness is that there is no single agency in government tasked with accessing information and technical assistance to help deliver resource management strategies and plans.
297. States are also required to coordinate with national government in respect of infrastructure provisioning.

Assessment of Institutional Arrangements for Environmental Management

298. Some resources have as many as seven government agencies with mandates for some aspect of their management and this does not include advisory agencies such as NEPC, PNRC or NGOs who are also involved. There is also a need for better coordination between state objectives and national initiatives.
299. The absence of an overall policy framework for environmental management affects the institutional arrangements and goals for the protection of environmental quality. However, in addition to and related to that problem, the key areas that need to be addressed in relation to institutional arrangements include:
- i) lack of unified and integrated institutional arrangements – at both ministry and bureau level - for environmental protection and resource management because of the over-lapping and often conflicting mandates and jurisdictions of many government agencies and advisory councils;
 - ii) lack of capacity (staff, skills, and resources); and
 - iii) funding issues.

3.5 Infrastructure

3.5.1 Key Problems and Priorities

300. In summary: some infrastructure is not adequate for current and impending needs of consumers and broad-based national development. The losses, debts and risks are piling up. Future grants are uncertain. Cost recovery is inadequate and consumers are not willing to pay more. Productivity of staff and assets is low. The public agenda is overloaded such that all 'solutions' are delayed and incomplete. Logically, the response of the leaders and community should be: address the most damaging risks, and raise recurrent revenue, while determining the priorities, solutions and costs for the medium-term.
301. The FEIM infrastructure paper highlights that most rewarding actions in infrastructure and services are likely to relate to:
- i) Implementing appropriate user charges;
 - ii) Addressing illegal uses and system losses;
 - iii) Improving airport business operations;
 - iv) Designing and implementing an effective tourism strategy;
 - v) Addressing the need for maintenance planning and management; and
 - vi) Improving investment planning and appraisal.

3.5.2 Infrastructure Situation

302. There has been significant progress in the building of infrastructure in the past 10 years. Achievements include: the Compact Road, the Airai eastside connection (Ngerikiil) to the Compact Road, the Airport terminal, runway, apron and facilities, fibre optic cable extensions, upgrading telecoms capability, mobile telephone services, upgrading water treatment and distribution lines, the sewage treatment plant and pump stations, Melekeok sewerage system, management of solid waste and rehabilitation of the Koror landfill dump, upgrading of the roads and bridges to the hospital, reconstruction of the causeways to the Japanese Friendship (K-B) Bridge and to Meyuns and Malakal, upgrading the Peleliu channel and dock, rural water supplies and sanitation systems, support to PPUC's generation capacity and some major public buildings including the new Capitol, Palau Cultural Centre, Palau International Coral Reef Centre (PICRC), the Education Office, the Gymnasium, the Museum, Palau Community College (PCC) and Palau High School (PHS).
303. In addition, in recent years, expensive plant and tools have been supplied in many fields, such as fire engines, ships and boats, rescue vehicles, specialist trucks and mobile equipment mainly for construction and maintenance.

304. However, various managers and qualified observers express concerns about design standards, appropriateness of facilities, quality of construction or affordability of some of these assets in a context of a high cost, low productivity and small market. There is a high risk that the benefits and service life of some assets will be sub-optimal, unless there are critical changes in funding, regulations and management. There is a large backlog of decisions and actions that need to be taken to ensure that infrastructure that has been put in place will be effectively maintained and used productively.
305. There is no effective regulation of the price and service standards for any of the utilities, ports, or the airport. Limited competition has recently brought price reductions in telecommunications; but in other sectors, the laws have prevented competitive pressure on prices or standards. The general need is for governance and regulatory arrangements that will lead to improved commercial performance of public enterprises and an improved enabling environment for the private sector.
306. The FEIM paper on Infrastructure Needs, Priorities, Maintenance and Regulations presents details on the infrastructure situation. Summaries of each sector are provided below, followed by a discussion of the problem of inadequate attention to maintenance, major projects in the pipeline and key priorities in the infrastructure and related sectors.

3.5.3 Sector Summaries

307. The **water supply** system, including treatment works, has been much improved, and lines have been extended especially in Airai and Aimeliik. However, the operations are still inefficient; revenue from water charges is less than 50 percent of the operating budget so there is a need for a substantial government subsidy; and unmetered usage continues in many areas. In 2008 the ADB was supporting a major study of expansion of the Babeldaob and Koror system and addressing many institutional matters.
308. **Sewerage and wastewater services** have been improved with upgrading and enlarging of the Malakal treatment station in 2002-2006, and recently with the repair and upgrading of 20 (out of 46) pump stations. However, in terms of maintenance of old pipes, leaks, intakes of storm water, risks, peak capacity and electricity costs, the system is in crisis. There is an urgent need to increase funding for emergency maintenance and attention to high-risk components, and for defining choices on some critical matters, by means of a master plan through to 2035. It seems that there are likely to be substantial potential savings from investing in gravity lines to shore-level mains around Koror island and connecting to Malakal; but such major options must be set in a longer strategy, with robust technical, economic and environmental appraisal.
309. **Solid waste management** and landfill services and plans have been well served by cooperation between the national government, Koror State, consultants supported by Japan International Cooperation Agency (JICA), several nongovernment organizations, schools and community groups. Management of collection, segregation, recycling, composting, dumping and covering, and public education on "reduce-reuse-recycle" have been greatly improved. The major challenges are to extend the life of the present M-dock site and to prepare a new clean-technology landfill site, probably in Aimeliik, for when the M-dock site is closed, probably in 2011.

310. The **road network** has been much expanded since 1996, including about 150kms of high cost, new and rehabilitated roads. With low cost imports, low fuel taxes and new access to ancestral lands in Babeldaob, there has been a large increase in the number of vehicles (growing at 8 percent per year over the last four years) and in the total travel undertaken. However, planning, managing and financing of road maintenance have not yet improved, and more effort is required to prevent overloading and damage.
311. **Major buildings** have been completed under Capital Improvement Program (CIP); but some land matters, inadequate maintenance, lack of a building code and master planning for zoning remain to be resolved. Sufficient demand is emerging to support a competitive industry in management, security, maintenance and replacement of buildings. Consistent financing, and timely payment by customers including GOVERNMENT, are required for an efficient small industry.
312. Concerning **port services**, there have been improvements in equipment, but not in facilities. The current Malakal port operator is considering a landfill extension to improve container operations. Crowding and conflicting uses persist. A large resort hotel has been built adjacent to Malakal port, and other residential and commercial services are expanding. Koror State has invited proposals for commercial development of the State Fish Port. Activities of tuna fishing and processing have been scaled down. The US has military use rights under the Compact. There have been proposals for a port at the Free Trade Zone (FTZ) in Ngardmau, and for port development in Aimeliik.
313. There have been major improvements to the **International Airport** terminal, runway, aprons, loading walkways, equipment, security and fencing, all with the steady support of Japan and the US. The challenge now is to realise the commercial and revenue benefits while recurrent maintenance burdens are low, and to build up financial reserves for future opportunities, maintenance and replacement needs. Such objectives will require a corporatized government agency, or a comprehensive lease to a private operator.
314. In **electricity supply**, the operating deficit of PPUC has been reduced, and new engines installed with a grant from Taiwan. However, in 2008 as in 1993, there is inadequate revenue to maintain and upgrade the system, and still unclear regulations and obligations to guide the PPUC Board and managers, including in relation to energy conservation practices. A master plan for supply, transmission and distribution through to 2025 was prepared in mid-2008, with JICA support. Approximately \$50m of capital development and replacement will be needed to ensure reliable services over that period.
315. **Telecommunications** have been expanded, and service and productivity greatly improved with a \$39m loan and much increased domestic revenue. Plans for the loan in 1997 could not have anticipated the growth in demand for mobiles and internet, which radically altered the business. Servicing the loan and obligations to remote customers are big constraints on PNCC's profitability. There is an urgent need for regulations on competition and service obligations, and for some relief of the large debt.

3.5.4 Maintenance Backlog

316. Many previous reports recommend, and the MTDS objectives demand, the highest priority for a commitment to maintenance planning, funding, supervision and quality assurance. The record in Palau shows such strong aversion to maintenance that it seems necessary to re-state the following 'basic business principles'.
- i) Neglected assets lose their efficiency, reduce productivity and drive up costs to providers and users of services.
 - ii) Neglected assets increase the risks of accidents, collapses, ruptures, spills with damage to people, environment, other assets and enterprises.
 - iii) Neglected assets convey a negative image to leaders, users, visitors and competitors.
 - iv) Neglected assets require replacement much sooner, with consequent demands on scarce revenue and ODA sources.
 - v) The concept of "lifetime assets" clearly demonstrates that long term costs are reduced if proper maintenance is planned, funded and implemented.
 - vi) The economic costs of NOT doing maintenance are often hidden, because they are borne by all users; but they are often larger than the short-term financial savings to providers.
317. The maintenance challenge in Palau includes a massive backlog of deferred maintenance and an imminent liability for future maintenance and replacement. The Infrastructure report estimates a backlog of maintenance of about \$50m and a future maintenance liability of about \$18m per year in the medium-term rising to about \$25m per year from 2018.
318. According to staff in various services, a sense of crisis and frustration has emerged in the last two years, as material input costs have risen (by 20 to 40 percent) significantly faster than budget allocations, and as defects appear more frequently in rooves, fittings, pipes, pumps, vehicles, boats, roads, drains and retaining walls. For example, much lobbying and negotiation was required in 2007 to obtain special funding for additional costs of chemicals and parts at the water treatment plants.
319. In terms of addressing the maintenance backlog, the first phase must be emergency treatment of defects and hazards which are continuously draining resources of the providers and which provide a substantial health or environmental risk. The second phase must be to attend to those facilities and services which most affect the productivity and revenue streams of both the users and the providers, which will in turn affect users' willingness to pay and the private business environment. For the third phase, covering the routine functions, managers of various government agencies need basic information on assets, condition, faults and malfunctions, servicing cycles, preventive treatments, parts replacement, and the forecast workloads and costs. They can then make decisions on risk reductions, priorities, budgeting, and choices about

- assigning staff and efficient (lower cost) procurement of services. If these professional and technical skills are not available in the BPW, then Internet-based services with well-tested programs can be quickly acquired. There are also big gaps in the data collected among government offices, including the basic registers of all types of assets, condition and technical specifications of equipment.
320. There are also many laws relating to safety and environment which compel attention to maintenance, but because of limited budgets, most agencies cannot afford preventive maintenance including regular and incisive inspections, and backup of spare parts. The usual regime is in emergency response, or near-crisis executive interventions. For example, staff working with water and sewerage systems attend to about 15 leaks or ruptures in a typical month.
321. There is anecdotal evidence of numerous illegal connections in water, sewerage and electricity. In addition to the loss of revenue, hence higher charges to other users, there is the risk of damage and failure of systems, and possibly people's health and safety. A particular concern is recognised in the multi-unit facilities ('dormitories') which accommodate around half of the 6,000 foreign workers. A concerted effort to legalise all connections – and to prosecute violations – is a necessary and cost-effective means of preventive maintenance.
322. Protection of roads, drains, kerbs and sidewalks is inadequate. The current condition of the main Airai – Koror road obscures the impact of vehicles in any one area; but the evidence of damage due to heavy loads is most evident between the K-B Bridge and the Airai Shell Station, and in the road to Malakal power station. Broken drain covers, cracked forecourts, depressed kerbs and broken walls in many places attest to the heavy demands made on inadequate structures, especially by container vehicles and construction equipment. GOVERNMENT recognised the impact of heavy duty tires in accelerating the damage of cracked surfaces, and moved to ban their import in 2005. The major need is to prevent excessive axle loads, and to apply more of the principle of 'user pays'.
323. Among stakeholders, there is a real desire for a national code for buildings and land uses as they affect the provision and maintenance of all services.
324. Many of the changes possible under monitoring, protection and conservation can be implemented and achieved with existing resources, plus some budget increases to remove or replace specific high risks. However, substantial changes in maintenance depend on higher cost recovery and adequate sustained annual budgets. Adequate charging and financing in turn depend on changes in leadership and management methods. The record of slow reform over the last twenty years shows that new ways of doing business are required for infrastructure provision, management and maintenance to contribute effectively to national development objectives.
325. The quality and extent of services will also be enhanced in the next few years with the implementation of donor-supported works and organisation in waste management, expansion of the Babeldaob Water Supply for southern Babeldaob and Koror, pumps for sewerage collectors, new electricity generation, distribution and transmission capacity, solar energy for the new Capitol and some road junctions, loading ramps at

the airport, upgrading of access roads in Babeldaob, rehabilitation of the Airai-Koror arterial road, sidewalks and drains, and construction of school buildings in Babeldaob depending on education sector plans and rationalisation.

326. A longer term visionary initiative is a second major port to either supplement or replace the current commercial port at Malakal and the development of Malakal as a tourist precinct. This is considered in more detail in the Infrastructure and Tourism reports.

3.6 Education Situation and Issues

3.6.1 Overview of Current Situation

327. Education is viewed as a high priority by the community and the government in Palau.

328. Palau's constitution requires that education be both mandatory and free for citizens.

"The national government shall take positive action to ... (provide) public education for citizens that shall be free and compulsory as prescribed by law (Palau National Constitution, Article VI)."

329. Expectations for education are set out in the Education Act (Palau National Code, PNC Title 22) which states:

"It is hereby declared and found to be the policy of the national government to provide for an educational system which shall enable the citizens of Palau to participate fully in the progressive development of the Republic as well as to gain knowledge in all areas. To this end, the purposes of education in the Republic are to increase citizen participation in economic and social development, to unify the Republic by giving the people the knowledge of their islands, economy, government, and world, and to provide citizens of the Republic with the knowledge and skills required for self-development and the development of the Republic. These skills include professional and vocational, as well as social and political, abilities."

330. In FY 2007, Palau spent \$19.1m for education, 91 percent from public sources. This was equivalent to 11 percent of gross domestic product (GDP), a level of expenditure more than twice the global average (4.9 percent of GDP across all countries). Despite this high rate of expenditure, new spending needs have been identified.

331. The Master Plan for Education calls for new funding of \$9,455,000 over ten-years (capital funding of \$500,000 and operations funds of \$8,955,000) for public elementary and high schools. While a portion of this new spending will meet costs associated with increasing demand for education services, especially at the high school level as enrolment rates there increase, the bulk of new funding will support improvements in the quality of services. The Palau Community College (PCC) master plan (work in

progress) will undoubtedly call for at least modest new spending. New spending requirements have also been identified in the area of vocational-technical training and additional capital expenditures will be needed to support school consolidation, expand secondary school capacity, progressively upgrade PCC facilities, and fully capitalize the PCC endowment. In addition to the public sector, several of the private schools have also identified new capital expenditure requirements.

332. Five new capital projects in the public sector have also been identified at a cost in excess of \$12m as follows:
- i) a new Northern Elementary School;
 - ii) Babeldaob High School (to share the campus with Northern Elementary School);
 - iii) new student life center at Palau Community College;
 - iv) new classrooms at Airai and possibly other schools slated to receive students under consolidation;
 - v) renovation of public school facilities to create environments more conducive to learning and compatible with modern instructional technology.
333. In addition, \$8.3m in new funding is needed to capitalize the PCC Trust Fund. Several of the private schools also have plans for expansion that will require new capital investment. Each of these projects could affect demand and the need for capital investments at other schools. At present, funding has not been identified to support any of these projects which will require a combination of external assistance and private funds if they are to become a reality.
334. Consistent with the fiscal strategy for the MTDS, it is assumed that funding for infrastructure development and trust fund capitalization can be realized from a combination of traditional and non-traditional sources, including external assistance and private donations. However, planned improvements in education, including upgraded requirements for teaching credentials and commensurate increases in teacher compensation, will have to be funded from within the sector – through reduction of costs, improved efficiency, reallocation between sub-sectors, and where permitted by law, increased user charges. Options for financing education are explained in detail in the separate FEIM paper on a Medium Term Sustainable Financing Strategy for Education and summarized in the section on Financing Education Strategies and Actions in this paper.

3.6.2 Pre-Primary

335. Pre-primary education is provided by the private and quasi-government sectors. In the private sector there is one private pre-school and two private kindergartens all serving students in Koror-Airai and all receiving a modest government subsidy. Fourteen quasi-public Head Start centers provide comprehensive services to students in Koror-Airai and eight other rural states. Approximately 75 percent of age-eligible children participate in pre-primary education. The per-child cost averages \$3,056 (School Year,

SY 2006-2007 ranging from a low of \$963 at Gospel Kindergarten and Pre-school to a high of \$2,780 in the Head Start program.

336. Issues in pre-primary education include:

- i) Perception by some people that pre-primary education is less important than “higher” levels of schooling when research shows that economic returns on investment at pre-primary levels are actually greater than at other level of schooling;
- ii) Relatively high costs and high level of dependency on Federal grants;
- iii) Less than universal participation, a factor undermining full realization of system-wide efficiencies that could flow from universal participation;
- iv) Ongoing struggle to identify and train teachers;
- v) Lack of a child tracking system and Palau-specific data that charts the impact of pre-primary education on individual children and society as a whole.

3.6.3 Elementary and High School

337. Palau has 27 elementary and high schools serving 1,312 students. Per student costs for SY 2007-08 are estimated as follows:

Elementary schools

- Public schools, \$2,961
- Private schools, \$1,291

High schools

- Public schools, \$2,841
- Private schools, \$2,071

338. Issues in elementary and high school education include:

- i) An estimated 10 percent-13 percent of age-eligible children not enrolled in high school.
- ii) While most children not in school are drop-outs, some are push-outs, because there is no alternative education program for children under the age of 18 who have been suspended or expelled from school.
- iii) Palau students in general do not perform as well as their U.S. counterparts on standardized tests in the core subjects.
- iv) Curriculum frameworks need to be updated.
- v) A significant proportion of teachers (estimate 29 percent) do not have the minimum credentials required for their position. Although the law requires that teachers pass standardized examinations as a pre-requisite for licensure, the testing system is not

yet operational.

- vi) Palau has a large number of schools relative to the population. Many schools are cost-inefficient; per-student costs at some of the smallest schools exceed \$6,000 per student per school year.
- vii) Operating revenues for education (in real dollars and as a percent of GDP) have declined since the COFA came into effect in Fiscal Year (FY) 1995.

3.6.4 Post-Secondary Education and Training

- 339. Palau Community College (PCC). PCC is the leading on-island provider of post-secondary education and training. PCC offers 18 academic and vocational degree programs and a wide range of non-degree courses. PCC operates two permanent campuses – one in Koror and one in Ngaremlengui - and offers classes in other states where there is sufficient demand. The college also offers distance learning courses within Palau and provides facilities and administrative support for Palau-based students to participate in distance learning offered by off-island institutions.
- 340. With its roots in vocational and technical training, PCC has undergone a transformation since it was chartered and accredited as an independent community college in 1993. It is now the post-secondary education institution of choice for a majority of Palau's high school graduates. The PCC master plan period for 1997-2007 has concluded and a new plan is now being prepared. This plan will probably include the following priorities:
 - i) Full capitalization of a trust fund established in 1997 to build financial sustainability;
 - ii) Maintenance of and progressive improvement in academic standards;
 - iii) Completion of the new library and associated technology infrastructure (in progress);
 - iv) Construction of a new student services center;
 - v) Development of new laboratory facilities in support of tourism studies;
 - vi) Expansion of mariculture facilities, research, and instructional programs;
 - vii) Progressive development of new programs according to market demand.
- 341. The major issue facing PCC at present is its high level of financial vulnerability. Approximately 40 percent of operating revenues are derived from Compact Section 221 and an additional 40 percent are derived from Federal programs, including U.S. Federal PELL grants to low-income students. PCC's continued eligibility for these funds is subject to review and possible modification during COFA Phase II. In 1997, recognizing the need for financial sustainability and independence, the College launched a drive to create a \$10m trust fund projected to yield annual returns of

\$0.5m-\$1m. The trust fund has generated enthusiastic support from the community albeit mainly in the form of small donations from students, staff, and alumni. After ten years, the fund has amassed only \$1.7m – an impressive sum but below target. The financial outlook for the college will be greatly enhanced if one or more large donations can be obtained that will accelerate capitalization of the fund thus ensuring that the College achieves its medium-term goal of financial sustainability by or before 2020.

3.6.5 Scholarships and Loans.

342. The Palau National Scholarship Board administers \$1.2 m annually in Palau-government appropriations for financial aid to post-secondary students together with about \$300,000 in student aid provided by from private or external donors. Over the past decade, the Board has taken steps to enhance efficiency that have resulted in rising graduation rates, declining default rates, and increasing numbers of students returning home to work after finishing school. Still there are continuing issues as follows:

- i) graduation rates need to increase still more, especially for students studying off-island;
- ii) human resource development priorities need to be updated as these priority fields guide financial award decisions; and
- iii) change in the legal status of the board to a non-profit corporation could facilitate increased in-flows of private donations for scholarships and loans.

3.6.6 Vocational-Technical Education.

343. Development of the vocational-technical sub-sector has not kept pace with development in other areas of education. The FEIM Economic Policies and Institutions Paper has identified the need to give greater emphasis for improving the vocational and technical skills of the Palauan workforce.

3.7 Health Situation and Issues

3.7.1 Overview of Current Situation

344. Health is an essential component of national development. The vision for health set forth by the Ministry of Health is:

Healthy Palau in a healthful environment.

345. The two supporting strategies for realizing this vision are: (1) making healthy choices the only choices; and (2) giving health back to the community.
346. This vision and supporting strategies recognize that the health problems Palau faces today – the ever widening epidemic of non-communicable diseases – are rooted in human behaviors that in turn are rooted in physical, social, cultural, and political environments. Improving health means changing behaviors and the environments that give rise to those behaviors. Health workers are a catalyst for change but ultimately, it is individuals and communities that have power to act.
347. Palau invests heavily in health care and has developed an extensive health service system that provides a wide range of quality services. Progressively improving standards of living combined with good health care have resulted in transition away from a disease profile generally associated with under-development toward a disease profile more common in industrialized countries. Over the past three decades, life expectancy has increased, maternal and child mortality rates have declined, and communicable diseases have been controlled. Rates of non-communicable diseases (“diseases of modernity”), however, have skyrocketed. This transition, together with rising community expectations, emerging health threats, and increased availability of U.S. Federal grants, has resulted in escalating health expenditures (in nominal dollars).
348. Although health expenditures as a proportion of GDP have remained relatively stable over the past decade at around 8 per cent of GDP, expenditures from local revenues (OEK appropriations) as a percent of GDP have fallen sharply) while there has been a corresponding increase in expenditures from U.S. Federal grants. US Federal grants have been invaluable in raising the standard of health and health care. They have, however, allowed local resources to be concentrated on curative services and have indirectly created a standard of health care that is difficult for Palau to sustain.
349. In FY 2007, the nation spent \$15.6m on health; equivalent to \$722 per resident and 8.3 percent of GDP. This figure represents only cash expenditures; it excludes in-kind donations – equipment, services, personnel, and training – valued at more than \$2m. The Ministry of Health generated 90 percent of these expenditures (\$14m) while the private sector generated 10 percent (\$1.6m). Government funding (Palau Government and donor governments) provided \$12.1m of the total while private out-of-pocket expenditures totaled \$3.5m.
350. The factors that fuel increasing demand for health expenditure will continue over the MTDS period. Non-communicable disease rates will continue to increase because the lifestyle behaviors that give rise to these diseases are rooted in the past. The health and economic benefits from interventions to change behavioral risk factors will be realized primarily over the long term. What can be changed over the medium-term is the effectiveness of disease management that will in turn reduce the need for expensive high-level tertiary and rehabilitation services. The triple threats of terrorism, emerging new communicable diseases, and resurgence of old communicable diseases in more virulent form will also continue and require ongoing surveillance with a possibility that significant emergency expenditures may be required should threat become reality. Finally, the public’s expectations about the level of health care they

believe to be their right, is also likely to outpace economic development and health literacy.

3.7.2 Key Issues

351. Key issues in health care finance include:

i) Health expenditures in relation to GDP:

- Total expenditures as a percent of GDP are in line with global averages (8.7 percent).
- One-third of Palau's health expenditures derive from external aid (inclusive of U.S. Federal grants but excluding COFA transfers); this is very high in comparison to global averages (0.3 percent).
- Seventy-six percent of financing for those activities that constitute the stated health care priorities of the nation – health promotion, prevention, and primary health care – are funded by U.S. Federal programs.

ii) Government has a constitutional mandate to provide “free or subsidized” health care to citizens. The level of subsidy that satisfies this mandate has not been defined. At present Government shoulders most of the financial burden for health care.

- Private expenditures represent 22 percent (\$3.5m) of sector-wide expenditures.
- Private expenditures represent 14 percent (\$1.9m) of Ministry of Health expenditures.
- Because more than half of the MOH funding is from restricted accounts, the MOH is underfunded in the minimally restricted OEK-appropriated accounts. The level of underfunding is estimated herein at \$1.2m (FY 2008).

iii) In order to move Palau toward its stated goal of self-sufficiency and to balance the government budget, the MTDS projects that macro-economic fiscal adjustments valued at up to 25 percent of FY 07 government expenditures may become necessary over the life of the MTDS (2009-2013). Half of these adjustments (12.5 percent) are expected to come from new government revenues and half to come from reduced government expenditures. For the MOH this means adjustments valued at \$1.6m.

8. Based on the preceding analysis, the total adjustment target for the (public) health sector is \$3.3m comprised of new funding requirements (\$1.2m), minimum allocations toward capital equipment requirements (\$0.5m), and reduction in revenue in-flows (\$1.6m).

3.8 Social Services for Vulnerable People Situation and Issues

3.8.1 Overview

352. Vulnerable people are broadly characterized as: (a) persons who have special needs due to physical or social characteristics; and (b) persons (or households) experiencing economic hardship
353. Vulnerability is defined as the inability of individuals or households to easily withstand economic shocks such as death of a breadwinner or loss of employment. Vulnerability is high in Palau due to high consumption patterns, low levels of savings, and high levels of indebtedness. Vulnerability will increase unless attention is paid over the MTDS period to strengthening the safety net represented by Palau's natural resources and almost universal access to land, cultural tradition of "caring and sharing," and extended family network.
354. The separate FEIM report on Social Policies for Vulnerable People summarizes services and funding allocated in FY 2007 to meeting the needs of vulnerable populations. Eighty percent of identifiable funds are from U.S. Federal grants. These are disproportionately directed toward services for disabled children and at-risk adolescents. Very little funding is allocated to addressing the needs of other vulnerable groups – disabled adults, victims of abuse and neglect, senior citizens at risk, and persons living with economic hardship. Although public resources will be severely constrained during the MTDS period, some additional funding may be necessary if service providers are to have the resources necessary to mobilize community-based support for the vulnerable.
355. During consultations with service providers, several populations in Palau were identified as having special needs due to their social or physical characteristics. These are: (a) persons with disabilities and other special health care needs; (b) adolescents; (c) women and children who are victims of abuse or in the case of children and dependent elderly, neglect; (d) certain other categories of women who are under stress; and (e) certain categories of elderly. The situations for these people are outlined below.
356. **Disabled.** There are 1,098 persons receiving social support services due to disabilities. These include children receiving special health and/or education services, the mentally disabled served by the Division of Behavioral Health, and home-bound or wheel-chair bound adults who receive a disability stipend from the government's general fund or the Social Security Administration. Based on global disability prevalence rates, it is estimated that there are another 350-450 persons who have significant disabilities but are not receiving special services. Other than income support for totally disabled adults through the Disability Fund and the Social Security fund, all services for the disabled are funded by U.S. Federal grants.
357. Palau has comprehensive and well coordinated services for disabled children. There are very few services, however, for disabled adults. Improving transition services for children approaching adulthood and improving services to disabled adults are among the priorities for action identified by service providers for inclusion in the MTDS.

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358. **Adolescents.** Service providers identify adolescents (persons 15-19 years of age) as a group at high risk due to psycho-social, educational, and economic vulnerabilities. There are a number of services that target adolescents but despite these services, for most indicators, it seems that problems among this group are worsening. Participants in the 2008 Youth Rally and the Symposium on the Situation of Children, Youth, and Women (March 2008) identified “busy parent – busy child” syndrome as lying at the heart of many of these problems. They called on individual parents to make more time for their children, on families to develop traditions about spending time together, and on civil society to take action to bring families together. These and other actions are highlighted in the 2005 National Policy on Youth that has been endorsed by the OEK.
359. **Victims of Domestic Violence, Abuse, Neglect.** Each year on average 40-45 cases of child abuse or neglect and 90 cases of adult abuse or neglect are reported to VOCA (Victims of Crime Assistance within the Ministry of Health). Issues identified for this population include: (a) inadequate laws; (b) lack of a shelter or other “respite” services to provide temporary accommodation while cases are investigated and long-term solutions developed; (c) inadequate funding for services.
360. **Women with Special Needs.** Because of Palau’s matriarchal and matrilineal heritage, women are not a classic disadvantaged group in Palau. In general women enjoy better health and achieve higher levels of education than men. While less likely to participate in the labor force, when employed, women earn more than men. Despite this overall favorable situation, service providers identify three categories of women as vulnerable: (a) pregnant women; (b) single mothers; and (c) women who are caregivers for the chronically ill. The Bureau of Public Health has proposed to organize a new Office of Social and Spiritual Health. Assistance to these vulnerable women is part of that office’s draft program of work.
361. **Senior Citizens with Special Needs.** The official definition of senior citizens includes persons 55 years of age and older. In 2005, there were 2,374 senior citizens resident in Palau including 506 seniors over the age of 74. The population of senior citizens is growing at twice the national average which will pose future challenges for providing adequate health and social support services for this population. Special services for senior citizens are provided by the Administration on Aging (within the Ministry of Community and Cultural Affairs) and by the Ministry of Health. A major concern of the Ministry of Health is the increasing number of seniors (current estimate 35-40 persons) who health care providers believe are at risk of neglect or abuse by their caregivers.
362. To address the challenges of a growing senior population in an era of economic austerity, it is recommended that services be better targeted to address seniors in need – especially those of advanced age who are in ill-health with limited income support. In addition, stronger preventive health programs are needed to help seniors “live long and live well.”
363. **Terminally Ill and End of Life Care.** Health care providers identify a need to improve end of life care for the terminally ill (of all ages). There is a growing trend toward bringing the terminally ill to the hospital for care. On average 15-20 percent of medical ward beds are occupied by long-term care patients who do not need the facilities of an acute care unit. Although many health care providers are calling for a special care unit

to be established for these people, the current economic climate is not conducive to introducing new (and expensive) services. It is suggested in the working paper that many of the identified needs can be met by expanding the existing home health services to include more elements generally associated with Hospice Care.

364. **Persons Living with Economic Hardship.** Analysis of the 2006 Household Income and Expenditure Survey (HIES) has determined that one-in-five households and one-in-four persons were then living with economic hardship. The number of households and persons affected is probably higher today (2008) due to rapid inflation caused by escalating energy prices. In comparison to other Pacific Island countries, this represents a moderate level of hardship comparable to that found in Tonga and Samoa but far lower than that found in other parts of Micronesia, Melanesia, and Fiji.

3.9 National-State Situation and Issues

3.9.1 Role of the States and National Government

365. The NMDP did not contain a specific section on National-State issues or a separate section on State issues and policies, although many policies and suggested actions set out in the NMDP affect States. This section summarizes key National-State issues that have arisen in the course of the MTDS and makes a number of recommendations for inclusion in the MTDS.
366. As Palau is a very small country in terms of population and geography and the States have extremely limited local revenue, institutional and human resource capacity, national policies dominate. The main impetus for development therefore has to come from national policy and institutional changes.
367. However, the States have a role to play with:
- i) designing and implementing land use planning, zoning and building codes;
 - ii) cooperating to overcome population and economic constraints;
 - iii) as a voice to create incentives for better national policy and community action.
368. In relation to National-State issues, it is considered that the National Government needs to give more recognition to:
- i) Limited resources of the States in planning and in complying with National development laws;
 - ii) Addressing the binding constraints to development as a whole;
 - iii) Attracting foreign investment especially in tourism;
 - iv) Improving the performance of public enterprises and government services;

- v) Improving transparency of policy development and implementation.

3.9.2 Key problems and priorities

369. The following is a summary of key problems that States have raised in the context of National-State issues:
- i) All States are required by National policy to prepare a land use plan. But planning capacity weakness is a common significant problem for States.
 - ii) The cost and time taken for environmental assessments is a significant problem for States and is greatly restricting their ability to undertake basic infrastructure development for both residential and commercial purposes. The States other than Koror consider that EQPB requirements are too restrictive and that there is too much of an anti-development attitude in the interpretation and implementation of the EQPB Act. However, the EQPB believes the main issue is one of capacity at the State level.
 - iii) The time taken for approval of development actions by the Bureau of Arts and Culture is also considered by States to be unreasonable.
 - iv) The lack of economically viable projects for small, dispersed populations.
 - v) Limited National-State cooperation on economic development issues.
370. As noted, in the sections on land and the environment in this report, there should be flexibility for States to determine land use plans and zoning laws that are appropriate for their state of development. Requiring every State irrespective of circumstances to prepare a comprehensive land use plan is not necessary and too costly, although most States need zoning regulations and a building code.
371. As also noted for Babeldaob, a single island with 11 states and a population of around 6000, a single land use plan that would enable management of resources along a watershed/water catchment line e.g. Babeldaob Watershed Alliance is sensible along with appropriate zoning regulations and a uniform building code. The SLMP – PALARIS project should help address capacity planning issues but may need more focus on the key issues for States.
372. The EQPB Environmental Impact Statement Regulations require an Environmental Assessment to determine whether an action (program or project) may have a significant environmental effect and, depending on the assessment of the EQPB, a very detailed Environmental Impact Statement. Environmental assessments vary in cost typically in the range of \$4000-\$9,000 but Environmental Impact Statements can cost a lot more (up to \$1m for major resorts) and are required to be undertaken independently.

373. Environmental Assessments are required for all actions which propose the use of national or state lands or the use of national or state funds (with some specified exceptions). According to the EQPB there has not been a single case where States have been asked to go beyond Environmental Assessments in their applications, although they have been asked to amend their proposed projects to avoid or mitigate environmental effects.
374. The EQPB notes that prior to 2001 there was an Environmental Specialist employed by the MRD to help the States with the EQPB process and it worked very well. Governors have also called for assistance by the EQPB or the national government in helping them to meet EQPB requirements. It would not be feasible to have such a specialist in each State and Koror State does not seem to have a problem in complying with EQPB procedures given its greater capacity and experience. Thus the re-introduction of an Environmental Specialist to focus on assisting the States other than Koror in meeting EQPB requirements appears to be justified as a priority.
375. A similar issue arises in the context of the States needing access to engineers at CIP and land and survey teams at the Bureau of Lands and Surveys. Although States have access to these engineering and surveying resources, the resources are not sufficient to address needs in reasonable time frames.
376. However, in addition to needs for an Environmental Specialist, Engineers and Survey teams, the States consider that there is a bigger issue of the role, objectives, functions, governance arrangements, and specific regulatory requirements of the EQPB. This should include review of the trigger points for requiring environmental impact assessments, particularly if effective zoning regulations and building codes are put in place.
377. In relation to historical and cultural sites, the current practice involves employees at the Bureau making site visits for all applications rather than relying on files and this is reported to have caused great delay in the Babeldaob States. This issue needs further investigation to determine whether site visits are needed for all applications and whether procedures and requirements are reasonable and effective.
378. Small populations and limited economic opportunities are major constraints to the economic development of many States and rural communities in Palau. The population of the whole country is the size of two average sized suburbs in a city of 1-2m in a developed country. Economic forces and personal preferences create forces for increasing population density in countries all over the World and the same is true of Palau as Koror and Airai States and neighboring regions have grown most rapidly.
379. It is very difficult for small and relatively isolated States and regions to develop unless they have a major natural resource. Small populations increase the unit costs of government services and in Palau are reflected in large subsidies for telecommunications, water and sewerage and power services. The separate FEIM report on Infrastructure Needs, Priorities, Maintenance and Regulations provides a number of examples where the unit cost of providing infrastructure to the smaller island States and more isolated communities are high and not likely to be economically viable. It also makes the point that expenditure on non-viable

investments in infrastructure may not be the best means of subsidizing isolated communities.

380. Turning to development prospects for States other than Koror, the prospects for agriculture and aquaculture while showing some promise and justification in specific circumstances are generally limited. From an economic perspective funds intended for access roads and other isolated infrastructure with high unit costs would be better utilized in building shared infrastructure for major resort projects or possibly in the case of agriculture a shared market facility in Koror or in the case of aquaculture for shared product development and marketing. But the main potential in terms of sustainable national development must come from additional tourist resorts of a reasonable scale i.e. around 200 rooms each.
381. There should be scope for several resorts to be located in States other than Koror. As noted in the separate FEIM report on Infrastructure Needs, Priorities, Maintenance and Regulations, with several resorts on Babeldaob, there would be greater scope for States to cooperate in providing various services to form "a whole of island product". For example, some states could focus on sports fishing and water sports and others on guided walks, a specialized restaurant could be established for each, and an island public bus service organized for tourists.
382. It is suggested that in terms of tourism development the key policy issues are foreign investment approval and land access. Recommendations in these areas have been made in the section on Economic Policies and Institutions in this report.
383. The final issue relates to National-State cooperation on sustainable development policies. Two examples here relate to the need for cooperation if Malakal Island was to be turned into a tourist precinct and the commercial port, fuel farms and other industrial facilities were to be moved to another State and the need to mobilize the surplus land that the National Government holds in Koror where land is very scarce.
384. It is considered that a regular, formal forum to facilitate National-State cooperation and progress the development and implementation of key policies at the State level should be put in place. Recommendations in relation to National-State issues have been presented in the Action Plan for Economic Policies and Institutions for Sustainable National Development.

4. Overall Vision and Plan for National Development

4.1 Vision and Goals of the National Master Development Plan

385. The MTDS sets out various policies, institutional changes and other actions to improve national development on a sustainable basis over the medium-term. Sustainable national development is interpreted as:

a sustained and widespread improvement in general standards of living
while preserving cultural and environmental values for the people of Palau.

386. The medium-term is interpreted as a 5-year period.

387. The MTDS is not in the form of a detailed operation plan but rather a framework for establishing priorities and responsibilities and timelines for action. It builds on the plethora of existing plans that already exist by adopting, amending and prioritizing key policies and strategies.

388. An important starting point was the NMDP 2020 that was finalized in 1996 and set out a 20-year development plan in broad terms. A weakness of the NMDP was that it did not establish priorities and set out strategic action plans. Nevertheless many of the goals, policies, strategies and activities in the NMDP remain relevant today and for the MTDS.

389. It is suggested that the vision for national development set out in the NMDP is still appropriate for the medium- and longer term and is expressed as:

*To substantially enhance the quality of life of Palauans
and future generations of Palauans*

390. This vision and associated overarching goals essentially imply an objective of widespread and sustainable national development as defined above.

391. However, another specific goal many Palauans would want to see represented is that they maintain control of the economic development process and avoid foreign domination of business. This specific goal can be considered to be an aspect of enhancing the quality of life of Palauans.

392. Achieving the goal of sustainable national development, while also achieving the goals of Palauan control of development and business when the country is highly dependent on Compact funds and in need of foreign investment, is a major challenge that needs to be well understood in terms of trade-offs and improved policies and institutions.

4.2 Medium-Term Strategic Priorities and Development Constraints

393. A useful place to start in developing a medium-term strategy is in establishing key **strategic priorities**. The strategic priorities can be thought of as key strengths, constraints and issues that need to be recognized or addressed in formulating a credible medium term development strategy to help ensure it will be successful when being implemented.
394. Recognizing the existing, strengths, goals and socio-economic circumstances, the following strategic priorities have been identified to be an essential part of an effective medium term development framework:
- i) Preserving key values and advantages.
 - ii) Achieving consensus for change.
 - iii) Addressing key binding constraints.
395. **Key values and advantages** that have been identified as important to preserve are:
- i) The environment.
 - ii) Cultural values.
 - iii) Political stability.
 - iv) Public security and civil order.
 - v) Effective relationships with development partners.
396. To ensure the success of the MTDS, it will be necessary to develop and implement an effective communication program to build a **consensus for change**. Key elements that it is suggested will require emphasis in communication include:
- i) The benefits in terms of standards of living, cultural values and the environment if the MTDS can be successfully implemented.
 - ii) The need for changes to be made in attitudes to the role and functions of government and responsibility for the cost of government.
 - iii) The need to improve the performance of government and government entities.
 - iv) The need to create an environment that is more conducive to private sector development.
397. As explained in the section on binding constraints, it is clear from the experience reflected in numerous reports and from wide public and more focused consultation, that there is a good degree of agreement that the **key binding (or fundamental) constraints for sustainable economic development** are :

- i) the expectation that someone else should pay for a wide array of government services and responsibilities and that government services to firms and individuals will be heavily subsidized, reflected in a 'lack of willingness to pay, work productively and adopt effective policies'; and
 - ii) conflicts of interest that make it difficult to gain acceptance for and to implement effective governance arrangements and policies for the benefit of the community as a whole.
398. As noted, these constraints to a large extent reflect the scale of aid that has been available over a long time frame and the small population of Palau. Many of the recommendations for improvements presented in this report and in other sectoral reports have been made in the past but not adopted. It is suggested that to a large extent this reflects inadequate recognition of the above binding constraints and measures to address them. The constraints are so fundamental and widespread that they are difficult to overcome.
399. The pressure for the fiscal adjustment that could arise in the event of a reduction in aid would have the benefit of helping to create the necessary consensus to address the binding constraints. However, if aid was to continue at substantial levels, the motivation for reform could also be facilitated by the efforts of donors in terms of requiring commitment to and evidence of reform when aid is delivered.
400. **Other weaknesses** that also need to be addressed as a matter of priority but which to a large extent follow from the above binding constraints are as follows:
- i) the regulatory and administrative constraints on foreign investment and foreign labor;
 - ii) weaknesses in land use planning to ensure that land that is used for economic development purposes is consistent with the goal of sustainable national development and environmental values in the MTDS; and
 - iii) inadequate governance, planning, management, regulatory and financing arrangements for infrastructure, public enterprises and public services.

4.3 Criteria for Setting Sectoral Priorities

401. An important aspect that will need more consideration relates to the setting of priorities for policies, strategies and activities both within sectors and across sectors and major policy areas. This is because an effective medium-term strategy must recognize the economic, social, political and practical constraints that exist in making progress with an economic development plan. In formulating the MTDS to date the following criteria have been used to help set priorities within sectors for the MTDS:
- 1) **Support (S):** the proposed policies, strategies and actions must have or be likely to have the support of the community and elected officials. It may be the case that many proposals do not have immediate support but they are so important for economic development that there should be a committed effort to explain the

benefits of proposals and ensure support for them. The support criterion refers to the extent that support could be expected assuming a reasonably effective communications effort.

- 2) **Impact (I)**: the proposed policies, strategies and actions must have or be likely to have a substantial impact in terms of sustainable economic development of the specific objective under consideration. This criterion is self explanatory and will rely on the various sectoral and policy papers prepared by FEIM for the MTDS. However, it needs to be recognized that impact must also take account of implementation capacity which is to a large extent covered in the third criterion below.
- 3) **Doable (D)**: the proposed policies, strategies and actions must be practicable and implementable having regard to the time and resource constraints that exist.

402. Separate annexes explain how the Support, Impact and Doable (SID) criteria were applied in different sectors and for economic policies and institutions. Tables are provided showing how the priorities were established for each of the specific actions recommended in the MTDS by applying the SID Criteria. The Impact criterion is given a weight of 50 percent and the other Support and Doable criteria are each given weights of 25 percent. Each action is given a ranking out of 10 with 10 being the highest score. Some comments on the rankings are also provided to aid in understanding. An overall score for each action was then obtained as a weighted average of the individual SID criteria using the weights just described. The actions were then ranked in accordance with the overall score and are shown in the action plans in each of the specific sectors in this paper. A ranking of 1 is the highest ranking.
403. The rankings can be changed if circumstances, assessments and priorities change or new actions are recommended as the MTDS is being implemented.

4.4 Overarching Strategies

404. The strategic priorities, and their components, together with the prospective macroeconomic and budgetary environment, the socio-economic and natural environment and the detailed sectoral assessments made in preparing the MTDS have led to the clear specification of three overarching strategies. The overarching strategies can be defined as follows:
- i) **paying the right price** (ensuring cost recovery and well defined, transparent subsidies subject to regular review);
 - ii) **conservation and cost reduction** including efficiency improvements;
 - iii) **generating income opportunities**.
405. The various chapters on economic and infrastructure policies and sectoral policies include various aspects of these overarching strategies as a common theme.

5. Medium-Term Fiscal Strategy (MTFS)

406. The medium term fiscal strategy is documented in a separate report FEIM (2008) report; "**Medium Term Fiscal Strategy for Sustainable Economic Development**".
407. In summary, the Medium Term Fiscal Strategy is to focus on being more self reliant with respect to financing government expenditure. The key actions are to:
- i. Undertake comprehensive, effective and fair tax reform.
 - ii. Reduce the level of current government expenditure significantly.
 - iii. Improve the efficiency of government.

6. Economic Policies and Institutions Strategies and Actions

408. The Economic Policies and Institutions Action Plan matrix 1 summarizes the Strategies and Actions for Economic Policies and Institutions, indicating the level of priority, responsibility for implementation, indicative cost and proposed timing. A brief narrative explanation of the strategies and action in relation to Economic Policies and Institutions is presented in the following sub-sections. A more detailed explanation of the rationale and expected outcomes in relation to The Economic Policies and Institutions Action Plan is provided in the separate FEIM report on Economic Policies and Institutions for Sustainable National Development.

6.1 Fiscal Policy

6.1.1 Sustainable Fiscal Policy

409. Action 1 is to implement a sustainable fiscal policy.
410. Fiscal policy is a critical economic policy in Palau in both the medium term and the longer term. There is no scope for independent monetary policy in Palau because of the use of the US dollar as the official currency, government expenditure and regulation dominate the economy and tax policy is also important. The MTDS includes a Medium Term Fiscal Strategy (MTFS) as a key component with the goal of ensuring fiscal sustainability by reducing reliance on external assistance. The key aspects of the MTFS were described in the foregoing section and are set out in detail in the separate FEIM report on a Medium Term Fiscal Strategy for Sustainable Economic Development.

6.2 Improve Access to Land for Economic Development

6.2.1 Context

411. Land is an important factor of production and clear, well defined and well enforced property rights to land are one of the fundamental reasons for the development of high income countries and for unlocking the potential wealth of developing countries (De Soto 2000). Land is important for the direct income flows that it can generate through economic use as well as being one of the best forms of security for finance when property rights are well defined.
412. However, land use needs to balance economic, environmental and cultural interests and values. In Palau there is a need to continue the process of formal titling of land as well as to address the weaknesses in land use planning and zoning and the information problems for both Palauans and foreign investors if land is to contribute effectively towards the goal of sustainable national development. The balancing of the various potentially conflicting uses of land needs to be reflected in the recommendations for improved strategies for the use of land.
413. The recommendations for improved strategies for the land market to a large extent mean implementing some key recommendations from the NMDP that have still not

been implemented and some additional suggestions.

6.2.2 Land Use Plans and Zoning Laws

414. Action 2 is to put in place land use plans and zoning laws and regulations and institutional capacity that facilitate economic development while preserving environmental values, with priority given to States where intensive development is likely in the near future.
415. This recommendation will involve the close cooperation of the National Government and the States, with priority given to States where intensive development is likely in the near future. A key weakness is the limited planning and regulatory capacity of all of the States, particularly the States other than Koror.
416. It is important to recognize that States have limited land use planning capacity and extremely limited financial resources and in addition the extent and nature of land use planning needs and zoning needs will vary across States depending on their size, location and development potential. So it is not appropriate to insist in a “one size fits all approach” to land use planning and zoning for all States.
417. Zoning regulations are needed to ensure that at a particular site development is not detrimental to preserving environmental values but also to ensuring aesthetic values for citizens and tourists. The specific form of the zoning regulations will vary from State to State depending on the nature and extent of development pressures.
418. A uniform building code is needed to ensure basic safety and quality standards are met as well as for cost effective maintenance and aesthetic reasons. Uniform building codes for the country are likely to be cost effective.
419. Zoning regulations have only been developed for Koror but they were neglected for many years, are outdated and inappropriate to current contexts and they do not exist for other States. In Koror they were not enforced for many years. There is also no building code for any State except for US funded projects. The result is haphazard, unsightly, unsafe and conflicting use of land.
420. Guidelines and systems for dispute resolution for significant projects have not been developed, however, as there are a number of major tourism projects in the pipeline and the main problem seems to be ensuring effective land use plans are in place and enforced.
421. Recommendations for zoning regulations and a building code were also made in the FEIM Infrastructure and Environmental reports.

6.2.3 Forum for National-State Cooperation on Land Use Policies

422. Action 3 is to establish a regular forum for National-State cooperation on zoning, land use planning and other policies affecting the use of land.
423. Recognizing the limited capacity of most States to be able to effectively address land use planning, zoning and other policies affecting the use of land it would be most

helpful to have a regular formal national-state consultative arrangement that sought to reach agreement on how to address priority development issues for the States, particularly in relation to land use and inshore sea resource issues.

424. Further recommendations in relation to National-State issues are presented later in this section.

6.2.4 Certificates of Title to Land

425. Action 4 is to continue the program to provide Certificates of Title to land.
426. As explained in the separate FEIM report on Economic Policies and Institutions for Sustainable National Development, here has been considerable progress in the titling of land and continued support for this activity is recommended.

6.2.5 Formal Register of Titles

427. Action 5 is to consolidate the formal register of Titles to a single, efficient and reliable source.
428. The law requires that land transactions be recorded at the clerk of courts and criminalizes the person who seeks to sell the land to a second purchaser. However, the land is also required to be registered at the Land court, creating additional costs. There is also a system available at the Bureau of Land and Surveys that can provide a Title search of specific land parcels. A single, efficient and reliable source for confirming Certificates of Title would reduce costs and uncertainty in relation to property rights for land.

6.2.6 Global Information System

429. Action 6 is to continue to support the Global Information System (GIS) that is being implemented
430. Good progress has also been made in establishing a GIS for Palau with the PALARIS project but further work needs to be done to make the system fully operational and the process could be speeded up with some technical assistance.

6.2.7 Community Awareness

431. Action 7 is to support a community awareness function so that the community can: (i) understand the potential value of land and how to realize that land for their benefit; and (ii) understand and address any adverse impact on the environment from economic development and economic uses of land.
432. An important problem for many Palauans is lack of information and understanding about the potential value of their land and how to realize that potential value. This information weakness together with the uncertainties associated with security of title has meant that many Palauans sell their land at a price that is lower than what it could be sold if there was better information and less uncertainty. There are differing views of the extent to which, for the average Palauan, the problem is one of inadequate

information about potential value or uncertainty about property rights leading to a low price. It may be that in the past uncertainty about property rights was the dominant factor but where there is a Certificate of Title and recognizing the limited scope for revoking those titles, the main problem now may be one of information and understanding.

433. In any case, an issue that has been highlighted is the extent to which a few wealthy families have been able to accumulate large parcels of land by purchasing land from Palauans who are at an information disadvantage.
434. It is recommended that the government support a community awareness function so that the community can (i) understand the potential value of land and how to realize that land for their benefit while respecting environmental values and (ii) understand and address any adverse impact on the environment from economic development and economic uses of land.

6.2.8 Standardized Guidelines for Land Leases

435. Action 8 is to develop standardized guidelines for the leasing of land.
436. The history of land ownership in Palau has created much uncertainty in relation to land title and use rights and it has taken considerable time and effort to clarify and formally register land titles. Although formal property rights to land are now much clearer a perception of uncertainty still prevails for Palauan and foreign investors because of past cases of litigation relating to land specifically involving foreign investors. It is likely to be the case that information weaknesses are a more significant issue for foreigners than Palauans but, the main difficulty with leasing land typically occurs when the land is owned by a clan as it is very difficult to get all members of the clan to agree to long term leases and terms and conditions.
437. It is important to recognize that the Certificate of Title is a guarantee to the holder to his/her land. It cannot be contested once it has been issued by the Land Court. It is only in very special cases that the Land Court revisits the rights covered by a Certificate of Title. Although the special cases are limited, the history of disputes in the past, the frequency of litigation, the long time frame for securing leases for some resorts and the unsuccessful outcomes for others still lead to considerable uncertainty generally for foreign investors.
438. In order to provide greater certainty and reduce the costs of lease negotiations, for both foreign investors and Palauan landowners, it would be helpful to put in a place standardises lease guidelines. The guidelines should included a well defined mechanism for the adjustment of lease payments that reflects the success of the lessee and arrangements that are fair and reasonable for both lessee and lessor for the renewal of leases. The guidelines could also suggest some form of equity sharing of Palauans in the investment in order to create better incentives for long term success in the use of land.

6.3 Ensure a Well Functioning Labor Market

6.3.1 Context

439. The current labor market arrangements have facilitated rapid growth of low skilled and low cost foreign labor in Palau in the past 10 years and this in turn has supported a strong overall growth performance for Palau, particularly when compared to other Pacific Island countries. The labor market arrangements would have helped to reduce the cost of construction projects and also meant that low cost workers were available for tourism services and for domestic work compared to a situation where foreign labor was not used.
440. However, labor market and complementary policies have not encouraged higher skilled employment nor discouraged the emigration of better educated and higher skilled Palauans. In addition, the interaction of labor market policies with foreign investment policies has encouraged the development of front businesses providing foreign labor services. There are also issues about the extent to which the existing arrangements entail exploitation of foreign workers given their vulnerability and limited choices once working in Palau. In addition, taking a longer term perspective there may be long term risks of civil disorder as well as dilution of Palauan cultural values if the growth of foreign workers continues at the same pace over the next 10 years as the last 10 years.
441. There is a wide range of views about appropriate labor market policies and it is an area where it is particularly difficult to reach a consensus on desirable policy changes. In addition, the economic assessment presented in the separate FEIM paper, on Economic Policies and Institutions for Sustainable Development, suggests that the impact of changes such as adopting uniform minimum wages and higher minimum wages is uncertain and would have a range of negative effects, although there might well be overall benefits. Thus at this stage the MTDS does not contain any specific recommendations about minimum wages and working conditions. However, it does make a recommendation to consider using a uniform foreign worker fee to limit the number of foreign workers if the growth of foreign workers is considered to be too high for a combination of economic, cultural, social and environmental reasons. It also makes recommendations in relation to vocational education, occupational health and safety and workers compensation for injury as set out below.

6.3.2 Uniform Foreign Worker Fee

442. Action 9 is to monitor the number of foreign workers to facilitate private sector growth, adopt a uniform foreign worker fee to minimize labor hiring distortions and adjust the foreign worker fee to limit the total number of foreign workers where considered necessary for social and cultural reasons.
443. The MTDS emphasizes private sector development as a key goal and with government policy focused on creating an enabling environment for private sector development. There is also emphasis on a more liberal approach to foreign investment as a key action. Under current policies with respect to foreign workers this means the private sector will be determining the total number of foreign workers

consistent with pursuing profitable business opportunities.

444. Thus government plans by themselves would not lead to a determination of the number of foreign workers needed for overall national development purposes and this is appropriate given the respective appropriate roles of government and the private sector in the development process. However, at some stage cultural and community concerns may create a consensus to limit the number of foreign workers, even though that may have an immediate effect in slowing economic growth. The foreign worker fee could be used as a policy instrument to limit the number of foreign workers once they had reached a level that the community and leadership considered was appropriate taking into account a balance of economic, cultural, social and environmental effects. However, if used for this purpose it would be preferable if a uniform foreign worker fee with no exceptions was set. If there were exceptions or lower fees for certain categories of workers e.g. domestic helpers this would create incentives for employers or contractors to classify foreign workers as domestic helpers when they were actually employed in other sectors.
445. Recognizing the various views presented in developing the above discussion, the uncertainty about positive impacts and difficulty in reaching a consensus on uniform minimum wages and working conditions it is suggested that the MTDS should not contain any specific action to change the existing arrangements for minimum wages for foreigners and Palauans. However, the use of a uniform foreign worker fee to limit the total number of foreign workers once there is a community and leadership consensus that the number of foreign workers is growing too quickly for cultural, social or environmental reasons is recommended. This would be a transparent, flexible and simple-to-administer price-based mechanism that would affect the economic forces determining the number of foreign workers. It would also have the benefit of providing direct revenue to the government.
446. It is important for the foreign worker fee to be uniform i.e. set at the same level, with no exceptions or exemptions irrespective of occupation or who is employing the foreign worker. Differential fees could create incentives for “front businesses” to hire a certain worker category when the workers are in fact used or contracted out for another purpose or a Palauan-owned businesses, that is exempt from the foreign worker fee, acting as a sub-contractor and in effect being another form of a “front business”. Complementary policies that serve to eliminate or significantly curtail the existence of front businesses are also recommended in the section on foreign investment.

6.3.3 Vocational Skills

447. Action 10 is to increase the number of Palauans with vocational skills to support demands in the private sector.
448. In the medium and longer term there is likely to be considerable demand for vocational employment in Palau. However, at this stage there is very limited interest by Palauans in vocational employment reflecting the dominance of foreign workers in vocational jobs. There is a pure economic aspect in terms of the unattractiveness of the level of remuneration as well as a view that vocational work is not valued by the community and should be left to foreign workers. If foreigner worker fees were also increased to a

level where the growth of foreign workers was significantly restricted, the economics would improve for Palauans and there would then be a need to ensure there were adequate educational resources being invested in vocational fields as well as efforts to encourage a work career in a trade vocation. Thus assuming the remuneration is sufficiently attractive for Palauans efforts to increase the number of Palauans with vocational skills should be an important additional feature of labor market policy.

6.3.4 Restrictions on Foreign Worker Employment

- 449. Action 11 is to remove the restrictions on foreign workers being able to work for only 1 employer, being required not to work for another employer except under certain conditions, and to limit the entry of dependents and their scope to work.
- 450. In the course of consultation for the MTDS views were expressed that the restrictions on foreign workers being able to work for only 1 employer, being required not to work for another employer except under certain conditions, and to limit the entry of dependents and their scope to work were unduly restrictive. Easing these restrictions would make improve the welfare of the foreign workers but also their effectiveness as a resource for the economy of Palau. Concerns about the number of foreigners in the economy could be addressed with the recommendation in relation to the foreign worker fee which is considered to be a superior policy response.

6.3.5 Occupational Health and Safety Act.

- 451. Action 12 is to request the International Labor Organization to provide an assessment and recommendation for an Occupational Health and Safety Act.
- 452. The NMDP 2020 recommended the International Labor Organization be requested to review the occupational health and safety situation in Palau with a view to drafting an appropriate Occupational Health and Safety Act where warranted. This recommendation has not been pursued and it will be further investigated in the MTDS. However, it is also noted that care needs to be taken in adopting legislation that is appropriate for a small developing economy that already finds it difficult to enforce a wide range of legislation more suited to larger more developed economies.

6.3.6 Workers Compensation Act.

- 453. Action 13 is to assess Palau's needs for a Workers Compensation Act.
- 454. The NMDP 2020 also made a similar recommendation with respect to a Workers Compensation Act for Palau with responsibility being assigned to the Division of Labor and the Attorney General's Office. This recommendation will also be further investigated in the MTDS but is not considered to be a high priority.

6.4 Facilitate Investment

6.4.1 Context

455. Given local finance and business skill constraints, increased foreign investment is important for providing finance, improving business skills, practices and marketing, offering better jobs and laying the platform for the transfer of knowledge, ensuring the adoption of better technology and creating general business opportunities.
456. The current foreign investment regime in Palau is very restrictive, in conflict with recommendations made in the NMDP 2020 more than 10 years ago. The Foreign Investment Board (FIB) has discretionary power that allows it to prevent foreign investment if it considers the investment does not meet any of a long list of criteria, one of which is protective and anti-competitive and many of which it is not qualified to make assessments on.
457. Although the FIB is dedicated to its mission of enforcing the foreign investment regime, the main problem is that regime itself is a major hindrance to long term and quality foreign investment. The goal of foreign investment policy to promote foreign investment for the benefit of the country as a whole while retaining local ownership and preventing foreign domination are not being achieved. "Business fronts" occur in all areas nominally reserved for Palauans and quality long term investment is not occurring.
458. Two options have been developed for the MTDS and further consultation and assessment will be needed to determine which option will be implemented. The options are set out in the following sub-sections.

6.4.2 Option I: Liberalise the Foreign Investment Regime

459. Action 14 (I) is to liberalise the foreign investment regime as much as possible, including no reserve list of businesses only for Palauans but with a performance bond for foreign investors.
460. From an economic perspective, it is considered that the approach that would maximize the long term benefits to Palau as a whole would be one that would apply, as much as possible, the same approach to the regulation of business and investment, for both foreigners and Palauans. In addition, it would be desirable for the regulation of business to minimize the amount of financial and business information that was needed for a business license. It would also be desirable to adopt a rules-based approach that minimized the scope for discretionary approval powers and hence the potential for conflicts of interest and abuse of the system.
461. It should also be recognized that the more liberal are the laws with respect to foreign investment, the greater will be the prospects of foreign investment, and the associated transfer of skills and technology and better jobs, and the less will be the need for capacity for assessment, monitoring and promotion and for measures to address potential conflicts of interest in the approval process.

462. However, review of previous reports and symposiums and consultation undertaken in the course of preparing the MTDS indicated that two key issues that need to be addressed if the foreign investment regime was significantly liberalized were: (1) concerns about money laundering, scams and projects with high risks of failure and subsequent adverse impacts on Palau; and (2) concerns about foreign domination of the economy.
463. To address the concern about money laundering and scams as well as foreign domination of the economy and opportunities for Palauans, it is suggested that a liberal approach to foreign investment would need to be accompanied by:
- 1) a performance bond for foreign investment set at the maximum of a specific fixed amount or the proportion of the construction cost of any fixed assets required for the investment; with the bond being forfeited in the event of significant breaches of the law. Interest income from the bond would accrue to the foreign investor less an annual administration fee and an access fee. The bond would be fully refundable (less administration and access fees) if the investment was liquidated or sold in the absence of breaches of the law.
 - 2) improved capacity and powers to investigate and prohibit money laundering activities, as is done in other countries with more liberal arrangements for foreign direct investment. This could involve giving the Financial Institutions Commission the authority to investigate know your customer rules for non-financial businesses and other authority to monitor financial transactions and sources of money. Alternatively the corporation regulations could be revamped to require disclosures of sources and uses of money.
 - 3) an immigration policy that limited the total number of foreigners and their skill mix involved in business in Palau, compatible with economic benefits and socio-cultural concerns through uniform foreign worker fees;
 - 4) an emphasis on transparent, fair, secure and speedy leasing and effective tax arrangements to ensure that foreign investment provided appropriate benefits to Palau;
 - 5) continuing emphasis on education to ensure Palauans have the capacity to be involved in successful business activities;
 - 6) continued support of business advisory services provided by the Small Business Development Center; and
 - 7) to address the possible problem of “front businesses establishing to avoid the performance bond, there may need to be legislation to establish a number of specific presumptions for determining if a business enterprise is effectively set up as a “front business” and with penalties for front businesses based on civil liability.
464. Although option I has the most potential from an economic perspective it may be difficult to gain community and political support for the complete removal of the list of activities reserved for Palauans, hence option II set out below retains a reserve list but adopts other features of option I.

6.4.3 Option II: Simplify and Enforce the Foreign Investment Regime

465. Action 14 (II) is to simply and enforce the foreign investment regime which would involve retaining a minimum list of reserved activities.
466. Option II would involve Option I plus a small list of businesses and occupations reserved for Palauans exclusively, plus a number of specific presumptions for determining if a business enterprise is effectively set up as a “front business” and with penalties for front businesses and activities based on civil liability and improved enforcement capacity.
467. This approach would mean that foreign investment could occur and continue to operate in any non-reserved activities provided the performance bond was paid and the entity complied with Palau’s laws and was not involved in money laundering or scams. It would have the advantage of minimizing discretionary power by the FIB and would reduce but not eliminate the scope for business fronts to exist. It would not realize the same overall benefits to the economy as Option I as it would contain a protective and anti-competitive elements. However, it may have more potential for being accepted by the community and leadership.

6.5 Ensure Security and Efficiency of the Financial Sector

6.5.1 Context

468. A well functioning financial market is important for facilitating business activity and economic development. There are two key aspects in relation to domestic financial market policies. One relates to the overall monetary policy arrangements and the other relates to regulation and development of the domestic financial market. In addition, for some time the government has looked for opportunities to establish an offshore financial centre. It is believed that such a centre will provide additional revenue for Palau, however, this issue will need further investigation to ensure that it could be implemented effectively without jeopardising relationships with donor partners.
469. A number of recommendations have been made to ensure that stability and efficiency of the finance sector and to pursue development opportunities as summarized below.

6.5.2 US dollar

470. Action 15 is to continue to use the US dollar as the official currency in Palau.
471. This is considered essential in order to help achieve financial stability, reduce the costs of financing business and maintaining international competitiveness.

6.5.3 Regulation of the Finance Sector

472. Action 16 is to ensure the Financial Institutions Commission has appropriate powers and sufficient resources to monitor the finance sector and enforce breaches of regulations.

473. Existing legislation for supervision of domestic banking activities at the time of preparing the MTDS was considered to be appropriate. The main issues will be ensuring there is sufficient capacity at the FIC for effective enforcement of the legislation for the domestic finance sector and adequate legislation and enforcement capacity with respect to anti-money laundering activities.

6.5.4 Civil Service Pension Plan and Social Security Fund

474. Action 17 is to take meaningful steps to ensure the CSPP and SSF are fully funded over the longer term.
475. Ensuring the CSPP and SSF are fully funded is important for meeting government commitments to beneficiaries as well as avoiding financial instability as a result of government finance problems. The CSPP is facing much greater sustainability issues than the SSF and effective reform will most likely require a defined contributions plan rather than defined benefits. It should be possible to finance the SSF over the longer term provided benefits are not increased.

6.5.5 Palau National Development Bank

476. Action 18 is to integrate the objectives and activities of the National Development Bank into the MTDS
477. As the Palau National Development Bank (PNDB) is supposed to be a development bank it should not really be in the business of competing with commercial banks for standard deposits and commercial lending. In addition, there seem to be sufficient commercial banks performing this role. Furthermore, in relation to commercial lending it is counterproductive to insist on commercial lending targets for the development bank if sufficient bankable projects are not available. However, efforts should be made to integrate the PNDB's objectives into national development strategies and to encourage it to undertake more developmental lending that would facilitate private sector growth. Given the difficulty in identifying viable specific commercial projects the option of the bank using donor loans to invest in infrastructure to support tourism and other projects will be investigated. The funding for such investments could come from the combination of the issuance of infrastructure bonds (see following action) and loans from donors.

6.5.6 Infrastructure bonds

478. Action 19 is to investigate the scope for the PNDB to offer infrastructure bonds
479. Infrastructure bonds offered by the PNDB would help serve the purpose of providing another option for local saving without entailing direct competition with commercial banks and would also be a means of allowing the PNDB to offer commercial loans for bankable infrastructure projects. However, it would be important for the Bank to ensure that it continued to operate on a profitable commercial basis with infrastructure investments and some financial oversight would be necessary if it offered

infrastructure bonds.

6.5.7 Palau Housing Authority and Palau National Development Bank

- 480. Action 20 is to investigate the scope for merging the PHA and the PNDB.
- 481. The merging of the PHA and the PNDB will be investigated as it has the potential to reduce administrative costs and is compatible with the existing functions of the National Development Bank.

6.5.8 International Corporate Registry

- 482. Action 21 it to investigate the scope for an international corporate registry and supporting legislation for international companies.
- 483. For some time the government has looked for opportunities to establish an offshore financial center. Such a center has the potential to generate additional revenue for Palau, however it would entail administrative and regulatory costs and risks of creating adverse international perceptions of Palau. The MTDS will undertake a technical investigation of the benefits, costs and risks of establishing an international corporate registry in Palau designed to facilitate the legal minimization of taxes for international companies.

6.6 Commercial Laws

6.6.1 Context

- 484. Clear, written and well enforced commercial law is important for reducing uncertainty and lowering the transactions costs of doing business. It is also important to ensure effective enforcement of all relevant commercial laws as this creates confidence which in turn lowers uncertainty and the costs of borrowing and other business transactions.
- 485. A number of recommendations have been made to adopt modern commercial laws that would facilitate business activity, as summarized below. It should be possible to secure donor technical assistance to design and implement these recommendations.

6.6.2 Secured Transactions Legislation

- 486. Action 22 is to design and implement secured transactions legislation
- 487. An effective and efficient collateral framework lowers the cost of borrowing and facilitates commercial transactions. There is a need for a new commercial law and system to facilitate secured transactions so that in the event of a loan default, the secured property can be quickly repossessed and sold to allow the repayment of debt. This would require the drafting of a comprehensive statute, regulations and filing system governing the entire process.

6.6.3 Bankruptcy Legislation

- 488. Action 23 is to design and implement bankruptcy legislation.
- 489. Gains in terms of economic efficiency and economic dynamism would also be advanced by a bankruptcy law and procedure to facilitate the closure of unsuccessful businesses to release resources for more productive uses.

6.6.4 Low Cost Procedure for Arbitration

- 490. Action 24 is to design and implement a low cost procedure for arbitration.
- 491. A legal procedure for arbitration would allow for the resolution of commercial disputes outside the court system, at a much lower cost and at great benefit to sole proprietorships and small- and medium-enterprises.

6.6.5 Sale of Goods Legislation

- 492. Action 25 is to design and implement relevant sale of goods legislation.
- 493. It is also important for commercial law to cover the rights and obligations of parties in relation to the sale of goods and services as this will also reduce uncertainty and facilitate business transactions.

6.7 Key National-State Issues

6.7.1 Context

- 494. The key problems that states have raised in the context of national-state issues were explained in Section 3 of this report. Recommendations to address the key problems are summarized below.

6.7.2 State Compliance with EQPB requirements

- 495. Action 26 is for the national government to fund adequate expertise to assist the states in complying with EQPA and EQPB requirements.
- 496. Economic development, including basic infrastructure and housing developments is considered to be unduly restricted as a result of both excessive regulatory requirements and capacity to address those requirements. The issue of reviewing regulatory requirements is controversial and may not be well supported, however, there is a consensus that the capacity of States generally to comply with environmental requirements needs to be strengthened.
- 497. Given the specialist skills required in environmental compliance, engineering and land surveying and the large number of small States, it is recommended that the capacity needs to be centralised in the National Government. There would be a need for 1 Environmental Specialist, strengthening of land survey teams and increasing

engineering resources in the Ministry of Resources and Development, with those increased resources focussed on assisting the States, particularly the States other than Koror in addressing EQPB requirements.

6.7.3 The Role and Procedures of the EQPB

498. Action 27 is to review and revise the role objectives, functions, governance arrangements, and specific regulatory requirements and procedures of the EQPB with reference to the EQPA. This recommendation is also covered in the Environment Action Plan.
499. In addition to needs for an Environmental Specialist, Engineers and Survey teams, the States consider that there is a bigger issue of the role, objectives, functions, governance arrangements, and specific regulatory requirements of the EQPB as specified by the EQPA. Key issues that need to be carefully reviewed are:
- i) whether the legislative and governance arrangements are far too demanding for a small island nation;
 - ii) whether the EQPB should be a separate independent agency, and if it is whether its objectives should be changed so that it is more facilitative in helping the states to understand and address environmental laws; and
 - iii) the need to determine if requirements for environmental assessments can be simplified, including the trigger points for requiring such assessments, and particularly if effective zoning regulations and building codes are put in place.

6.7.4 Regulations and procedures of the Bureau of Arts and Culture

500. Action 28 is to review and revise regulations and procedures of the Bureau of Arts and Culture.
501. Similar to the case for the EQPB a review of the regulations and procedures of the Bureau of Arts and Culture is recommended in order to determine if the requirements can be simplified and streamlined to better facilitate development.

6.7.5 Forum to Facilitate National-State Cooperation

502. Action 29 is to establish a regular formal forum to facilitate National-State cooperation
503. In order to develop greater recognition and commitment to addressing the capacity problems of the States, it is recommended that there be a regular, formal forum to facilitate National-State cooperation and progress the development and implementation of key policies at the State level.

6.8 Improve Planning, Monitoring and Evaluation

6.8.1 Monitoring and Evaluation System for the MTDS

- 504. Action 30 is to establish and implement an effective monitoring and evaluation system for the MTDS.
- 505. In order to ensure effective implementation of the MTDS it will be necessary to develop and put in place an effective monitoring and evaluation system for the MTDS. The details of the monitoring and evaluation system, including responsibilities and suggested performance indicators are set out in the separate section on Monitoring and Evaluation.

6.8.2 Institutional Arrangements for Conflicts of Interest

- 506. Action 31 is to undertake a review of the effectiveness of the current institutional arrangements and legislation with respect to conflicts of interest and make recommendations to ensure that conflict of interest issues are effectively addressed.

6.8.3 Independent, Transparent Evaluations

- 507. Action 32 is to establish a facility to provide independent, transparent evaluations and advice.
- 508. In the formulation of the MTDS, it has become clear that there is a need to strengthen the capacity for policy evaluation across government and to provide independent economic analysis, evaluations and advice to government, the legislature and the community generally. Capable, independent and transparent economic advice would be most helpful in developing support for more coherent and sustainable public policies across many fields but particularly with respect to the economic implications of policies. This recommendation is considered to be particularly important to address the issue of conflicts of interest which has been identified as a binding constraint to sustainable economic development in Palau.
- 509. It is not clear, at the time of writing how such a capacity could be established and financed but it is suggested that the concept should be pursued as a high priority as part of the MTDS.

Matrix 1: Economic Policies and Institutions Action Plan

Goal: Establish an enabling environment to support sustained and widespread private sector development

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
1. Ensure Fiscal Sustainability by reducing reliance on external assistance	1	Implement a Sustainable Fiscal Policy as per Paper on "Medium-Term Fiscal Strategy for Sustainable Economic Development.	9 (4)	MOF	Nil	Year 1
2. Improve Access to Land for Economic Development	2	Put in place land use plans and zoning laws and regulations and institutional capacity that facilitate economic development while preserving environmental values, with priority given to States where intensive development is likely in the near future.	9.3 (3)	Bureau of Lands and Surveys in MNRET and States	\$200,000 C \$90,000 R	Years 1 and 2
	3	Establish regular forum for National-State cooperation on zoning, land use planning and other policies affecting the use of land.	8 (8)	Office of the President, MNRET, Governors Association	Minor cost for hosting forum	Years 2-5
	4	Continue the program to provide Certificates of Title to land.	10 (1)	Bureau of Lands and Survey, PPLA Land Court	Nil	Ongoing
	5	Consolidate the formal register of Titles to a single, efficient and reliable source.	7 (10)	Bureau of Lands and Survey, PPLA, Land Court	Computers, TA	Year 2
	6	Continue to support the GIS that is being implemented.	8.5 (6)	PALARIS, MNRET	Nil	Ongoing

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
	7	Support a community awareness function so the community can (i) understand the potential value of land and how to realize that land for their benefit; and (ii) understand and address any adverse impact on the environment from economic development and ses of land.	6.8 (11)	MNRET, NGOs, PALARIS	\$30,000 C \$20,000 R	Years 2-5
	8	Standardized land lease guidelines.	5.5 (15)	States/MNRET/Attorney General	\$50,000 C	Year 1
3. Ensure A Well Functioning Labor Market	9	Monitor the number of foreign workers to facilitate private sector growth, adopt a uniform foreign worker fee to minimize labor hiring distortions and adjust the foreign worker fee to limit the total number of foreign workers where considered necessary for social and cultural reasons.	8 (7)	MPIIC/MOF	nil	Year 2
	10	Increase the number of Palauans with vocational skills to support demands in the private sector.	7 (10)	MOE/PCC/Scholarship Board/COC	To be determined	Year 3
	11	Remove the restrictions on foreign workers being able to work for only 1 employer, being required not to work for another employer for 5 years except under certain conditions, and to limit the entry of dependents and their scope to work.	8 (7)	MPIIC/MOF	nil	Year 1
	12	International Labor Organization requested to provide an assessment and recommendation for an Occupational Health and Safety Act.	5 (16)	MPIIC	nil	Year 2
	13	Division of Labor, Department of Health and Attorney General's Office to assess Palau's needs for a Workers Compensation Act.	4 (17)	MPIIC, MOH, Attorney General	nil	Year 3
4. Facilitate Investment	14 (I)	A liberal approach to foreign investment with complementary policies. The key elements	9.5 (2)	MOF, FIB, Office of President	nil for primary changes	Year 1

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		would be: no reserve list; no detailed approval process for foreign investment; no limit on business duration; a performance bond for foreign investment to address concerns about the risk of money laundering, scams and other adverse impacts; improved capacity and powers to investigate and prohibit money laundering activities; uniform foreign worker fees with no exceptions for both foreign owned and Palauan owned companies; increased emphasis on vocational education for Palauans; increased support for the SBDC to help Palauans start and develop businesses; transparent, fair, secure and speedy leasing arrangements and effective tax arrangements to ensure that foreign investment provided appropriate benefits to Palau. To address the possible problem of "front businesses establishing to avoid the performance bond, there may need to be legislation to establish a number of specific presumptions for determining if a business enterprise is effectively set up as a "front business" and with penalties for front businesses based on civil liability.			\$30,000 R	
	14 (II)	A less restrictive foreign investment regime but with improved legislative arrangements for enforcement. This would involve Action 13 plus a small list of businesses reserved for Palauans.	8.2 (7)	MOF, FIB, Office of President	\$ 30,000 R	Year 1
5. Ensure stability and efficiency of financial sector	15	Continue to use US dollar as the official currency in Palau.	10 (1)	MOF	Nil	Ongoing
	16	Ensure Financial Institutions Commission has appropriate powers and sufficient resources to monitor the finance sector and enforce breaches of regulations.	9 (4)	FIC/Office of President	\$60,000 R	Year 2

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
	17	Take meaningful steps to ensure the Civil Service Pension Plan (CSPP) and Social Security Fund (SSF) are fully funded over the longer term.	6.5 (12)	CSPP and SSF boards	Nil	Year 2
	18	Integrate the objectives of the Palau National Development Bank (PNDB) into the MTDS and government policies.	6.5 (12)	National Planner/PNDB	Nil	Year 3
	19	Investigate the scope for merging the PNDB and the Palau Housing Authority (PHA).	6.3 (13)	National Planner/PNDB	\$30,000 C	Year 5
	20	Investigate the scope for the PNDB to offer infrastructure bonds	6 (14)	PNDB/MOF	Nil	Year 4
	21	Investigate the scope for an international corporate registry and supporting legislation to facilitate the legal minimization of international taxes.	6 (14)	Office of President	Nil	Year 3
6. Ensure appropriate commercial laws	22	Secured transactions legislation and supporting regulations and filing system.	8.5 (6)	Attorney Generals Office	\$100,000 C for drafting \$450,000 for computer system and training \$30,000 R	Year 1
	23	Bankruptcy legislation.	7 (10)	Attorney Generals Office	\$100,000 C for drafting \$200,000 C for training	Year 3
	24	Low-cost procedure and supporting legislation for commercial arbitration.	7.8 (9)	Attorney Generals Office	\$100,000 C for drafting \$200,000 C	Year 4

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
					for training \$60,000 R	
	25	Sale of goods legislation specifying rights and obligations.	6.3 (13)	Attorney Generals Office	\$100,000 C	Year 5
7. Address key National-State issues	26	National Government to fund an Environmental Specialist and adequate engineering and land survey expertise to assist the States in complying with EQPB requirements.	9.5 (2)	MNRET	\$120,000 R	Year 2
	27	Review and revise the role objectives, functions, governance arrangements, and specific regulatory requirements and procedures of the EQPB to simplify and streamline requirements for development purposes.	8.8 (5)	MNRET/EQPB	\$60,000 C	Year 1
	28	Review and revise regulations and procedures of the Bureau of Arts and Culture to simplify and streamline requirements for State governments for development purposes.	8.8 (5)	MCCA	\$30,000 C	Year 2
	29	Establish a regular formal forum to facilitate National-State cooperation and progress the development and implementation of key policies at the State level.	7 (10)	Office of the President, MNRET, Governors Association	Minor cost for hosting forum	Years 2-5
8. Improve planning, monitoring, evaluation and implementation	30	Establish and implement an effective monitoring and evaluation system for the MTDS.	8 (8)	National Planner	\$ 90,000 C	Year 2
	31	Undertake a review of the effectiveness of the current institutional arrangements and legislation with respect to conflicts of interest and make	8.5 (6)	Office of President	To be determined	Year 2

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		recommendations to ensure that conflict of interest issues are effectively addressed.				
	32	An experienced economist recruited or facility established to provide independent evaluations and advice to the executive, congress and public interest groups. Evaluations to be made publicly available.	8.5 (6)	Office of President	To be determined	Year 2

Note: "R" indicates recurrent cost; "C" indicates capital cost.

Summary:

7. Reform of Government and Public Enterprises Strategies and Actions

7.1 Overarching Goals and Strategies

510. There are two key areas of government services that need to be part of the MTDS. The first relates to improving the performance of government in general and the second relates to improving the performance of public utilities and other public services that have a business aspect (often referred to as public enterprises).
511. The separate paper on a Medium Term Fiscal Strategy for Sustainable Economic Development covers a number of expenditure, revenue and planning aspects relevant to the reform of government. The separate chapters in this report on Economic Policies and Institutions, the Environment, Aquaculture and Fisheries, Agriculture, the Environment, Infrastructure, and a Sustainable Financing Strategy for Education are also relevant to identifying reforms, efficiencies and revenue enhancement options in the reform of government services. This chapter then relates to two main streams of work, namely:
- i) review and reform of the role, functions, activities and modes of operation of government administration and associated human resource management; and;
 - ii) review and reform of public enterprises and government business-type functions.
512. The main goals and overarching strategies for these two aspects are summarized in the following table. At this stage very little work has been done on stream (i); and a review along the lines of that indicated in the table is needed to determine in more detail what needs to be done in relation to reform of core public administration and human resource management in the civil service.
513. However, considerable work has been done on stream (ii) as reflected in the various strategies and actions outlined in this chapter and in 8 separate Working Papers shown in the list of references to this report.
514. Matrix 2 summarizes the overall strategies and actions in the two streams of work in relation to government administration and service delivery and public enterprises.
515. The rest of this Chapter presents the goals, strategies and action plans for reform and improvement of public enterprises and government business activities.

Matrix 2: Role and Performance of Government, Government Businesses Services and Public Enterprises Overarching Action Plan

Goal: Lower the cost and improve the performance of government, government business services and public enterprises

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
1. Lower the cost and improve the performance of core government functions	1	Review the role, functions and activities of government departments in order to determine recommendations for the 'right size' of government and make recommendations for streamlining employment and procurement requirements, and the process and time lines to implement the recommendations. The review would cover all government departments but would take into account and not duplicate the work being undertaken by the FEIM team in other sectors.	tbd	MOF	\$100,000 initial TA	Year 1
2. Pursue opportunities for reform of government businesses and public utilities	2	Prioritize and implement the Action plans on Corporatization and Privatization of Public Utilities and Other Public Services.	tbd	MOF and individual business enterprises	See – details below.	Years 1 -5

7.2 Governance of Public Enterprises

516. A number of common themes apply to all government activities and government owned entities involved in business type functions in Palau. These have therefore been broadly grouped in the category of governance issues. Proposed strategies impact all institutions, and the enabling environment for possible future private sector participation in these areas.
517. The common themes underpin the question of whether GOP, and the citizens of Palau, are receiving the best possible value from the services under review. Particular concerns are:
- i) The adequacy of existing governance mechanisms;
 - ii) The impact of Universal Service Obligations on costs for some enterprises, in particular PNCC and PPUC, and the absence of targeting of subsidies. This is addressed in proposed goals and strategies for these particular enterprises;
 - iii) The absence of adequate regulatory frameworks to ensure there is no opportunity for abuse of monopoly power if the private sector becomes a more dominant service provider;
 - iv) What can be done to make individual sectors attractive to private sector investors, in order to reduce demands for financial support from GOP for future capital investments or operating deficits.
518. The best practice corporatization model has not been replicated completely. What is missing in Palau is the feedback link between the Government, as shareholder, and the Board of Directors. In other successful models a government Ministry – typically the Ministry of Finance – reviews the Business Plans of the corporatized institutions, and periodically – at least every six months – compares actual performance against plan. The Ministry considers alignment of Business Plans with national objectives; proposed major investments and the associated rate of return, and any proposed changes in the scope of business. The Ministry is not empowered to change the Business Plan. It can refer queries back to the Board of Directors, but it is responsible for providing a commentary on the Business Plan and actual performance to elected representatives.
519. The Ministry involvement introduces a strong element of accountability of the Board of Directors to the Government. It provides the opportunity for informed comment, and independent, expert scrutiny. However, it is important to recognize that Ministries and Ministers are also precluded from intervening in the detailed business and financial decisions during a year and their role is not to define or approve detailed decisions in the annual process but rather to advise on overall performance.

520. The thrust of the proposed overarching governance goal is to improve the quality of governance by addressing this missing link, thus improving the quality of governance (Matrix 3). Four strategies are proposed, with supporting detailed action plans. Included within these action plans are specific steps to improve the quality of Business Plans, and proposed wider exposure of officials to how overseas governments exercise oversight of government owned corporations.
521. Implementation costs will be minimal, since the strategies essentially involve rechanneling existing staff effort into higher added value activities. In the initial stages of implementation there will be some training costs involved, and possibly a study tour to review best practice overseas.
522. The expected outcome from the overarching governance goal is a significant improvement in the quality of Business Plans and resource allocation across all government activities, and increased attractiveness of the sectors to private sector investors.
523. The ranking for the proposed strategies suggest a high degree of support for the proposals, but concern about how “do-able” some of the proposals are, in particular related to creating an environment in which the private sector is encouraged to become involved in activities currently performed by government institutions.

Matrix 3: Overarching Public Enterprise Governance Goal - Improve the Quality of Governance of Public Enterprises

Ref. Number	Strategy	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Responsibility	Cost	Timing
1	Strengthen oversight of enterprises	9.4	9.6	8.2	9.2	MOF	\$32,000	2008
2	Improve the annual planning cycle	9.2	9.2	8.4	9.0	MOF	Existing	2008 – 09
3	Create environment for successful private sector participation	9.0	9.2	6.6	8.4	MOF	\$109,000	2008 – 09
4	Remove the constraints on improvements in government provided services	8.25	9.0	6.0	8.1	MOF	Existing	2008 – 09

Matrix 4: Action Plan for Improved Governance of Public Enterprises

Strategy	Action No.	Action
1 Strengthen oversight of enterprises.	1.1	Define improved processes for Ministry of Finance to critique and prepare commentary on public enterprises Business Plans, and opportunities for full cost recovery.
	1.2	Review and refine individual Ministries responsibilities for policy, service delivery and performance monitoring. Define delegated authority limits within Ministries and Public Enterprises (PEs).
	1.3	If necessary, approve enabling legislation mandating revised authority.
	1.4	Provide template for content of Business Plans to be provided by Public Enterprises. The Annual Plans (Statements of Corporate Intent) should cover the following 12 months in detail, and the two subsequent years in more general terms. The Business Plans should specify all major capital expenditure proposals, Return on Asset targets, and identify any financing gaps.
	1.5	If necessary, provide training to Ministry of Finance staff on “what a good Business Plan looks like”. Seek funding for, and undertake, a review of successful governance mechanisms in other countries such as Australia or New Zealand.
	1.6	Provide training to Boards of Directors and senior managers on content and substance of Business Plans.
	1.7	Conduct workshop with boards/management of public enterprises to identify restraining forces that are impeding performance, and consider possible remedial actions.
	1.8	Set up Public Enterprise performance monitoring systems with key performance indicators for major outputs, and assign responsibility for maintenance.
	1.9	Determine and publicize policy position on private sector involvement and public private partnerships.
	1.10	Develop and implement policy on Universal Service Obligations and associated targeting of subsidies.
2 Improve Annual Planning Cycle.	2.1	Advise PEs of national economic goals and any expenditure constraints to be considered when developing annual Business Plans.

	2.2	Provide feedback to Boards and senior management of level of satisfaction with Corporation performance against plan.
	2.3	Ensure that Ministry of Finance and functional Ministries commentaries of performance against key performance indicators are provided by each institution.
	2.4	Produce Annual Performance Report setting out key results for each Corporation, for dissemination to public.
3 Create environment for successful private sector participation.	3.1	Introduce regulatory frameworks, after researching availability and suitability of other models in the Pacific and elsewhere. In doing so, ensure that risks of profitable markets only being serviced by the private sector, leaving high cost segments for GOP utilities.
	3.2	Develop costings and define expertise for Regulatory Authority, to be established.
	3.3	Increase transparency and eliminate hidden subsidies, such as labor costs not being charged against repair jobs.
	3.4	Address wider business environment issues such as labor and taxation, identified elsewhere in fiscal paper.
	3.5	Develop and publicize infrastructure maintenance plans for each sector.
4 Remove constraints on improvements in Government provided services.	4.1	Identify those areas where staff productivity is low because of lack of access to raw materials, and the costs and increased output that can occur if additional funding is made available. (This action applies in particular to BPW).
	4.2	Obtain position papers from all PEs on deferred maintenance, its implications and the associated costs.
	4.3	Balance employee numbers with financial allocations for materials, in order to remove excessive idle time caused by lack of resources.
	4.4	Review possibilities of reactivating the "Reduction in Force" policies, in order to reduce personnel costs where Boards of Directors consider these appropriate.

7.3 Palau National Communications Corporation

524. PNCC has been successfully corporatized, and operates in a competitive market. However, PNCC is considered to be at a competitive disadvantage compared with existing or potential private sector investors in the telecommunications sector in Palau. PNCC is required to meet Universal Service Obligations, estimated by the organization to cost \$2.85 million per annum; its financial structure is based on debt; and it must service a loan which has \$51.3 million outstanding, and requires a further \$2.3 million per annum in debt servicing costs.
525. Whilst private sector competitors who have entered the Palauan market have provided their own infrastructure, they have also focussed on the high density segment of the market, leaving PNCC to service low density locations which effectively require cross subsidization through the tariff structure.
526. One result is that PNCC has a very low return on assets, at only 3%, making future investment in the Corporation by the private sector a somewhat unlikely proposition.
527. There are three medium term broad goals for the sector:
- i) Introducing competitive neutrality, with no single service provider being advantaged or disadvantaged;
 - ii) Ensuring that PNCC remains sustainable and fully self financing;
 - iii) Making PNCC attractive to private sector investors, in order to attract future capital investments and upgrades in technology.
528. In effect, the broad intention of the proposed goal and strategies is to create the “level playing field” necessary for both public and private enterprises to compete successfully. The following matrices indicate proposed goals, strategies and actions, and the level of support these proposals have received in consultation.
529. It is noted that, in common with the responses on other institutions, there is some lack of confidence in the ability to follow through on the strategies. However, the detailed action plans are intended to make this process as simple as possible. Consulting assistance with the development of a regulatory framework and subsidy policy is recommended.
530. The expected outcome from these actions will be greater equality between PNCC and private sector operators; increased contributions from private sector competitors to the sunk costs of existing infrastructure necessary to provide equal quality of service to all Palauans, and increasing attractiveness of PNCC as an investment vehicle for private sector investors in telecommunications technologies.

Matrix 5: Palau National Communications Corporation Goal and Strategies

Proposed Goal: Ensure Palau retains the leadership position in Information and Communications technology, thus increasing the attractiveness of PNCC to private sector investors

Ref. Number	Strategy	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Responsibility	Cost	Timing
1	Introduce competitive neutrality into the sector.	8.4	9.0	7.6	8.5	MOF	\$64,000	2008
2	Ensure PNCC remains sustainable and fully self funding.	9.6	9.2	6.0	8.5	MOF	Existing	Ongoing
3	Increase attractiveness of PNCC to private sector investors.	9.0	9.0	6.6	8.4	MOF PNCC	Existing	Ongoing
4	Improve governance.	10	10	9.0	9.75	MOF	\$29,000	Ongoing

Matrix 6: Palau National Communications Corporation – Action Plan

Strategy	Action No.	Action
1 Introduce competitive neutrality into the sector.	1.1	Complete detailed analysis of financial implications of Universal Service Obligations and support mechanisms available to meet these costs, including levies on all service providers.
	1.2	Develop a regulatory framework to be applied to both the private sector and PNCC. This must address funding for national infrastructure, connectivity, tariff setting and notification and market dominance .
	1.3	Broaden financing base for USO support.
2 Ensure PNCC remains sustainable and fully self funding.	2.1	Consider financial debt restructuring debt for PNCC.
3 Increase attractiveness of	3.1	Identify key strategic partners with compatible technologies and interests in gaining market share in the

PNCC attractive to private sector.		Pacific.
4 Improve Governance.	4.1	Introduce improved oversight of annual business plans by the Ministry of Finance, (in line with governance recommendations made earlier).
	4.2	Introduce benchmarking to compare efficiency with other Pacific nations Information and Communications Technology providers.

7.4 Palau International Airport

531. PIA is currently operated as a Government Department, rather than a Corporation. The following observations provide context:

- i) Many international airports, including those with economies substantially dependent on tourism, are run as profitable institutions;
- ii) For PIA, there is no single source of information on costs and revenue, making it impossible to assess the cost efficiency of the operation;
- iii) Tariffs were last adjusted, in 2002, suggesting there is not full cost recovery, including depreciation, on many capital items, including recently acquired infrastructure such as fire and rescue equipment, costing \$3 million;
- iv) Airport users can be considered to have a high ability to pay, so that when developing tariffs, social or pro poor considerations are of low importance;
- v) PIA forward planning is limited to a 12 month time horizon only;
- vi) There is no marketing of the facility;
- vii) There is a large difference between the expenditure projected by the airport management as necessary to run the airport, and funding approved by GOP. This implies that some operating activities will be deferred, or that management does not fully appreciate what is, and is not, essential for operation;

- viii) Operating the airport as a government department with no financial incentives means that the private sector will not be interested in contributing to future capital expenditure;
 - ix) There is no recent assessment of opportunities to increase revenue from ancillary services, such as fuel supply and premises rental. In many international airports these are significant sources of revenue;
 - x) Infrastructure capacity is not balanced, resulting in surplus equipment or bottlenecks in processing;
 - xi) The present organization structure means that there is no focus on operating the airport as a business, or producing integrated development plans.
532. In the absence of financial data it is not possible to project the financial benefits to GOP from improved operations. If some proportion of future investment is to be provided by the private sector, thus freeing up Government funds for other less commercial activities such as health and education, then this must be remedied.
533. The proposed goal envisages improving planning and cost recovery for PIA, and moving to fully corporatized operation, with performance benchmarking against other airports to ensure that operations are efficient. The expected outcomes will be a much clearer understanding of the financial performance of PIA; increased revenue for GOP, thus reducing demands of future grant assistance for replacement of equipment such as safety and rescue appliances, and medium term positioning of the airport as an attractive proposition for private sector investors.
534. The prioritization process has indicated wide support for increasing revenue and management capacity, but more caution on moving forward with corporatization.
535. All work can be undertaken using existing staff, allocated to this development as a special project.

Matrix 7: Palau International Airport Goal and Strategies**Proposed Goal: Develop Palau International Airport into fully self funding operation**

Ref. Number	Strategy	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Responsibility	Cost	Timing
1	Improve financial viability.	10	9.2	7.0	8.85	MOF MOCT	Existing	2008
2	Improve management capacity.	9.8	10	7.0	9.2	MOF MOCT	\$44,000	2009
3	Corporatize operations.	6.4	7.8	5.2	6.8	MOF MOCT	\$12,500	2009
4	Introduce benchmarking.	9.0	8.0	8.4	8.35	MOF MOCT	\$29,000	2009

Matrix 8: Palau International Airport Action Plan

Strategy	Action No.	Action
1 Improve financial viability.	1.1	Immediate review of tariff levels, and extent of cost recovery. (If appropriate, this should be conducted concurrently with any measures to increase revenue to fund costs associated with tourism development and maintenance of infrastructure to support tourist activities).
2 Improve management capacity.	2.1	Establish integrated financial reports and management information system for airport operations, to provide consolidated picture of efficiency.
	2.2	Identify key performance indicators and monitoring processes for airport.
	2.3	Ensure an adequate training program for senior management.

	2.4	Require production of comprehensive Business Plan, covering following 12 months in detail, and next two years in indicative terms.
3 Corporatize operations.	3.1	Make decision to proceed with corporatization in principle, subject to in depth feasibility study.
	3.2	<p>Set up "Airport Corporatization Establishment Committee" to complete feasibility study that considers:</p> <ul style="list-style-type: none"> Financial allocations and break even, after considering all associated operating costs; the requirement to cost recover charges, and indicative scope for cost reductions; Proposed financial structure, including capital structure for new operation, and any loan servicing obligations; Potential return on assets; Revised tariff, to fully recover all costs including depreciation and maintenance for commercial services; Impact on airline contracts; Implication on service contracts e.g. for security services; Requirement for, and cost of, non commercial obligations e.g. to US military; Responsibilities that transfer from Ministry to new Company, together with assessment of impact on staff workloads; Proposed organization structure and staffing levels; Recruitment and selection processes for staff, (who should not necessarily transfer to the new Corporation automatically, as appointments should reflect ability); Opportunities for short term cost reductions; Adequacy of Management Information System; Human Resources policies, covering both airport and Ministry staff affected by any staff adjustments at the airport; New requirements e.g. marketing; Opportunities for additional income e.g. rental from land and premises.
	3.3	Decision on whether to proceed with final implementation.

	3.4	Selection and appointment of Board of Directors.
	3.5	Draft and approve any necessary legislation.
	3.6	Formal implementation of Corporatization.
4 Efficiency Measures	4.1	Consider opportunities to introduce regional “airport benchmarking” to provide monitoring mechanism to assess efficiency. This will need to cover both tariffs, operating costs and government subsidies.

7.5 Bureau of Public Works

536. The Bureau of Public Works (BPW) acts as a Department of Government, but with a wide range of services, including:

- i) Facilities and Maintenance, providing carpentry, electrical equipment and air conditioning services, and plumbing;
- ii) Road and equipment maintenance;
- iii) Water and Sewerage supplies and maintenance;
- iv) Solid Waste management;
- v) Other miscellaneous services including design and engineering and unexploded ordinance controls.

537. BPW faces a number of challenges, in particular:

- i) an absence of financial data, making it difficult to quantify full cost recovery tariffs (if this is deemed to be an appropriate objective) or to determine realistic subsidy levels;
- ii) a shortage of resources, in terms of plant and equipment, or fuel for moving between locations, resulting in low employee productivity and high idle time;
- iii) scope for improvement in the quality of strategic plans, and in subsequent performance monitoring;
- iv) the need for significant future capital investments in solid waste management;

- v) inadequate funding for road maintenance, resulting in increasingly rapid deterioration of roads that are neglected and avoidably high whole of life costs;
- vi) a requirement for a review of proposed capital investments, to ensure that all items are costed, and a time bound procurement plan is considered. This is considered essential for forward planning at a Ministry level;
- vii) a need for an assessment of the economic and financial returns that proposed capital investments will provide;
- viii) a need to re-prioritize capital investments based on: (i) urgency; (ii) availability of funds; and (iii) economic and financial returns.

538. The proposed goals and strategies for BPW are based on the principles of:

- i) Improving the quality of planning within BPW, thus enabling it to make a better case for financial resources;
- ii) Increasing financial transparency, by developing a financial structure that links all longer term costs within each major activity, to provide a better indication of what levels of cost recovery are necessary, and therefore tariff rates or subsidies;
- iii) Assembling a data base of information, through the business planning process, that can be used if required to seek private sector operators to take up concessions for those activities such as solid waste management, where major capital investments are required which may be beyond the capacity of GOP to finance;
- iv) Introducing greater private sector contracting where this is more cost effective, and BPW cannot demonstrate that it can deliver the required services at equal levels of cost and efficiency.

539. The benefits from the proposed goals and action plans are that GOP will be better placed to:

- i) manage funding allocations to BPW, with increased emphasis on whole of life asset management and employee productivity;
- ii) seek private sector involvement in activities currently performed by BPW where this presents cost advantages;
- iii) obtain private sector investment and expertise in operations requiring major capital injections;

- iv) demonstrate to potential private sector investors that GOP has a sound understanding of existing performance within major sectors of BPW operations, and the associated operational funding requirements and tariff implications.
540. The longer term outcomes from the proposed goals will be a strengthening of management capacity within BPW; a workforce that is more motivated and productive, and better resourced to do what they are employed to do; the potential to receive price competitive proposals from the private sector to undertake future services; and the ability to compare such proposals with the true cost of carrying out this work with government resources..
541. It is noted that whilst the scoring for individual strategies is generally high, there appears to be a degree of pessimism on the national capacity to translate these strategies into tangible improvements.

Matrix 9 Bureau of Public Works Goal and Strategies

- Proposed Goals:** **(1) To significantly increase productivity and efficiency, and**
(2) identify appropriate funding and service delivery mechanisms for future services

Ref. Number	Strategy	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Responsibility	Cost	Timing
1	Improve Governance.	9.5	9.0	5.5	8.25	MOF MORD	\$41,500	2008
2	Regulate standards.	9.0	9.0	6.5	8.38	MOF MORD	\$41,500	2009
3	Improve asset management.	9.5	8.75	6.0	8.25	MORD BPW	Requires Costing	2008 - 09
4	Review and prioritize capital investment program.	9.0	9.25	7.0	8.6	BPW MORD	JICA	2008
5	Contract to private sector where this provides greater value.	7.5	8.25	6.75	7.7	MORD BPW	\$41,500	2009

6	Assess interest of private sector in providing solid waste and water and sewerage services.	7.75	8.75	6.0	7.8	MOF MORD	\$82,000	2009
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Matrix 10 Bureau of Public Works – Action Plan

Strategy	Action No.	Action
1 Improve Governance.	1.1	Introduce improved Business Plans for all sector activities, that reflect detailed intentions for following 12 months, and more general intentions for following two years.
	1.2	These plans to be subject to Ministry of Finance scrutiny on same basis as PNCC and PPUC plans.
	1.3	Provide training to senior management in the preparation of Business Plans, and in performance management.
	1.4	Develop a simple performance management system to provide improved information on outputs against plan for each work unit within BPW. The system should include target billable time for each operation.
	1.5	Establish levels of idle time attributable to lack of raw materials or fuel. (This can be done through a simple survey, or estimates from staff).
	1.6	Identify “value added” from all administrative support services, and whether discontinuance of these activities represents an opportunity for cost reduction.
	1.7	Include labor costs in job costs for maintenance.
2 Regulate Standards.	2.1	Specify standards to be applied across all sectors on BPW services, so that private sector can consider whether to the market is attractive. These standards should include reference to such matters as infrastructure maintenance; quality of product (especially for water supply and for land fill, and for septic tank and composting toilet design, which is currently not adequately specified).
3 Improve asset maintenance.	3.1	Introduce basic Geographical Information System linked Road Asset Management System to track quality of roads and projected maintenance needs.

	3.2	Work with State governments to combine responsibility of both National and State governments for road maintenance, since the country is too small to have separated functions.
	3.3	Update asset ownership data base with projected costs of deferred maintenance for all infrastructure assets, indicating the nature of the deficiency (e.g. water losses) and associated cost projections.
	3.4	Produce indicative estimates of the cost of deferred maintenance, based on rehabilitation costs say five years later, if work is not undertaken on schedule.
4 Capital Investment Program.	4.1	Revise and update proposed Capital Expenditure for each working unit, indicating proposed time scale for investments and any source of funds.
	4.2	Provide forecasts of future projected capacity requirements, and how soon existing capacity will be need to be increased.
	4.3	Determine break even point for water supply, sanitation and solid waste management, costed on the basis of full cost recovery and no GOP financial support for these activities.
	4.4	Identify the funding gap that must be addressed to cover the difference between full operating costs and tariff receipts.
5 Contract to private sector where this provides greater value.	5.1	Outsource Design and Engineering and Unexploded Ordinances to the private sector, with preference being given for the initial lease (say 2 years) to existing staff. If GOP facilities are to be used by the private sector, then these should be charged at cost.
	5.2	Require Facilities and Maintenance Division to include full recovery of labor costs in all its job quotations or work on carpentry, electrical maintenance, air conditioning repairs and plumbing services.
	5.3	For random sample of jobs to be undertaken by Facilities and Maintenance Division, obtain competitive quotations from the private sector, as first step in assessing costs and benefits of contracting to private sector.
	5.4	After three months, reassess the financial viability of Facilities and Maintenance Division, to assess its competitiveness with the private sector, after adjusting its costs to include idle time and use of plant and equipment.
	5.5	Apply a similar approach to Rural Sanitation Services, whilst allowing the service to undertake other

		revenue generating activities (that may be outside normal GOP services) in order to offset idle time.
	5.6	If the above feasibility studies indicate that the private sector can be more competitive, then move to full outsourcing of maintenance in the above areas.
6 Assess interest of private sector in providing solid waste management services.	6.1	Define future tariff review mechanisms for solid waste management and for water supply and sanitation, and any subsidy or cross subsidy policies.
	6.2	Identify any safeguards considered necessary for solid waste management and water and sanitation services e.g. for protection of environment and maintenance of infrastructure.
	6.3	Define regulatory requirements and expected performance standards from future operators, and any penalties for non performance.
	6.4	Develop operating models of new solid waste management facility, and water supply and sewerage services, allowing for full recovery of all costs, including maintenance and depreciation, and identify any "funding gap" caused by a shortfall between projected tariff revenue and costs.
	6.5	Advertise internationally for Expressions of Interest from private sector operators. If sufficient interest exists to create contestability of supply, then issue tender documents to compare cost proposals with government operated supplies.
	6.6	Develop policy on extent of benefits of operating water supply and sewerage services, and solid waste management, as Corporations, or offering concessions to the private sector to operate these services. This decision should be made in the light of the projected capital expenditure required in the short term for solid waste management.
	6.7	If the policy provides for private sector participation in water and sewerage services, and sold waste management, develop appropriate regulatory frameworks, including environmental considerations and safeguards, and severe penalties for non compliance (since in some areas this could be detrimental to the tourist industry).

7.6 Palau Public Utilities Corporation

542. Two independent studies of Palau Public Utilities Corporation (PPUC) have recommended significant (over 50%) tariff increases, and a need for more frequent tariff revisions in order to keep pace with rapidly increasing international oil prices.
543. Significant investments will also be required to replace generators which are at the end of their economic life.
544. In addition the following observations provide context:
- i) The Corporation has reported increasing operating losses since 2001, although these were partly offset in 2001 and 2002 by non operating income (the source of which is not clear);
 - ii) The Board of Directors is stated to have pursued strategies to breakeven, although this has plainly not been achieved;
 - iii) Based on information in other consulting reports, no action has been taken to adjust tariffs to reflect increases in costs apart from fuel costs;
 - iv) The tariff adjustment clause creates “lags” in cost recovery, because it can only be activated quarterly, leaving PPUC to cover increased fuel costs in the intervening period;
 - v) There is limited ability to control costs, since some 77% of costs relate to fuel purchases;
 - vi) Deferred maintenance on diesel engines has led to poor fuel economy and costly repairs, some of which may have been avoided;
 - vii) As with PNCC, the Corporation must use internal cross subsidies to cover low density areas where costs are significantly higher than tariffs, because of universal service obligations;
 - viii) There are synergies between work on alternative energy being undertaken within the Energy Office of the BPW and PPUC planning, but these are only likely to be achieved if the two groups are merged;
 - ix) There is scope for encouraging Independent Power Producers (IPPs), who have expressed interest in the past, but not produced substantive proposals because the tariff levels offered have been uneconomic. However, these tariff levels have also been uneconomic for PPUC, as demonstrated by the financial reports;

- x) If proposed turnaround plans are insufficient to achieve the desired results, it may be necessary to consider further privatization, through contract management or a long term concession.
545. If GOP is not prepared to face substantial and ongoing subsidies for the electricity sector then significant improvements are required. GOP will be better placed to demonstrate to donors or private sector investors that investment in replacement generating capacity can be justified based on improvements in governance and cost recovery policies aimed at reducing losses suffered by the Corporation. This does not preclude pro poor subsidies.
546. The outcome from the proposed intervention will be a Corporation that has:
- i) more clearly defined business objectives and cost recovery strategies that do not confuse social obligations with the need to run a sustainable business;
 - ii) targeted subsidy policies that provide support for those with limited ability to pay, whilst introducing equitable tariffs for those with an ability to pay;
 - iii) demonstrated to potential donors or investors that electricity generation, transmission and distribution is being undertaken on a sustainable basis;
 - iv) a fallback position that can involve a higher degree of privatization if PPUC is unable to demonstrate that it can operate the sector efficiently at sustainable tariff levels.
547. The following recommended goal, strategies and action plans are focused on creating a financially sustainable institution.

Matrix 11: Palau Public Utilities Corporation Goal and Strategies

Goal: Minimise the need for government support for the sector, thus making it more attractive to private sector investors in the future.

Ref. Number	Strategy	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Responsibility	Cost	Timing
1	Progressive tariff increases to improve level of cost recovery	7.6	9.6	6.4	8.3			
2	Improve attractiveness of sector to investors	9.2	9.4	6.8	8.7			
3	Introduce cost reduction campaign	9.6	9.2	7.8	8.95			
4	Improve governance	9.6	8.6	8.2	8.75			
5	Centralize sector structure and integrate planning	8.2	8.6	6.0	7.85			
6	Consider inviting private sector to invest in sector	8.0	8.4	7.2	8.0			

Matrix 12: Palau Public Utility Corporation Action Plan

Strategy	Action No.	Action
1 Progressive tariff increases, to increase level of cost recovery.	1.1	Identify extent of cross subsidies for low population density areas implicit in existing tariffs.
	1.2	Review policy positions on USOs and cost recovery, including proposed subsidies for following three years, possibly through targeted subsidies, rather than block grants. This analysis should consider differential costs of servicing less profitable locations, and ability to pay amongst low income families.
	1.3	Commence and maintain a public information campaign on cost structure and need for tariff increases, and associated performance improvement strategies.
	1.4	Introduce further short term tariff increases, with monthly reviews based on fuel costs and annual reviews to ensure recovery of other costs.
	1.5	Ensure rigorous disconnection policies for non payment of electricity bills. Quarterly list of defaulters to be provided to Ministry and the public.
2 Improve sector attractiveness to investors.	2.1	Develop regulatory regime and pass necessary legislation, including policies on tariffs and cost recovery that will apply to all future service providers. The regulatory regime will include reference to equipment maintenance and USO obligations.
	2.2	Ensure that all electricity use is paid for – for instance including full cost recovery for street lighting.
3 Introduce cost reduction campaign.	3.1	Request Directors and senior management of PPUC to provide a costed and itemized list of opportunities for cost reduction. (This may be of only limited impact, since little can be done about fuel costs, and the risks of deferring maintenance. It will, however, focus attention on the need for a cost containment action plan).
	3.2	Introduce demand management, to reduce electricity consumption, and therefore the need for additional generating capacity.
4 Improve Governance.	4.1	Introduce improved oversight of annual business plans by the Ministry of Finance, (in line with governance recommendations made earlier).
	4.2	Introduce competitive benchmarking, to provide an independent assessment of cost structures and

		efficiency
	4.3	Consider possible benefits from merging PPUC and PNCC. If attractive, develop detailed action plan.
5 Centralize sector structure and integrate planning.	5.1	Transfer Energy Office from Ministry of Resources and Development to PPUC. Integrate planning for renewable energy into a single national Medium Term Development strategy.
6 Consider inviting private sector to invest in sector	6.1	Determine the capacity of GOP to finance equipment purchases necessary under the JICA Draft Medium Term Development strategy, or alternative funding options, such as a long term concession for a private sector operator to run one generation plant on a pilot basis. If a decision is made to follow concession strategy then a prerequisite will be development of quantified generation capacity statements, indicative assessment of tariff levels and price escalation clauses (including non fuel costs), and safeguards required by GOP, such as maintenance levels and inspection requirements, as well as guarantees to be offered by GOP to the successful bidder.
	6.2	If revised Business Plan projections from PPUC Board of Directors indicate on going financial losses, after making adequate provision for equipment depreciation and maintenance, and factoring in universal service obligations, then GOP move to inviting a Contract Manager for a three year contract, or offering all electricity supplies on a medium term (10 year) basis.

7.7 Health and Education Sectors

548. Working Paper 5 considers possible opportunities for greater private sector participation in the health and education sectors. In addition, a much more detailed assessment of sector performance has been provided by the Social Services Consultant in the separate FEIM health and education papers.
549. The goal, strategies and action plan set out below focus on increasing the level of private sector participation in the sector; adjusting input costs where necessary, to recognize actual employment inputs, and achieving cost recovery contributions from the private sector where it uses government resources.
550. The proposed action plan is not onerous. It is expected that it can be completed by existing staff as part of their normal duties. This may mean some short term prioritization of existing responsibilities, but once completed the work will only involve an annual review of arrangements.
551. If the private sector Expressions of Interest indicate that they can undertake school transportation and/or lunches at a lower cost, then some additional work on defining contractual terms and conditions will be required. This will not require complex contracts, and should be within the capacity of existing staff to complete the necessary work and provide ongoing supervision.

Matrix 13: Health and Education Sectors Goal and Strategies

Goal: Reduce costs through private sector participation

Ref. Number	Strategy	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Responsibility	Cost	Timing
1	Open up selected services to private sector	9.0	8.75	8.25	8.68	MOE MOH	Existing	2009
2	Achieve full cost recovery from private sector	7.25	9.5	6.25	8.1	MOH	Existing	2009

Matrix 14: Health and Education Sectors Action Plan

Strategy	Action No.	Action
1 Open up selected services to private sector.	1.1	Identify total costs of selected services including bus transport, school lunches and building maintenance
	1.2	Define safeguards necessary for provision of these services, in particular vehicle maintenance and replacement costs, and safety standards
	1.3	Invite private sector Expressions of Interest in providing these services. Compare these costs with costs of Government provision of services
2 Achieve full cost recovery from private sector.	2.1	Identify fair and reasonable commercial rental rates for space to be provided to private sector operators using government facilities
	2.2	Identify ancillary services to be provided e.g. cleaning, and who is normally responsible for providing these services. Ensure that these services are included in cost proposals
	2.3	Draft simple tenancy agreements, indicating responsibilities of both landlord (Ministry) and tenant
	2.4	Notify tenants of rental decision, and relevant responsibilities of landlord and tenant.

7.8 Malakal Port

552. Malakal port already operates as a “landlord port” with stevedoring operations on a now expired concession, which is being renewed on a month by month basis. The basis for determining payments by the concessionaire could not be ascertained at the time of the study, because contract documents were unavailable. However, it is known that GOP is not reimbursed for services it provides relating to port security.
553. The fact that the concession has expired means that this is an excellent time to negotiate additional terms and conditions associated with a short term (3–5 years) extension of the concession, to provide both Koror State and the concessionaire greater certainty in planning investments and operations, and to allow time for more detailed assessments to be made of alternative port facilities at other locations at Peleliu or Ngardamu. Any plans for new port(s) are likely to have significant economic and social impacts, which will require careful examination, as will associated logistical implications.
554. In view of the limited time frame involved, it is not envisaged that competitive bidding for the concession should take place. However, the opportunity should be taken to secure cost recovery for services provided by GOP, as well as market rates for land use provided by Koror State.
555. There are no regulatory controls to prevent abuse of the monopoly position held by the operator, or any future operator, in terms of stevedoring charges for handling cargo.
556. The rankings provided below are those of the consultant who worked on the matter, not the Project Steering Committee, since the diagnosis of port requirements had not been completed at the time of the presentation to the Committee.

Matrix 15: Malakal Port Goal and Strategies**Goal: Short term security of supply**

Ref. Number	Strategy	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Responsibility	Cost	Timing
1	Improve Cost Recovery	7.0	9.0	6.0	7.75	Koror State MOF MOCT	Existing	2009
2	Introduce Safeguards relating to monopoly position	8.0	8.0	8.0	8.0	MOF MOCT	\$41,500	2009
3	"Gain time" whilst future port requirements are evaluated	9.0	8.0	7.0	8.0	Koror State	Existing	2008 - 09

Matrix 16: Malakal Port Action Plan

Strategy	Action No.	Action
1 Improve Cost Recovery.	1.1	Identify costs of all services associated with the port and port operations, including navigation aids, infrastructure (wharf etc), dredging, and port security.
	1.2	Identify infrastructure that the concessionaire is responsible for maintaining, and obligations, if any, to maintain this in serviceable condition.
	1.3	Clarify ownership of this infrastructure, and its market value, for consideration if extension of the concession cannot be extended by mutual consent.
	1.4	Clarify which charges are responsibility of port operator (concessionaire) and which are the responsibility of ship owner. (For instance, cost recovery for dredging or maintenance of navigation aids may fall outside the concession contract, if it is only for stevedoring).

	1.5	Produce proposed payment schedule from concessionaire to Koror State and GOP to cover extension of concession.
2 Introduce Safeguards relating to monopoly position	2.1	Obtain samples of legislation relating to other port operations
	2.2	Develop regulatory regime and pass necessary legislation, including policies on tariffs and cost recovery that will apply to all future service providers. The regulatory regime will include reference to equipment maintenance.
	2.3	After consultation with concessionaire, incorporate regulatory framework into contract conditions to ensure protection against monopoly abuse.
3 "Gain time" whilst future port requirements are evaluated	3.1	GOP and Koror State to reach agreement on cost recovery elements for future tariffs.
	3.2	GOP to make policy decision on timing for any detailed feasibility study for new port(s), and the time frame required to complete such a study. This will influence (i) Koror State planning for extension of concession; (ii) the duration of contract extension, which should correspond to any future development of alternative or replacement port: (iii) the attractiveness of Malakal port for future investment by the concessionaire
		If policy is to consider development of an alternative port, then negotiate extension to existing concession, but with the introduction of full cost recovery for all services provided, recognizing that the port operator will incorporate any such charges into the stevedoring rates charged to cargo owners and ship owners. The duration of the contract extension is to be sufficient to allow for completion of feasibility study and associated policy decisions and development of a new port(s). If the policy decision is to defer consideration of an alternative port then consideration should be given to competitive bidding for longer term operating rights. This will require a more detailed action plan.

8. Environment Strategies and Actions

8.1 Key Issues

557. In summary the main issues to be addressed in relation to environmental management are:
- i) Lack of over-arching policy framework;
 - ii) Outdated and cumbersome regulatory framework within a system of insufficient resources and capacity to fully implement;
 - iii) Over-lapping mandates and functions in resource management roles at national level;
 - iv) Insufficient funding from national government leading to difficulties of hiring staff and undertaking evaluation, review, monitoring, compliance, and enforcement activities; and
 - v) Ongoing tensions between state and national government as to land and resource ownership and management.
558. The Environmental Management Action Plan, presented in Matrix 17, summarizes the priority strategies and actions for the environment sector, indicating the level of priority, responsibility for implementation, indicative cost and proposed timing. A brief narrative explanation is presented in the following sub-sections.

8.2 Strategy 1 – Update and Improve Key Legislation

559. The EQPA was adopted during Trust Territory times and was largely adapted from the US's National Environmental Protection Act, it needs to be revised to better reflect the Palau political, administrative and socio-economic context and capacity to implement and enforce its various provisions, and be updated to include risks that were not applicable or identified when the EQPA was approved.
560. The ways the process can be streamlined need to be reviewed. This includes the assessment of how appropriate a "one-stop-shop" approach for project approval and permit applications could be within the Palau development context, particularly addressing the links that can be made between various state and EQPA requirements.
561. The key actions required for achieving the strategy include:
- i) Review, update and strengthen enabling legislation (EQPA and Regulations); address inadequacies and gaps (i.e. agricultural activities not covered by Earthmoving Regulations) include additional regulations (e.g. vegetation clearance);
 - ii) Establish minimum environmental standards for resource other than water; and, address previously unforeseen risks including climate change and bio-security;

- iii) Further investigation of permit approvals and EA process; simplify the procedures for permit applications and clearly define the triggers for EA and EIS. This includes a review of the number and type of permits required for different activities and the possibility of streamlining the process;
- iv) Complete, and/or approve existing drafts of laws e.g. climate change, energy conservation and bio-security;
- v) Within, or following the framework established under the SLMP, support states to establish zoning rules and regulations, building codes (with priority given to where intensive development is likely in the near future);
- vi) Address element of SLMP (zoning regulations, rules and building codes) omitted from current project through engagement of planner to assist states; and
- vii) Revise and expand Endangered Species Act to cover additional species.

8.3 Strategy 2 - Strengthen the Environmental Management Policy Framework

562. A key issue in respect of environmental management is the lack of any overarching policy framework to meet the basic resource management needs and achieve the defined vision and goals as identified in the NMDP and guide future planning and development activities.
563. The NMDP clearly set out a tiered approach to master planning starting with the definition of a national vision and national goals which are to be supported by national strategies, policies, programs and activities. However, these latter mechanisms have been lacking and result in the absence of a cohesive development framework.
564. In order to fill the gaps in the existing framework envisaged in the NMDP, policies in each of the key sectors establishing how different levels of government, including civil society organizations, fit into the framework are required. National policies will provide the objective statement, guidelines and minimum standards in terms of resource protection and resource management; sectoral environmental management policies at ministry level will focus the national objective statements and guidelines; strategic action plans will set out the key activities and tasks of each sector and management plans will provide the mechanisms for 'operationalization' of the strategic action plans.
565. Such an over-arching framework will provide a mechanism for integrated resource management, for e.g. watershed planning linked with land-use practices and forestry management while also recognizing the complexities of managing the coastal zone, and energy planning linked with CRMA, land-use, and building codes.
566. The key actions required for achieving the strategy include:
- i) Complete the national (over-arching) policy and regulatory framework; prepare and/or complete AND implement management policies for key sectors such as forestry (including mangroves), minerals, water, watershed management, and,

energy; incorporate CRMA into existing policies; and, ensure policies and plans comply, or link, with key national action plans prepared to meet requirements of international conventions;

- ii) Address land use issues (i.e. few functioning land use plans) based on integrated management approach (recognising links between land and water management, community participation in sustainable land management, and recognising importance of CRMA);
- iii) Mainstream environmental considerations (as per national framework) in planning process; incorporate environmental management including CRMA requirements and targets in state plans, sector plans (agriculture, tourism, infrastructure, energy etc) and development strategies; and
- iv) Establish a national strategic plan for environmental response linked with updated Disaster Management Plan (identifying CRMA mechanisms).

8.4 Strategy 3 – Strengthen and Simplify Environmental Management Structure

567. In respect of the environmental management structure, the key areas that need to be addressed include: (i) lack of singular institutional arrangements – at bureau and division level - for environmental protection and resource management because of over-lapping mandates and jurisdictions of many government agencies and advisory councils; (ii) conflicts between service delivery requirements of the agriculture, forestry, and fishery sectors in terms of facilitating production and over-arching environmental management needs such as forest policy and management, watershed management, sustainable land use development, and degraded land rehabilitation; and (iii) lack of capacity (staff, skills, and resources).
568. The lack of an overall policy framework is a stumbling block for the different agencies and stakeholders that can make contributions to resource and environmental management. Once the key policy areas are addressed, as per Strategy 2, the national policy framework will facilitate much simplified institutional arrangements. The activities of bureaus and states can then be focused to key activities, such as management plans, that will comply with minimum environmental standards.
569. Given that climate change adaptation is a stated priority within the national agenda it is considered that including the Energy Office within the MNRET rather than MPIIC is appropriate as there are numerous links between energy policy and CRMA, and links between energy planning and minerals development in respect of the petroleum sector. The lack of policy in the energy and minerals sectors is a key area addressed by the Action Plan.
570. The key actions required to achieve this strategy include:
- i) Clearly define bureau and division roles and responsibilities within MNRET to ensure that jurisdictions do not overlap and duplication (“over-management” of resources) is removed; clarify and formalise the functions of OERC within MNRET; Energy Office to be included in MNRET (recognising conservation and climate

- change aspects of management);
- ii) Review and revise the roles, objectives, functions, governance arrangements, and specific regulatory requirements and procedures of the EQPB to simplify and streamline requirements;
 - iii) Ensure appropriate staffing for bureaus, divisions, Energy Office, and EQPB; support additional staff recruitment for EQPB Office as identified in NMDP if still required under streamlined structure;
 - iv) Ensure mineral resources are addressed and covered in new structure (MNRET);
 - v) Ensure Office or division of MNRET with similar functions to OERC has mandate to ensure that provisions of international agreements are complied with at sector level and requirements are mainstreamed into sector strategies and plans; and
 - vi) Request TA to review organisation structure, roles and responsibilities of Executive Order originally establishing MRD to address above issues (Action Plan items 3.1 – 3.5 and 10.4) for MNRET and to enable Action Plan item 2.1; make recommendations as appropriate pursuant to new organisation; address staffing requirements of MNRET and EQPB. As the new ministry will take effect in January 2009, this action has urgent priority to ensure that existing problems are not carried over into MNRET.

8.5 Strategy 4 – Fully Support States in Resource Management

571. States have a crucial role in effective resource management. States have established, and manage, protected areas, and have established State Public Land Authorities (SPLA), although the SPLA is not functioning adequately in all states. Recognizing that the existing tensions between national and state governments in respect of resource ownership and management can be detrimental to effective environmental management, supporting any initiative that is driven by the states themselves is much more likely to meet with success than nationally imposed initiatives, irrespective of how sensible or necessary the national initiatives might be.
572. As long as management of state resources complies with national policy and law, a state is able to enforce more stringent or additional measures if it chooses, as Koror has done in some cases. This would mean that minimum environmental standards are set by national government by way of regulations and/or policy, and states (with support from bureau and division level) prepare and implement key resource management plans such as watershed management plans, protected area management plans and sustainable land use plans.
573. The key actions for achieving this strategy include:
- i) Clearly define the role of, and support states in, environmental management; states have flexibility to comply with national framework in a manner in-keeping with their own context and capacity;
 - ii) Improve state capacity for environmental management through government funded

- expertise (environmental, engineering, surveying) - as a shared resource – to assist states in complying with national environmental management framework;
- iii) Encourage states to work together in respect of trans-boundary resources and issues (such as BWA model);
 - iv) Bureau and division level agencies of MNRET to support and assist states in preparing and implementing key resource management tools such as watershed plans, protected area management plans and land-use plans; and
 - v) Facilitate better communication between national and state levels through regular formal forum to discuss resource management issues and CRMA.

8.6 Strategy 5 – Improve Enforcement and Compliance

574. Monitoring and enforcement, at both national and state level, is patchy. This is associated with (i) a general lack of capacity (staff and financial resources) and, (ii) over-lapping mandates and jurisdictions.
575. The EQPB has advised that there are many instances where violation notices are not being served or followed up as a result of lack of capacity and resources, and that EQPB is probably only performing about half of its required mandate. While improved compliance monitoring would strengthen enforcement capabilities, there is a need to improve inspection-related performance, including adequate follow-up and final inspections. EQPB notes that currently follow-up inspections are usually only undertaken in response to a complaint or problem.
576. The key actions required for achieving this strategy include:
- i) Retaining an independent process and agency with mandate for monitoring, compliance and enforcement of “umbrella” legislation;
 - ii) Strengthen enforcement capabilities and improve compliance monitoring; improve performance in respect of inspections; improve cooperation between agencies and State Rangers; and
 - iii) Support Endangered Species Program in new bureau of MNRET (will allow for resource sharing) to enforce existing and new regulations.

8.7 Strategy 6 – Improve Infrastructure to Support Environmental Management

577. Key infrastructure that is supportive of sound resource management includes energy development including conservation and opportunities for renewable energy, appropriate water and sanitation services, and sound waste management (including minimisation and recycling).
578. This strategy recognises the important links between infrastructure provision and the management of environmental impacts, and is based on the premise that improving infrastructure (particularly maintenance) is supportive of sustainable development and

environmental management.

579. To this end, mainstreaming of nationally set environmental management policies into the plans and development strategies of the infrastructure sector is critical. Infrastructure is the sector that has been most lacking in terms of integration of environmental management and CRMA mechanisms. This has been addressed in the preparation of the MTDS through coordination and cooperation between the relevant specialists and integration and mainstreaming of relevant environmental management requirements in the infrastructure action plan as well as endorsement of actions pertaining to conservation strategies and policy development in the infrastructure sector by this Action Plan.

580. Key Actions required for achieving this strategy include:

- i) Complete and implement energy (including renewable sources and conservation) policy linked with CRMA; develop and implement a comprehensive energy conservation program for all government facilities and ability to impose sanctions for non-compliance;
- ii) Implement solid waste management strategy; management plans to identify coastal zones and other sensitive environments as “no go” areas for landfill sites;
- iii) Work with Tourism Action Plan Committee to promote waste control and minimization and recycling within tourism sector;
- iv) Establish a comprehensive and effective water conservation strategy and program; ensure water management and conservation included as part of mandate of MPIIC; work with OERC and EQPB on water quality and drought mitigation issues.

8.8 Strategy 7 – Improve the General Capacity for Environmental Management

581. Strategy 7 recognises the need to support across-the-board resource management initiatives (from national through to community levels) and actions and increase awareness generally about the need and nature of environmental management.

582. An important component of this overall strategy is supporting the initiative to establish a Micronesian Centre for A Sustainable Future (MCSF), the proposed functions of which include: (i) provision of research and knowledge management, development and administration; (ii) a strategic “think tank” for sustainable development for the Western Micronesia Chief Executives’ Summit (WMCES), Micronesian Presidents’ Summit (MPS), and the Micronesia Challenge; and, (iii) office of Research and Development of the University of Guam.

583. The key actions required to achieve this strategy include:

- i) Establish a regular forum for national-state cooperation on resource management, zoning, land use planning and other policies affecting the use of land;
- ii) Support establishment of a regional centre for sustainable development (MCSF) to improve regional coordination of development strategies and programs;

- iii) Support a community awareness function so that the community can (i) understand need for resource management, compliance and monitoring; (ii) risks such as climate change (iii) potential value of land and how to realize that land for their benefit; and (iv) understand and address any adverse impact on the environment from economic development and economic uses of land;
- iv) Support NEPC and PNRC to reconvene and hold regular meetings;
- v) Improve coordination, raise awareness and improve community education; increase knowledge and integrate with custom, strengthen community based organisations (such as BWA) & NGOs; and
- vi) Develop and implement an environmental training program highlighting cross-cutting issues.

8.9 Strategy 8 – Ensure Adequate Funding for Environmental Management Activities

584. EQPB only receives about two-thirds of its required operating budget on an annual basis. Currently the EQPB does not collect all revenues to which it is entitled under the EQPA and various regulations (i.e. charges for water quality testing and reimbursement for expenses associated with inspections and EIS review), and the revenue generated by EQPB from permit applications goes into general National Treasury funds rather than into a separate account that can be used for EQPB's activities. Thus there is no incentive for EPQB to collect all revenue to which it is entitled under the EQPA because it is not ear-marked for use by EQPB.
585. The key actions required to achieve this strategy include:
- i) Promulgate statute that permits EQPB to charge for water quality testing and monitoring and charge an environmental impact fee (could be linked with performance bond recommended in Economics working paper);
 - ii) EQPB supported to exercise duties under EQPA and EIS Regulations to seek reimbursement for inspections and miscellaneous expenses related to permit applications and EIS review;
 - iii) Permit fees and reimbursement of expenses to be separated from National Treasury and used solely for activities and operations of EQPB i.e. allow permit application charges to be used for inspections and monitoring; and
 - iv) Ensure baseline operational needs of resource management agencies are met; improve existing monitoring capabilities by addressing lack of equipment, appropriately trained personnel, and operational budgets.

8.10 Strategy 9 – Improve Environmental Management Monitoring and Evaluation

586. Similar to capacity weakness in respect of enforcement of existing regulations, monitoring and evaluation capabilities are also constrained. The most serious deficiency is the lack of systematic baseline data collection.
587. The key actions required to achieve this strategy include:
- i) Improve evaluation, prioritisation and monitoring techniques through establishment of policies and plans formulated with a framework for evaluation of investments that takes into consideration environmental impacts;
 - ii) Establishment and/or updating of flora and fauna baselines and databases through systematic survey (by which to improve planning and monitor effectiveness of management plans);
 - iii) Sector plans include environmental targets;
 - iv) EQPB to develop and implement procedures that include other appropriate government agencies in the EA/EIS review process; identify bureau, office or division within MNRET to be tasked with role of coordinating responses on EIS and permit applications from government agencies;
 - v) Ensure EQPB has resources to undertake follow up and final inspections for permit applications;
 - vi) Energy Office to prepare compliance reports and set realistic targets for conservation for each sector; and
 - vii) Energy Office to prepare annual reports; energy conservation issues to be addressed in annual performance reviews.

8.11 Strategy 10 – Improve Collation and Management of Data

588. The effectiveness of data collection for monitoring and evaluation is integrally linked with a satisfactory data storage and management system. Currently there is a lot of environmental information collected in Palau, this is housed in various locations with different types of access arrangements. There should be a consolidated information base of what information is available and where it may be accessed. This would also remove a lot of duplication of effort.
589. The key actions for this strategy include:
- i) Coordinate data made available from initiatives and programs; share task between EQPB and PALARIS;
 - ii) Assist EQPB to establish new database for monitoring and compliance audits; expand environmental statistics base in line with SPREP requirements; and

- iii) Publicise availability of EQPB data as resource for information provision and planning.

8.12 Funding

- 590. The total cost of the Action Plan is \$1.185 million.
- 591. The Government is unlikely to borrow money for sectors or activities that are not revenue generating. Therefore it is important to identify potential funding agencies from which grants could be sought for the higher priority elements of the Action Plan.
- 592. Under the Climate Change Fund (CCF) resources can be accessed as part of a new ADB project, or as an addition to an ongoing project. The funding that might be available from the CCF to aid in the implementation of the environmental management action plan is discussed in the separate FEIM (2008) report: Environmental and Natural Resources Development Action Plan.

Matrix 17: Environmental Management Action Plan

Goal: To protect, conserve, and manage the environment and natural resources of Palau for present and future generations of Palauans while providing for sustainable social, cultural, and economic development.

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
1. Update and improve legislation	1.1	Review, update and strengthen enabling legislation (EQPA and Regulations); address inadequacies and gaps (e.g. agricultural activities not covered by Earth Moving Regulations) include additional regulations (e.g. vegetation clearance); establish minimum environmental standards for resources other than water; and, address previously unforeseen risks including climate change and bio-security	8.4 (7)	MOJ; EQPB; MNRET + Consultant	250,000	Year 2
			9.5 (1)	In order to facilitate various actions in strategies 2 and 3, this action is considered very high priority in the technical assessment and is recommended for implementation in Year 1		
	1.2	Simplify procedures for permit applications and clearly define triggers for EA and EIS	8.4 (7)	MOJ; EQPB; MNRET + Consultant	Incl. in 1.1	Year 2
	1.3	Complete and approve existing drafts of laws e.g. climate change, energy conservation, and bio-security	7.7 (12)	MOJ; EQPB; MNRET	Incl. in 1.1	Year 3
	1.4	Within, or following, framework established under the SLMP, support states to establish zoning rules and regulations (recognising need for CRMA mechanisms), and building codes (with priority given to states where intensive development is likely in the near future)	9.5 (1)	States; MNRET + Consultant	Incl. in 1.5	Year 1
	1.5	Address element of SLMP (zoning regulations, rules and building codes) omitted from current project through engagement of planner to assist states	9.5 (10)	States; MNRET + Consultant	350,000	Year 1
	1.6	Revise and expand Endangered Species Act to cover additional species (CITES issues)	6.3 (16)	MOJ; MNRET + Consultant	Incl. in 1.1	Year 5
2. Strengthen environmental management framework	2.1	Complete national policy and regulatory framework; prepare and/or complete management policies for key sectors such as forestry (incl. mangroves), minerals, water, watershed management, energy; incorporate CRMA into existing policies; and, ensure policies and plans comply or link with key action plans prepared to meet requirements of international conventions	8.6 (4)	MNRET;	Incl. in functions of MNRET	Year 1
	2.2	Address land use issues (i.e. few developed or functioning land use plans) based on integrated management approach (recognising links between land	8.3 (7)	States; MNRET	Incl. in 1.1 and 1.5	Year 2

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		and water management, community participation in sustainable land management); recognise importance of CRMA in integrated land use management plans				
2. Cont... Strengthen environmental management framework	2.3	Mainstream environmental considerations and CRMA (as per national framework) in planning process; incorporate environmental management requirements and targets in state plans, sector plans (agriculture, tourism, infrastructure, energy etc) and development strategies	8.0 (10)	MNRET; TAP Committee; Energy Office	Incl. in functions of MNRET	Year 3
			9.0 (2)	In order to facilitate various actions in strategy 3, this action is considered very high priority in the technical assessment and is recommended for implementation in Year 1		
	2.4	Establish a national strategic plan for environmental response linked with updated Disaster Management Plan (identifying CRMA mechanisms)	8.0 (10)	MNRET; NEMO	Incl. in functions of MNRET + NEMO	Year 3
3. Strengthen and simplify national environmental management structure	3.1	Clearly define bureau and division roles and responsibilities within MNRET to ensure jurisdictions do not overlap and duplication ("over-management" of resources) is removed; clarify and formalise functions of OERC within MNRET; Energy Office to be included in MNRET (recognising conservation and climate change aspects of management)	9.0 (2)	MNRET Consultant +	Incl. in 3.6	Year 1 (ref. 3.6)
			8.0 (10)	EQPB Consultant +	Incl. in 3.6	Year 3
	3.2	Review and revise the role objectives, functions, governance arrangements, and specific regulatory requirements and procedures of the EQPB to simplify and streamline requirements	9.0 (2)	This action is considered high priority in the technical assessment and ideally would be undertaken as part of action 3.6, and therefore is recommended for implementation in Year 1		
			8.2 (8)	MNRET Consultant +	Incl. in 3.6	Year 2
	3.3	Ensure appropriate staffing for bureaus, divisions, Energy Office, EQPB; support additional staff recruitment for EQPB Office as identified in NMDP if still required under simplified or streamlined (as above) structure	9.0 (2)	This action is considered high priority in the technical assessment and ideally would be undertaken as part of action 3.6, and therefore is recommended for implementation in Year 1		
			5.6 (17)	MNRET Consultant +	Incl. in 3.6	Year 5
3.4	Ensure mineral resources are addressed and covered in new structure (MNRET)	8.2 (8)	Ideally this action would be undertaken as part of action 3.6, and therefore is recommended for implementation			

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
				in Year 1		
	3.5	Office or division of MNRET with similar functions to OERC has mandate to ensure that provisions of international agreements are complied with at sector level and requirements mainstreamed into sector plans	9.5 (1)	MNRET Consultant +	Incl. in 3.6	Year 1
	3.6	Request TA to review organisation structure, roles and responsibilities of Executive Order originally establishing MRD to address above issues (3.1 – 3.5 and 10.4) for MNRET and to enable 2.1; make recommendations as appropriate pursuant to new organisation; address staffing requirements of MNRET and EQPB.	9.5 (1)	Consultant	\$25,000	Immediately <i>N.B. NEEDS PRIORITY ATTENTION AS MNRET EFFECTIVE FROM JAN 09</i>
4. Fully support state level resource management	4.1	Clearly define role of, and support states in, environmental management; states have flexibility to comply with national framework in manner in-keeping within their own context and capacity	8.2 (8)	States; MNRET	No cost	Year 3
	4.2	Improve state capacity for environmental management - government to fund an environmental specialist and adequate engineering and land survey expertise – as a shared resource - to assist the states in complying with national environmental management framework	8.3 (7)	States; MNRET	Incl. in Economic Action Plan	Year 2
	4.3	Encourage states to work together in respect of trans-boundary resources (such as BWA model)	8.1 (9)	States; community based organisations; NGOs	No cost	Year 3
			8.8 (3)	This action is considered high priority in the technical assessment and can be relatively easily facilitated through the SLMP and therefore is recommended for implementation in Year 1		
	4.4	Bureau and division level of MNRET to support and assist states to prepare and implement key resource management plans such as watershed plans, protected area management plans, land use plans	8.0 (10)	States; MNRET	No cost	Year 5
			8.8 (3)	This action is considered high priority in the technical assessment, it supports a number of outputs from SLMP and is recommended for implementation in Year 1		
4.5	Facilitate better communication between national and state levels through regular formal forum to discuss resource management issues and CRMA	5.3 (18)	States; MNRET; MPIIC	No cost	Year 5	

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
5. Improve enforcement and compliance in respect of environmental protection and resource management	5.1	Retain independent process and agency (EQPB) with mandate for monitoring, compliance and enforcement	8.1 (9)	EQPB	No cost	Retains status quo
	5.2	Strengthen enforcement capabilities, improve compliance monitoring and inspection performance; cooperation with State Rangers	7.3 (15)	EQPB; States		Year 5
	5.3	Support Endangered Species Program in new bureau of MNRET (will allow for resource sharing) to enforce existing and new regulations	7.3 (15)	MNRET	No cost	Year 5
6. Improve infrastructure and implement maintenance plans to support sound environmental management; energy conservation, safe and secure water supplies, adequate sanitation, and waste management	6.1	Complete and implement energy (incl. indigenous and renewable sources) policy linked with climate change policy; develop and implement a comprehensive energy conservation program for all government facilities and ability to impose sanctions for non-compliance	8.5 (5)	MNRET – Energy Office	No cost	Year 2
	6.2	Implement solid waste management strategy; management plans to identify areas at risk from climate change, coastal zones and other sensitive areas as “no go” areas for landfill sites;	8.3 (7)	MPIIC	No cost	Year 2
	6.3	Work with TAPC to promote waste control and minimization in tourism sector	8.2 (8)	MPIIC; TAP Committee	No cost	Year 2
	6.4	Establish a comprehensive and effective water conservation program; ensure water conservation included as part of mandate of new MPIIC; work with OERC and EQPB on water quality and drought mitigation issues	7.7 (12)	MPIIC; MNRET; EQPB	No cost	Year 4
7. Improve general capacity for environmental management at all levels	7.1	Establish a regular forum for national-state cooperation on resource management, zoning, land use planning and other policies affecting the use of land	5. (18)	States; MNRET; MPIIC	No cost	Year 5
	7.2	Support establishment of Regional Sustainable Development Centre (improve coordination of development strategies and programs)	8.6 (4)	MNRET; WMCES; MPS + donors	\$500,000	Year 1
	7.3	Support a community awareness function so that the community can (i) understand need for resource management, compliance and monitoring; (ii) risks such as climate change (iii) potential value of land and how to realize that land for their benefit; and (iv) understand and address any adverse impact on the environment from economic development and economic uses of land	7.7 (12)	States; NGOs; civil society organisations; MNRET; PICRC; PCC	Costed in Economics Action Plan	Year 4

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
	7.4	Support NEPC and PNRC to reconvene and hold regular meetings	7.3 (15)	NEPC; PNRC	No cost	Year 5
			8.0 (10)	This is considered relatively easy to implement as the structures are already in place		
	7.5	Improve coordination, raise awareness and improve community education; increase knowledge and integrate with custom, strengthen community based organisations (such as BWA) & NGOs	8.0 (10)	States; NGOs; civil society organisations; MNRET; PICRC; PCC	Nominal above existing costs	Year 3
	7.6	Develop and implement an environmental training program highlighting cross-cutting issues; organisation (e.g. PCC, PICRC or NGO) to develop in cooperation with gov. agencies curricula for government agencies/staff, and deliver program; in-house staff with skills to deliver monthly training sessions	7.6 (13)	States; NGOs; civil society organisations; MNRET; PICRC; PCC	\$75,000	Year 5
8. Ensure adequate funds are allocated for environmental management, compliance and enforcement	8.1	Promulgate statute that permits EQPB to charge for water quality testing and monitoring and charge an environmental impact fee (could be linked with performance bond recommended in Economics working paper)	7.3 (15)	MOJ; EQPB; MNRET + Consultant	Incl. in 1.1	Year 1-2
			8.8 (3)	This action is considered high priority in the technical assessment, it addresses funding shortfalls which directly impact on the effectiveness of EQPB and its ability to fully implement mandate under EQPA. As this can be included in action 1.1 it is recommended for implementation in Year 1		
	8.2	EQPB supported to exercise duties under EQPA and EIS Regulations to seek reimbursement for inspections and miscellaneous expenses related to permit applications and EIS review	7.8 (11)	MOJ; EQPB	No cost	Year 3
			8.8 (3)	As per comment for 8.1		
	8.3	Permit fees and reimbursement of expenses to be separated from National Treasury and used solely for activities and operations of EQPB i.e. allow permit application charges to be used for inspections and monitoring	7.5 (14)	MOJ; EQPB; MNRET + Consultant	Incl. in 1.1	Year 4
	8.4	Ensure baseline operational needs of resource management agencies are met; improve existing monitoring capabilities by addressing lack of equipment, appropriately trained personnel, and operational budgets	8.2 (8)	OEK	No cost (budget)	Year 2

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
9. Improve environmental management monitoring and evaluation	9.1	Improve evaluation, prioritisation and monitoring techniques through establishment of policies and plans formulated with a framework for evaluation of investments that takes into consideration environmental impacts	8.5 (5)	MNRET; EQPB; PICRC; MPIIC	No cost	Year 2
	9.2	Establishment and/or updating of flora and fauna baselines and databases through systematic survey (by which to improve planning and monitor effectiveness of management plans)	8.4 (6)	MNRET; EQPB; PICRC; States	Should be incl. in operating budgets of MNRET; PICRC etc	Year 2
	9.3	Sector plans to include environmental targets	8.5 (5)	MNRET; EQPB; MPIIC	No cost	Year 2
	9.4	EQPB to develop and implement procedures that include other appropriate government agencies in the EA/EIS review process; identify bureau, office or division within MNRET to be tasked with role of coordinating responses on EIS and permit applications from government agencies	8.4 (6)	EQPB; MNRET	No cost	Year 2
	9.5	Ensure EQPB has resources to undertake follow up and final inspections for permit applications;	8.2 (8)	EQPB; OEK	No cost (budget)	Year 2
	9.6	Energy Office to prepare compliance reports and set realistic targets for conservation for each sector; Energy Office to prepare annual reports; energy conservation issues addressed in annual reviews	7.8 (11)	Energy Office - MNRET	No cost	Year 3
10. Improve collation and management of environmental data	10.1	Coordinate data made available from initiatives and programs; share task between EQPB and PALARIS	8.2 (8)	EQPB; PALARIS	Incl. in SLMP	Year 2
	10.2	Assist EQPB to establish new database for monitoring and compliance audits; expand environmental statistics base in line with SPREP requirements	8.2 (8)	EQPB	\$10,000	Year 2
	10.3	Publicise availability of EQPB data as resource for information provision and planning	7.6 (13)	EQPB	No cost	Year 4

Summary total cost: \$1.185 million

9. Tourism Strategies and Actions

593. The Tourism Action Plan (TAP), presented in Matrix 18, summarizes the priority strategies and actions for the tourism sector, indicating the level of priority, responsibility for implementation, indicative cost and proposed timing. The TAP Committee of the Tri-Org arrived at these priority actions and the Tri-Org has endorsed them. The Tri-Org is a joint action group comprising the Boards of Directors of the Palau Visitors Authority (PVA), the Belau Tourist Association (BTA) and the Palau Chamber of Commerce (PCOC). A brief narrative explanation is presented in the following sub-section, outlining the implementation envisaged by the Tri-Org for each strategy and priority action.

9.1 Enabling Environment

594. The objective is to create an environment conducive for tourism business and for taking care of tourism's resource base. The strategy in relation to the enabling environment is to: clarify organizational roles; align the agendas of government agencies to tourism's goals; and create partnerships for solving key issues

9.1.1 Briefing on the Roles of Tourism Organizations.

595. Action 1 is to brief the new Ministry of Natural Resources, Environment and Tourism (MNRET) on the roles of tourism organizations.
596. The TAP Committee will respond to the recent law establishing the MNRET by rapidly reviewing the functions of Palau's tourism organizations and standing ready to brief the new Minister. The aim will be to clarify roles and relationships between MNRET and the agencies of the Tri-Org. In broad terms it is envisaged that MNRET will address national policy issues and ensure the sector's interests are considered within the national environmental and resource management framework at MNRET in all national-level planning. A separate tourism unit within the Ministry is not envisaged. Rather, PVA will provide advice to the Minister as well as undertaking international marketing in partnership with the private sector and deliver product development advice nationally, including to states and businesses. BTA will act as the private sector industry's advocate voice, creating awareness of tourism nationally and coordinating domestic promotions. The PCOC's role will be to promote investment in tourism, facilitate linkages with other industry sectors, as well as contribute to suggestions for policy and institutional changes of general benefit to tourism and the private sector as a whole. The Tri-Org will continue to ensure effective coordination among tourism sector organizations.

9.1.2 Partnership for Environmental Management of Key Tourism Resources.

597. Action 2 is to create a partnership for environmental management of key tourism resources.
598. The Tri-Org will, as the highest priority action, create a permanent means to link the tourism sector with all agencies concerned with environmental management of key tourism resources. The Tri-Org will help the MNRET to facilitate this action. The aim

will be to engage with these agencies - including Koror and other key states, NGOs and EQPB – in a regular forum for identifying and solving environmental management problems of concern to the tourism industry. A key early output will be a tourism capacity assessment addressing overall capacity in respect of services, infrastructure and resources as well as a specific assessment of carrying capacity of the most important tourism sites. Capacity limits could be managed by price-based permit system.

599. The main concerns of the industry center around stress on sensitive environments caused by high visitor volumes without management. The industry wishes to assist with the imposition of constraints on careless tourism operators and to solve site congestion problems. It also wants to help address other issues such as: marine and terrestrial pollution; the protection of marine life from other threats; and funding for national-level promotion of conservation awareness.
600. Preliminary discussions with resource managers have resulted in the idea of a biannual conservation and tourism forum. At this forum, environment problems would be identified, solutions would be discussed, responsibilities for action would be agreed and progress on previous agreed actions would be reported.

9.1.3 Partnerships for Other Priorities

601. Action 3 is to create partnerships to help in other priority issues
602. The Tri-Org will, with approvals and assistance from MNRET, establish arrangements to help concerned agencies to address other issues of concern to the tourism sector. The Tri-Org will oversee these arrangements and coordinate industry support. For example, two issues of immediate concern are: i) enforcement of prostitution laws (the industry wishes to stop any suggestion of sex tourism) and ii) enforcing the authenticity of “made in Palau” labels on souvenirs.
603. Other issues may include: improving telecoms for the tourism sector; infrastructure for tourism; and marine emergency management. The Tri-Org will offer practical help to the concerned government agencies. Whenever regulations and controls are required, the Tri-Org will coordinate industry inputs. As well as helping to solve problems, this action will ensure that the industry stays in touch with the agencies addressing them.

9.2 Markets and Marketing

604. The objective is to position Palau tourism in the world tourism marketplace. The strategy is to: refocus the national tourism product, rebrand the destination, properly fund destination marketing and build effective public/private/partnerships for implementing destination marketing.

9.2.1 Palau's Position as a Quality Holiday Destination

605. Action 4 is to refocus Palau's position as a quality holiday destination.
606. The TAP Committee of the Tri-Org will assist PVA to refocus Palau's position in the

world tourism marketplace. Whereas Palau was previously known as a quality dive destination, its quality positioning has been reduced in recent years though the introduction of cheap group packages. While the accommodation sector in particular needs group packages in the short term, the whole industry recognizes that Palau tourism would be best served in the medium term if its previous quality positioning can be re-established. Palau's reputation as a world-class dive destination needs to be rekindled and other activities, attractions and values need to be added so as to broaden its appeal.

607. The TAP Committee and PVA will lead a branding exercise in a series of workshops aimed at pooling the expertise of tourism industry leaders. The process has already started. Inspiration comes from the fact that the Maldives, a competitive dive-focused destination, has recently successfully branded itself with the brand values of "sunny side of life, relaxed, island life, up market, destination hotels". Palau's brand values are likely to be similar, including "pristine beauty and marine activities associated with relaxed, holiday atmosphere among welcoming people".
608. While this branding work is envisaged as a tourism sector exercise, the resulting brand could be adopted by other sectors as an holistic, Palau products brand. The brand values will be used by PVA to shape its marketing activities and its product development advice. In future, there will be no confusion about where Palau tourism is positioning itself.

9.2.2 Tax Reform and Funding of Marketing

609. Action 5 is to reform the taxes paid by tourists and include a charge to fund destination marketing.
610. The Tri-Org will work with the Ministry of Finance to ensure the industry's views are made clear on tax issues. Of primary concern to the industry is that a portion of the moneys collected from visitors on exit should be dedicated to tourism destination marketing. The industry's motive is to ensure secure and sustainable funding for destination marketing. A "tourism charge" could either come from the Green Fee, \$10 of which is to be directed to the General Fund, or from the existing Exit Tax, all of which is now directed to the General Fund, or from an addition to the Exit Tax specifically for the purpose. A precedent for this has been set with the approval of \$20 of an increase in the exit tax to fund the PAN.
611. The Tri-Org will also carry to MNRET, the industry's concerns about compliance difficulties around the new tax on hotel rooms and vessel cabins. The Room and Cabin Tax (\$10 up \$100 per night per room and 10% thereafter) was introduced in order to address "the problem of under-valuing room charges particularly for certain tour packages". The industry supports this objective but believes the Room and Cabin Tax will prove difficult to administer. The Tri-Org will raise the prospect of an increase in the Exit Tax, on top of the Green Fee and tourism charge, as an efficient alternative to the Room Tax and Cabin Tax. Incorporating the Exit Tax with payments for air tickets is also preferred in order to minimize difficulties for departing passengers.

9.2.3 Targeted marketing

612. Action 6 is to target destination marketing activities to encourage low volume / high spend styles, discourage high volume / low spend styles and avoid undesirable segments.
613. PVA will lead the refocusing of Palau's destination marketing efforts by preparing a marketing plan. The plan will be prepared over a two-year period through discussions with the industry. This will be a practical document based around the idea of an annual marketing cycle. The cycle will include industry participation at key decision times. The brand values arrived at through action point 4 will be articulated and measurable, medium-term marketing objectives will be established around them. Target markets will be listed. Primary target countries are likely to remain: Japan, USA, Europe, Taiwan and Korea. Target segments within these markets will be explained and are likely include: divers; "silver market" (older age group); weddings; sport tourism; and other high spending, special interest market segments. Along with the reliable and consistent market segment of Japanese divers, diving segments from all over the world will be targeted. High spending holiday segments from all Asian countries, including expatriates, and diving clubs in PR China will be included in the targets.
614. Core promotional images to attract these markets are likely to remain diving and snorkeling. New activity images will be added to broaden the appeal, especially around: culture; weddings; and travel for "meetings, incentives, conferences and exhibitions". Other strengths will be emphasized including: clean, safe, stable, language weather, accessibility. PVA will detail marketing action points for each target market, using cost-effective strategies, including Palau government and private sector presence at selected trade shows. The role of representative agents will be clarified and marketing partnerships arrangement with the private sector will be outlined. PVA's expectations on the industry in regard to familiarization trips, etc will be clarified. PVA's approach to collecting and publishing tourism stats will be highlighted.

9.3 Access and Transport

615. The objective is to improve air access. The strategy is to make appropriate adjustments to bilateral air service agreements

9.3.1 Air Service Agreements

616. Action 7 is to review air service agreements with view to encouraging additional carriers, increasing scheduled flights and reducing charter flights
617. The Tri-Org will lead a program to put the tourism sector's perspective to the decision-makers about air service agreements. It will make clear that the industry is strongly in favor of increasing the number of scheduled flights to Palau and wishes to reduce the number of charter flights. For various reasons, Asian airlines have been flying regularly to Palau for many years for key markets but only on a charter basis. While on the positive side, these charters include the dedicated services of an outbound agent in the country of origin, on the negative side they create difficulties for agents and individuals from other countries to access the flights. It is currently very difficult, for

example, for a European agent to book on the routes flown to Palau by charters.

618. While bilateral air service air agreements may not be the problem, they could be a solution. For example, future air service agreements could stipulate that carriers with regular charters will establish at least some flights as scheduled flights. New carriers may be granted a period of charters to prove the route, before scheduled flights begin. The continuation of some charter flights is desirable in the short term to maintain current volumes. However, the prospect of Palau continuing to be a destination dominated by packaged charter flights runs counter to where the industry wishes to position Palau.
619. The industry's test of success of this action point will be whether third-country agents can easily link with all access routes being flown to Palau. The industry respects the commitment to tourism and marketing efforts of Continental Airlines. It wishes to encourage other carriers to do the same and to make similar commitments to marketing Palau.

9.4 Products and Attractions

620. The objective is to diversify and improve the product base. The strategy is to improve existing products and attractions and develop new attractions to match rebranding.

9.4.1 Tourism Development Plan for Babeldaob

621. Action 8 is to Prepare a thematic tourism development plan for Babeldaob
622. The PVA will lead, and the TAP Committee will support and assist, in the preparation of a thematic tourism development plan for Babeldaob. The aim will be to provide advice to the 10 states of Babeldaob on how to respond to the opportunities presented by the Compact Road and to guide the orderly development of tourism throughout the island. The industry predicts that in future a large proportion of tourist visits will include land travel on the Compact Road. The plan will be prepared in collaboration with the Governors Association, with participation of the tourism representative of the 10 states of Babeldaob and with input from the tourism industry through BTA. Technical assistance will be sought for this planning work, which will help realize the development benefits of the Compact Road.
623. The plan will be thematic in the sense that it will identify tourism development themes – types of attractions, styles of development, etc – for each state and differentiate the tourism products around the island to avoid inefficient duplication. The aim will be to encouraging visitors to venture widely throughout the island, thus spreading the benefits of tourism. The plan will include an analysis of internal transportation needs for tourists traveling throughout all 16 states, identifying transport needs for groups and for those who come as FITs and including a review of air and sea transport options to remote states.
624. Social development goals and cultural constraints will be factored into the plan, state by state. The plan will highlight opportunities for private sector investment and for state government actions. Particular attention will be paid to the location of keystone developments such as resorts and golf courses. Appropriate styles and scales of

developments will be suggested. State-level strategies for creating linkages and synergies between private sector tourism developments and the social and environmental protection agendas of the states will be outlined. These strategies may be adopted by the states in their business plans.

9.4.2 “Ecotourism, Palau-style”

625. Action 9 is to develop a training program to assist states foster “ecotourism, Palau-style”
626. PVA will lead, and the TAP Committee will support and assist, a capacity building program for the tourism representatives of all 16 states in techniques to foster community participation in tourism. The industry wishes to encourage states to be proactive in fostering the community benefits from tourism. Tourism will be more sustainable if all future tourism developments engage with the social, cultural and environmental agendas of states, and through the states, with communities. The tourism industry itself will gain and the tourist's experience will be richer if the operations are responsive to local social, cultural and environmental issues. This rationale will be the basis for a uniquely Palauan definition of “ecotourism, Palau-style”, as “tourism based on nature and culture that contributes to the social, cultural and environmental agendas of the host state”.
627. With the support of the industry through BTA, PVA will convene a committee comprising MNRET, the Ministry of Community and Cultural Affairs, the Palau Community College, the Palau Conservation Society, other NGOs, the Small Business Development Center and Koror State. This committee will oversee preparation and steer implementation of a capacity building program for the state tourism representatives. The aim will be to provide the tourism representatives with the knowledge, skills and confidence needed to guide the development of tourism in the state. A national-level training workshop will be followed by traveling seminars taking participants around selected states, working with the tourism representative of that state to envisage his or her approach. Training topics will include: how communities can access assistance for the care of natural and cultural heritage sites; how to approach communities with tourism development ideas; how to stimulate the development of small, locally owned businesses associated with natural and cultural sites; how to foster partnerships between private sector tourism operation and the states. Technical assistance will be sought to plan and facilitate this training project. Training expertise will be sourced within Palau.

9.4.3 Enhancing the Tourist Appeal of Malakal, Koror, Ngerkebesang and Airai

628. Action 10 is to advocate enhancing the tourist appeal of Malakal, Koror, Ngerkebesang and Airai
629. BTA will lead the advocacy for more attention to aesthetic qualities and tourist attractions of the central tourism areas of Malakal, Koror, Ngerkebesang and Airai. The industry feels the need for general attention to: beautification of the urban environment; the creation of tourist-friendly precincts, including shopping areas; and the development of culturally focused tourist attractions. The industry's appreciation of

these needs has come from feedback from visitors. Beautification is required to enhance the initial impression of Palau and to deliver on promotion of environmental quality. Tourist-friendly shopping precincts are required in order to give visitor something to do in between diving or on wet days. Visitors report a desire for more cultural attractions.

630. The industry also feels that a cultural centre of some kind is required to tell the historical stories and explain the lifestyles of the peoples of Palau and promote travel to remote areas. This could be associated with the existing Cultural Centre in Koror and the museums of Koror. It could be owned and operated by the private sector. In any event it should be a focal point for promoting travel to remote areas for educating visitors about the cultures of Palau and about appropriate behaviors when visiting local communities. BTA's advocacy program will include regular events to enhance tourism awareness for politicians and senior public servants, an ongoing dialogue with EQPB, and regular meetings with the Koror State on urban planning issues.

9.4.4 Tourist Cruise Visits

631. Action 11 is to evaluate the potential for tourist cruise visits and visiting private vessels and address constraints.
632. PVA and BTA will cooperate in a study to examine the growth potential of the cruise and visiting private vessels markets. The industry sees the need to investigate satisfaction levels of cruises that currently come to Palau and, importantly, to investigate the reasons for those not coming to Palau. The basis for the industry's interest is that cruise tourism is currently growing strongly throughout the world (11% per year between 2000 and 2005). Southeast Asia grew 950% in 2006 to capture 0.75% of the world market. In the same year, South Pacific cruising increased 120% to 1.78 % of the world market.
633. Cruisers are a high spending market. 82% of cruisers worldwide are American. The average spend in 2006 was \$1,690 per person/week. Hong Kong, Singapore and Taiwan are developing as Asia's cruise centers. Three large corporations share 80% of the world cruise market. The industry's feedback from cruises is that the marine attractions are positive for Palau, lack of channel markers and docking facilities are constraints and a centrally located cultural attraction would be a positive. Similar conclusions may apply to the owners of visiting private vessels, who are also likely to respond well to tourist marinas with service facilities. Technical assistance to investigate Palau's future prospects in the cruise market will be sought. Environmental issues associated with foreign vessels in sensitive marine environments will be addressed.

9.4.5 Strategies for Other Target Segments

634. Action 12 is to Pool market information and develop strategies for other target segments
635. PVA and BTA will cooperate in an on-going program of pooling the market knowledge of Palau's industry leaders as a means to make judgments about other potential ways

to diversify the industry's product mix. The key to diversification is to match new product ideas with the motivations and satisfactions of new markets. Assisted by PVA, BTA will systematically examine the needs and opportunities associated with new product ideas and new target markets suggested by members. BTA will weigh the product ideas against potential market interest. The results will be collated and compiled over time and shared with the industry in newsletters.

636. To begin, target markets on the BTA's agenda for consideration will be: the "silver market" (older age visitors); Guam military families; R&R visits by military vessels; sports tourism; the wedding markets; and "volunteer services". New products and ideas will be invited, especially "things other than diving and rock island trips", include golf, shopping complexes, facilities for visiting private vessels, etc. PVA will use these meetings as opportunities to suggest new marketing approaches. The prospect for joint marketing of multi country packages will be considered. Ideas for major new investments, such as the proposed retirement village and golf course development, will also be examined.

9.5 Accommodation

637. The objective is to increase private sector investment in quality accommodation. The strategy is to attract new investment and encourage upgrading of existing operations

9.5.1 Quality, High-end Accommodation

638. Action 13 is to encourage investment in quality, high-end accommodation.
639. PCOC will lobby government for effective policy for foreign involvement in the tourism industry. In addition to reviewing regulations, The PCOC will encourage private sector investment promotion tourist accommodation in favor of an emphasis on "quality, high-end" accommodation. The PCOC will refine a definition of "quality, high-end". Moderate sized or boutique resorts at or near the top of the market will be encouraged. Operators willing to be responsible in ways such as employing Palauan staff and adopting social, cultural and environmental agendas will fall within the definition of "quality".
640. The PCOC will work with PVA in encouraging states in the preparation of the tourism development components of state business plans. The PCOC will also investigate new transport options and other ways to support tourism development on remote islands. Resort management chains that specialize in islands properties and that have their own market following will be encouraged. Ways will be sought to encourage investors who are willing to be responsible in ways such as employing Palauan staff and engaging with the states in social, cultural and environmental awareness programs.

9.5.2 Product quality upgrades

641. Action 14 is to promote product quality upgrades.
642. BTA will lead, and PVA and PCOC will assist, an on-going program to encourage existing operators to upgrade and to push their market position upwards. This will be

achieved in three ways. The existing “Bai rating” concept (an industry standards program) will be implemented and widely promoted. A program of annual tourism industry awards will be introduced, with highest award going to an existing business that has most successfully tracked its market upwards. Promotional material will be developed for clusters of “quality, high-end” products. To be included in these cluster and associated with the material, an operation must achieve an agreed Bai rating.

643. In these ways the industry will encourage operations that have established themselves in lower end markets to upgrade and add value and it will discourage the continuation of tired hotels sitting on prime sites. The PCOC will attempt to negotiate with the Ministry of Finance incentive arrangements for property upgrades, provided that the properties also participate in the “quality” factor of Palauan employment and engagement with social, cultural and environmental programs. The PCOC will also take an interest in ensuring that health and safety regulations and zoning and building codes are enforced.

9.6 Human Resources

644. The objective is to encourage Palauan participation in the tourism industry. The strategy is to improve vocational and in-service training and by showcasing Palauan hospitality.

9.6.1 Vocational Training

645. Action 15 is to develop vocational training in the skills of tourism
646. BTA will represent the industry in a partnership with PCC / Ministry of Education / and Palau High School to develop vocational training in tourism skills for Palauan youth and youth from elsewhere in Micronesia. A MOU is about to be signed between these partners. As well as encouraging and supporting training generally, the partners will seek to dramatically upgrade the program through the addition of a dedicated tourism vocational training facility. A suitable building has been found within the PCC campus and plans are being prepared. The facility would house practical training environments for: front office; back office, restaurant; kitchen, rooms, and tours and travel services.
647. While elsewhere in the Asia/Pacific region government tourism training schools have a mixed reputation, there are examples of spectacular success. Vocational schools in Hawaii and Indonesia have successfully taken youth with no skills and prepared them for entry-level into hotels. Despite a widespread perception that Palauan youth are not interested in the hospitality industry, the industry believes there is scope to increase by changing attitudes. Demand would increase through the availability of good quality training. The industry will commit to assisting with practical internships for trainees during and after training.

9.6.2 “AliiHost” Hospitality Training for Front-line Staff

648. Action 16 is to establish “AliiHost” hospitality training for front-line staff
649. The Tri-Org will implement this action point in partnership with PCC. The idea is borrowed from Canada’s “SuperHost” program. Other successful tourism destinations have used the concept - Australia (AussieHost); New Zealand (KiwiHost); Northern Ireland (WelcomeHost); and Singapore (SuperHost Singapore). There is a need to make visitors to Palau feel welcome. There are many people in visitor-contact positions whose attitude, while they may not realize it, has an influence on the visitor’s experience. Encouraging these people to be friendlier to tourists will contribute to stimulating tourism.
650. The Alii Host program will address this need through hospitality training to encourage friendliness and increase awareness of tourism in front-line personnel. Training would be pitched at airport staff (immigration, customs and security personnel), transport workers (taxi drivers, boat operators), and small hotel, shops and restaurant staff. Some larger hotels and tour operators may also find the course useful. SuperHost teaching materials will be purchased. A small team of Palauan trainers will conduct the training. If an initial trial course is successful, subsequent courses may be offered on a user-pays basis, including possibly to other tourist destinations of Micronesia.

Matrix 18: Tourism Action Plan

Goal: To upgrade the image of Palau as a tourist destination and position Palau as the island of choice for environmentally conscious visitors, with quality visitor experiences and high financial and other benefits to Palau on a sustainable basis.

Strategy	Action No.	Action	Overall Priority (Rank)*	Responsibility	Cost	Timing
1. Create a more conducive environment for tourism and taking care of tourism's resource base by aligning the agendas of government agencies and creating partnerships for resource management.	1	Brief new Minister of Natural Resources, Environment and Tourism on the roles of tourism organizations	8 (12)	TAP and PVA	Nil	Year 1
	2	Create a partnership for the environmental management of key tourism resources. A key early output will be a tourism capacity assessment. Capacity limits could be managed by a price-based permit system.	10 (1)	MNRET & Tri-Org	\$100,000 R	Year 1
	3	Create partnerships to help in other priority issues	4.5 (16)	Tri-Org	\$50,000 R	Year 3
2. Position Palau tourism in the world tourism marketplace. Refocus the national tourism product, rebrand the destination, properly fund destination marketing and build effective public/private/partnerships for implementing	4	Refocus Palau's position as a quality holiday destination	9.25 (5)	TAP and PVA	Nil	Year 2
	5	Reform the taxes paid by tourists and include a charge to fund destination marketing.	8.75 (9)	Tri-Org	Nil	Year 3
	6	Target destination marketing activities to encourage low volume / high spend styles, discourage high volume / low spend styles and avoid undesirable segments	9.5 (2)	PVA	\$1,300,000 R	Year 2

Strategy	Action No.	Action	Overall Priority (Rank)*	Responsibility	Cost	Timing
destination marketing						
3. Improve air access by adjusting bilateral air service agreements	7	Review air service agreements with view to encouraging additional carriers, increasing scheduled flights and reducing charter flights	8 (13)	Tri-Org	Nil	Year 3
4. Diversify and improve the product base by improving existing products and attractions and developing new attractions to match rebranding	8	Prepare a thematic tourism development plan for Babeldaob	8.75 (10)	PVA / Tri-Org / Governors Assoc.	\$25,000 C	Year 3
	9	Develop a training program to assist states foster "ecotourism, Palau-style	9.5 (3)	PVA / MNRET / MCCA / PCC, PSC / SBDC / Koror State	\$250,000 C	Year 2
	10	Advocate enhancing the tourist appeal of Malakal, Koror, Ngerkebesang and Airai	8.75 (11)	BTA	Nil	On-going
	11	Evaluate tourist cruise visits and visiting private vessels and address constraints	7 (14)	PVA / BTA	\$50,000 C	Year 3
	12	Pool market information and develop strategies for other target segments	9.25 (6)	PVA / BTA	< \$25,000 R	On-going
5. Increase private sector investment in quality accommodation by attracting new investment and encouraging upgrading of existing operations	13	Encourage investment in quality, high-end accommodation	9.5 (4)	PCOC	< \$25,000 R	Year 1
	14	Promote product quality upgrades	7 (15)	BTA / Tri-Org	\$75,000 R	Year 3

Strategy	Action No.	Action	Overall Priority (Rank)*	Responsibility	Cost	Timing
6. Encourage Palauan participation in the tourism industry by improving vocational and in-service training and showcasing Palauan hospitality.	15	Develop vocational training in the skills of tourism.	9.25 (7)	BTA / PCC / Min. of Ed. / PHS	\$1,000,000 C	Years 2 to 5
	16	"AliiHost" hospitality training for front line staff	9.25 (8)	Tri-Org	\$200,000 C	Year 4

*Priority rankings were assessed by the TAP Committee of the Tri-Org

Note: "R" indicates recurrent cost; "C" indicates capital cost.

Summary:

Total capital costs: \$1,525,000

Total recurrent costs: \$1,575,000

10. Aquaculture and Fisheries Strategies and Actions

651. The Aquaculture and Fisheries Action Plan in Matrix 19 summarizes the priority strategies and actions for aquaculture and fisheries, indicating the level of priority, responsibility for implementation, indicative cost and proposed timing. A brief narrative explanation is presented in the following sub-sections.
652. In summary, it is necessary for the Bureau of Marine Resources (BMR) to streamline its policies, strategies and priority actions to reflect work programs that are realistically achievable within the constraints of its staff and budget resources. The BMR needs to focus on the management of resources and act as a facilitator for the development of these resources in cooperation with national and state government agencies, NGOs and private sector. To achieve these goals the BMR will need to be more active in its work, particularly in engaging with all stakeholders, and it should make a greater effort to withdraw from commercial activities and take action to facilitate more private sector involvement.
653. The marine resources of Palau can provide long term economic development opportunities. However, compliance with national and state regulations is a priority issue that must be addressed to ensure success in terms of both economic and environmental sustainability. This compliance must be attained through voluntary actions and more effective formal enforcement measures. In terms of prospects for income opportunities there appear to be good prospects associated with the tourist sector for fishers (e.g. sport fishing, crew on boats) and aquaculture.
654. The Goal of the BMR is: The Sustainable Economic Development and Management of the Marine and Coastal Resources of Palau.

10.1 Policy and Regulation

655. Clear and concise policy supported by practical legislation is imperative for the sustainable economic development and management of the marine and coastal resources. A strong institutional framework (supported by all stakeholders) articulated through a number of specific programs (e.g. single piece of legislation, aquaculture and fisheries development plans) is urgently required to be finalised and implemented to achieve the nations fisheries goals.

10.1.1 Comprehensive National Fisheries Policy.

656. Action 1 is to finalise and implement a Comprehensive National Fisheries Policy The nation requires the finalisation and implementation of a concise and well defined national fisheries policy that provides a clear understanding of this sector's development, regulation and management goals. This policy needs to be developed utilising the "ecosystem approach" incorporating international standards of marine resource and environmental management, and sustainable economic development. It should include but not be limited to:
- i) sustainable natural resource development;

- ii) a stronger and more useable institutional framework;
- iii) consolidation and enhancement of legislation;
- iv) improved stakeholder participation and equity sharing;and
- v) suitable regulations to ensure compliance.

657. The BMR must be the lead agency that champions the development, completion and implementation of this policy. The bureau needs to further clarify its roles and responsibilities based on current and expected budgetary allocations and staffing and incorporate this information into the policy.

10.1.2 Comprehensive Fisheries Legislation.

658. Action 2 requires the finalisation and implementation of an updated single piece of fisheries legislation (National and State) based on sound environmental and sustainable development principles. The legislation should streamline regulations and define functions of the government for all aspects of the nation's fisheries and marine resources. Current legislation is located in a number of articles and acts, within the national legislative system, with interpretation being complex and difficult. Fisheries legislation needs to cover:

- i) inshore and offshore fisheries;
- ii) aquaculture;
- iii) marine protected areas;
- iv) a semi autonomous or autonomous fishery entity to manage the offshore fishery (if this is considered appropriate);
- v) inshore fisheries cooperatives;
- vi) enforcement of regulations; and
- vii) quarantine issues.

659. The finalisation of this legislation will enable a clear understanding of marine resource management, regulations and development issues and provide a regulatory framework for the long term economic sustainability of this sector.

660. The legislation needs to provide the BMR with the power to regulate the development of fisheries and aquaculture in coordination with other government sectors to ensure marine resources are managed on a sustainable basis.

10.1.3 National Aquaculture Strategy and Development Plan

661. Action 3 is to complete and implement the draft “National Aquaculture Strategy and Development Plan”(NASDP). The adoption of this plan into legislation is essential to help ensure that the development of aquaculture in Palau is economically and environmentally sustainable.
662. The development of aquaculture programs needs to be based on an ecological approach incorporating international best culture and management practices and requires the development of a separate National Code of Conduct for Responsible Aquaculture (CCRA).
663. The NASDP needs to include:
- i) all aspects of aquaculture;
 - ii) sustainable development protocols and regulations;
 - iii) aquaculture and species assessments protocols;
 - iv) technical manuals and culture practice protocols;
 - v) species specific management plans;
 - vi) environment protocols;
 - vii) quarantine protocols and management plans;
 - viii) market opportunities;
 - ix) CCRA.

10.1.4 National Tuna Fisheries Management Plan

664. Action 4 is This action requires the finalisation and implementation of the development polices and management plan detailed in the “National Tuna Fisheries Management Plan” (NTFMP). The adoption and implementation of all recommendations identified in this plan in legislation is essential for the sustainable environmental and economic development of the offshore fisheries resources of the nation.
665. One of the major recommendations of the NTFMP that has not yet been implemented is the removal of the offshore fisheries roles and responsibilities from the BMR to an independent semi-autonomous or autonomous entity. This entity would assume all management responsibilities for the offshore commercial fishery. Similar entities are managing the offshore fisheries in neighbouring nations with success.
666. The entity would need to manage the nation’s requirements for:
- i) international treaties and agreements;

- ii) fishing licenses;
- iii) managing compliancy issues;
- iv) collecting and managing revenues;
- v) collecting and managing the fisheries data (in partnership with the BMR and including national and regional observer programs and port sampling).

667. The development of this entity would allow the BMR to focus its resources and attention on the management and development of the nation's inshore resources including aquaculture. The management of these resources must be the central goal of the BMR.

668. This action gained mixed support from all stakeholders. Further debate within the government needs to be undertaken to define the role of the offshore fishing industry, its management and organisational structure. Illegal fishing and non-compliance with Palauan regulations are major concerns to the sustainable development of this industry. The costs of managing this fishery should be self funded and generated by revenue derived directly from fishing licence fees and taxes. The continued collection and analysis of fisheries data are essential and require continued support from regional agencies (e.g. FFA, SPC).

10.1.5 Fishing and Marine Regulations Improvements and Enforcement

669. Action 5 relates to the need to improve existing marine and fisheries legislation to effectively address the current widespread non-compliance with regulations. Non-compliance (e.g. underreporting and illegal fishing) issues have plagued the offshore tuna fisheries since its inception. There is almost a complete disregard by the offshore fishing fleets to comply with regulations. Similarly, there are continuing small scale non-compliance infringements associated with inshore subsistence, artisanal and commercial fishing (e.g. fishing in protected areas, harvesting protected species and fishing in closed seasons).

670. Illegal fishing remains a serious threat to the long term sustainable management of these valuable resources and there is a large loss of government revenue from non-compliance with offshore tax requirements. These issues need to be urgently and effectively addressed.

671. Public awareness programs detailing regulations for the inshore fisheries need to be improved to encourage voluntary compliance through community support. However, strengthened enforcement of legislation and penalties for repeat offenders and commercial operations are also required. Voluntary compliance with regulation does not appear to be a viable option for the offshore commercial fishing fleets. Fish license suspension and closures should be used to ensure compliance.

672. The BMR needs to facilitate and take a lead role to educate the fishing community on the nation's regulations and support regulatory agencies to reduce non-compliance issues. State governments have a crucial role in resource management and need to be active participants in public awareness and enforcement. Nevertheless enforcement is anticipated to remain problematic.

10.1.6 Shark Fishing Management Plan and Shark Finning Regulation.

673. Action 6 is to reassess the current regulation banning the sale of sharks and their products accidentally caught during the normal fishing practices of the offshore fishing fleet, and to consider adopting and implementing the BMR comprehensive shark management plan that articulates the capture and subsequent sale of sharks and their products through a carefully managed and monitored fishery.
674. Currently all sharks caught accidentally are required to be released dead or alive (most of the animals are dead). This constitutes a waste of resources and is in conflict with the nation's current fisheries policy for the sustainable use of marine resources. As long as the industry operates, sharks will be accidentally caught.
675. The banning of shark finning has encouraged fishing operations to land all of their catches at distant ports rather than in Palau. This is in breach of fishing agreements with Palau and leads to considerably lower tax revenues for the nation.
676. Therefore, it is proposed that the government removes the ban on the sale of shark products caught as a by-catch of the offshore fishing industry and allows the utilisation of these products for commercial purposes. This will also lead to additional tax revenues for Palau and provide a mechanism to manage this fishery (e.g. data records).
677. The proposed semi-autonomous or autonomous offshore fishing entity (if operated) would be the correct agency to manage the plan for the commercial off shore fisheries.
678. The management plan needs to further develop and incorporate penalties and should consider whether the whole animal or parts of the animal need to be brought to port. The capture of pelagic shark species should be permissible through the management plan, while the capture of reef associated species must not be allowed. The reef associated shark species currently provide an income to the nation through its tourist industry (as well as their ecological functions).
679. All sharks caught must be reported and included in the fishing capture log sheets of each vessel. All laws and regulations associated with this offshore fishery must be strictly enforced.

10.1.7 Domestic Sale of By-Catch Products from Offshore Commercial Fishing

680. Action 7 is to re-assess the domestic sale of by-catch products from the offshore commercial fishing industry. It is recommended that the current regulations that prohibit the sale of any fish caught by the commercial offshore long line fleet in the Palauan domestic market be reviewed. Amendments to the foreign fishing company license agreements to allow the controlled and legal sale of by-catch fish in the local market should be considered.
681. Currently it is illegal to sell any product directly in the domestic market. However, it is estimated that around 20-30 percent of the by-catch product is sold illegally in the domestic market.
682. The current provision that bans the domestic sale of fish caught by these companies was designed to provide a level of protection for local Palauan fisherman. However, the market demand for this product has increased considerably since the agreements and regulations were made and currently the local fishers are unable to meet the domestic demand.
683. Legalizing the domestic sale will provide a government tax revenue base (currently no tax is paid because the sales are illegal) and produce legal opportunities for business to purchase the product. This will also be an opportunity to diversify and value added to these commodities (e.g. smoked, dried product). A study should be considered to assess the economic implications of these products on the economy of Palau.

10.1.8 Economic Returns to Palau from the Offshore Fishing Industry.

684. Action 8 is to improve the economic returns to Palau from the offshore fishing Industry. An assessment of the current commercial offshore fishing tax and licensing systems needs to be undertaken to identify reforms that ensure reasonable returns are realized for Palau.
685. The current revenues that Palau receives from the offshore fishing industry are considered to be small. There are proposals to increase taxes and license fees for this sector, that if realised would increase revenues significantly. However, more detailed consideration of the impact of proposed tax reforms is needed.
686. A competitive auction of fishing licences to the highest bidder to generate direct revenues is an alternative measure that has been successfully used in other Pacific Islands (e.g. Vanuatu). It is recommended that the nature and size of an appropriate license fee needs further investigation.

10.2 Institutional Development.

687. Strengthening the institutional capacity of the staff of the BMR to manage this sector and provide information and guidance to stakeholders is imperative to the long term sustainable development of marine and coastal resources.

688. Improved capacity of the BMR to manage data that will enable the continued development of resource management, fisheries development and aquaculture and the ability to provide this information to the general public through extension programs are core functions of the bureau. Further expansion of these services in conjunction with institutions of learning (e.g. PCC) and NGOs should be given a high priority and are seen as an important catalyst to initiate and maintain the development of this sector. Increased coordination and cooperation in relation to these services will greatly assist in the development of this industry whilst reducing duplication and promoting better use of limited resources.

10.2.1 Marine Resources Management Capacity

689. Action 9 is to develop and strengthen marine resources management capacity. This action provides recommendations to strengthen the capacity of the BMR to collect, collate and analyse fisheries data and to provide scientific information to develop species-specific and ecosystem management plans and protocols for the sustainable development of the nation's marine resources.
690. Information collected should include the systematic and regular recording of data on fish landings for subsistence, artisanal and commercial operations and include regular resource assessments and monitoring programs for all inshore resources. All species-specific and resource management plans need to be supported by legislation and recommendations implemented and enforced.
691. The BMR should act as a facilitator to assist national and state government agencies, NGOs, community groups and the private sector to advise on the sustainable development and management of inshore resources, specific research programs and aquaculture. In addition, the BMR will need to facilitate and foster further cooperation among government agencies, NGOs and research agencies to define roles and ensure duplication of effort is minimized.
692. The BMR staff will require continued capacity building in all techniques associated with data collection and analysis and resource management. Past partnerships with regional agencies (e.g. SPC) should be continued. Continued community awareness programs need to be undertaken to increase community understanding and compliance with laws. This could be provided through the BMR extension programs.

10.2.2 Extension and Information Services.

693. Action 10 includes recommendations to strengthen the capacity of the BMR to improve the delivery and efficiency of sound scientific extension and information exchange programs for aquaculture, fisheries and resource management. The programs should be delivered to national and state government agencies, NGOs, communities and the private sector. The goal of the extension program is to develop, through information exchange, a well informed industry based on sustainable economic and environmental principles.

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694. Through the BMR, the extension and information exchange programs need to be developed and delivered in a coordinated manner and include modules for specific activities (e.g. fisheries management, conservation area management, aquaculture). The extension programs need to develop additional species-specific training programs, especially for the aquaculture sector which should include; information fact sheets, production manuals and the delivery of training courses suitable for Palau. The “aquaculture package” developed by BMR is a good example.
695. The BMR needs to act as the facilitating agency to develop and deliver programs that address industry needs and support the development of farmers/fishers associations (e.g. PACA) and cooperatives. Increased cooperation and coordination between all agencies is required, with clearly defined roles and responsibilities to reduce duplication of effort. These programs should fully integrate state governments, educational agencies (PCC), NGOs and community groups in the development and delivery of these programs.
696. The staff from the BMR will require continued capacity building in all techniques associated with extension and information exchange programs and the information to ensure knowledge and skills are transferred and delivered to stakeholders. Previous partnerships with regional agencies (e.g. SPC, FAO) should be continued to assist in undertaking these tasks. Information delivered should be based on regional and international best practices.

10.3 Sustainable Income Opportunities

697. The development of the nation's fisheries and aquaculture sectors is imperative to support and improve livelihoods for many people within Palau. The realization of increased production and income opportunities resulting from this sector need to be based on principles of sustainable development employing a precautionary approach that is based on sound environmental and scientific data and driven by the nation's policies and regulations.
698. All development options need to be managed by the government of Palau to ensure the long term environmental sustainability, however commercial programs need to be driven by the private sector. The BMR should not be actively involved in commercial enterprises. Nevertheless, the BMR has an important role to assess and evaluate the potential of new fisheries and aquaculture opportunities and to provide assistance and advice to the private sector.

10.3.1 Aquaculture Development and Diversification.

699. The BMR needs to further develop and diversify aquaculture production through research and extension to ensure the development of a sustainable industry that stimulates income opportunities (Action 11). This action is a core function of the BMR. The development of these projects needs to be in accordance with the recommendations of the NASDP and be based on three interrelated and important considerations:

- i) The biology of the species;
 - ii) The environmental and social issues;
 - iii) Economic viability.
700. The aquaculture industry is still in its infancy and requires continued research, extension and public sector support before it can reach its goals. There have been several successes (e.g. coral cultivation) and several species appear to show promising results (e.g. giant clams, mangrove crabs, milkfish, grouper). The BMR should regulate the development of the industry through the NASDP, provide extension and information services (outlined in Action 10) and promote the private sector development of economically and environmentally viable species.
701. The BMR needs to act as a facilitating agency to support the development of the aquaculture industry in cooperation with the nation's research agencies, state governments, farmer associations (e.g. PACA), communities and donor organisations to provide sound, environmentally safe aquaculture production information. This information then needs to be adopted and developed by the private sector.
702. The BMR will need to increase community and private sector awareness of the opportunities and constraints of aquaculture and facilitate access to supporting funds through donor grants and small business development financing options. This action requires increased cooperation and coordination between all agencies with clearly defined roles and responsibilities to reduce duplication of effort.
703. The BMR needs to remove itself from the implementation stage of commercial aquaculture and focus on the facilitation of research and development activities, including value adding programs for aquaculture products.
704. The staff from the BMR will require continued capacity building in all techniques associated with aquaculture (marine, brackish and freshwater). Past partnership with regional agencies (e.g. SPC) and bilateral donors (e.g. AusAID, JICA) and international agencies (e.g. FAO) should be continued to assist in the development and diversification of aquaculture species.

10.3.2 Privatization of Commercially Viable Aquaculture Products

705. The role of BMR is to act as a facilitating agency that supports the development of aquaculture through research and extension programs and to ensure the development is in accordance with national regulations and policies. Past aquaculture programs have been beneficial to the development of this industry and the BMR should continue this function. However, its role should not encompass commercial activities. Therefore the BMR needs to remove itself from the implementation stage of commercial aquaculture.
706. The Palau Mariculture Demonstration Center (PMDC) has successfully cultured all endemic species of giant clams for over twenty years and can produce all species on a semi-commercial production basis. The production of these animals is well

documented and international (aquarium, adductor muscle – food and ornamental) and domestic (food and ornamental) markets are well established with all techniques fully transferable. Similarly, PMDC has been involved with a wide range of research programs that have resulted in the successful cultivation of a number of marine, brackish and freshwater species.

707. The production of giant clams at the PMDC needs to be urgently transferred to the commercial private sector (Action 12). The BMR must redefine its roles and responsibilities for this activity and focus on other emerging aquaculture research and extension programs. Nevertheless, PMDC could consider culturing small numbers of giant clams to continue with reseeding programs. To achieve this, a two step approach is recommended:
- i) Step One - The PMDC should continue to culture clams through the hatchery to provide the juvenile clam to the Palau Aquaculture Calm Association (PACA) which will then need to take over the responsibility to distribute clams to the farmers who will then on-grow them to market size. The PACA needs to represent the clam farmers and market the product through commercial buyers. This should be implemented immediately. The BMR must relinquish its control over the clams once they are provided to the PACA.
 - ii) Step Two - The hatchery production of giant clams should be taken over by the private sector, so that it is responsible for both production and distribution of clams. The private sector would either lease the PMDC or develop a new facility. This should be undertaken as soon as possible. Currently one company has expressed an interest. However, the exact form of privatization and the role of PACA in this second step are issues that need further investigation if full privatization is to be successful.
708. The BMR will still need to remain involved in the clam program to ensure information exchange on all aspects of giant clam culture technology is effectively transferred to the private sector through extension programs. However, in time this extension role should be undertaken by PACA. Similarly, the BMR should remain the government agency responsible for the issuing of export permits (e.g. CITES). Current theft of cultured clams from farms needs to be urgently addressed and stopped.

10.3.3 Develop and Diversify Inshore Fisheries Opportunities.

709. Action 13 includes recommendations to develop and diversify the BMR's programs for the economic development of subsistence, artisanal and commercial inshore fisheries. The development of a sustainable fisheries industry must be based on environment and economic best practices incorporating specific management and conservation programs.
710. The BMR should further facilitate the development of the industry through partnerships with research agencies, state governments, communities, NGOs, the private sector and donors. The provision of small business development advice and access to funds (grants, loans) should be further developed.

- 711. All existing fisheries and development opportunities need to be developed through research, extension and training targeting the domestic (local and tourist) and international markets. All fishers need to be active partners in the continued development and compliance of protected areas and management systems.
- 712. The BMR needs to increase extension services, information exchange and research programs on all aspects of inshore fishing and greatly increase the collection of fisheries data for management purposes and develop species specific management plans (as detailed in Action 10).
- 713. Enforcement needs to be improved through community education and awareness programs to ensure voluntary compliance with regulations. There should be stronger formal enforcement and penalties for repeat offenders and commercial operators.

10.3.4 Other Actions

- 714. Actions 14 to 19 cover various aspects of improving livelihood opportunities for inshore subsistence, artisanal and commercial fishers. More explanation of these actions are provided in the separate FEIM Action Plan and Sector Review reports for Agriculture and Fisheries.
- 715. Action 14 is to improve fish quality through increased product handling and processing resulting in improved economic returns per fish. BMR through its extension programs needs to continue to provide training programs to fishers to ensure quality of fish products attain high quality standards which in turn increase market acceptance and pricing. Continued donor assistance funds should be sought to provide equipment (e.g. coolers) and small scale infrastructure (e.g. ice plants, road access to harbours) to promote this action.
- 716. Action 15 is to promote inshore fishers to shift fishing pressure from inshore resources to target pelagic offshore fish resources through the use of FADs. Replacing inshore fish demands with offshore species will result in less fishing pressure on reef associated finfish. This action is reliant on the deployment of FADs (requiring donor assistance) and the acceptance and willingness of the fishers to utilise these devices. Extension programs providing information on the fishing techniques required to be used and fish handling will be required. Consideration for safety at sea issues should be considered as a component of the extension programs.
- 717. Action 16 is to develop sports fishing both inshore (e.g. bone fish) and offshore (e.g. marlin and sailfish) using sustainable techniques (e.g. tag and release). This action will be driven by the private sector. However BMR needs to play a lead role in developing the management practice of this fishery to ensure sustainable use of the resources. Training programs providing technical information detailing methods used to capture, tag and release these fish will be required. Donor assistance should be sought to develop these programs. Cooperation between these sectors is imperative to develop a sustainable industry.
- 718. Action 17 is to develop aquaculture opportunities that will provide additional income revenues to fishers. BMR should continue its role as a facilitator to ensure practical and useful aquaculture research and extension programs are undertaken within the

nation to provide the necessary information to develop this sector. BMR extension programs are essential for the development of this action.

719. Action 18 is to encourage inshore fishers to shift livelihood activities from inshore fishing to gain employment in the tourist sector (boat captains, tour guides, sport fishing guides). This action requires the tourism sector to further develop, thus creating alternative livelihood opportunities for Palauan fishers. The BMR in conjunction with the nation's tourism associations and private sector need to coordinate the development of programs that will provide skills transfer to encourage participation of fishers in the nation's tourism sector.
720. Action 19 relates to the development of fishing cooperatives to assist in the sustainable development of these fisheries. These would need to be self funded from contributions of members. The BMR needs to take a lead role to ensure the nations fisheries policies, regulations and management plans are fully understood and enforced by fishing cooperatives. In addition, the cooperatives and its members need to play an active role in providing BMR with fisheries data (e.g. catch records, species numbers, size) to allow the Bureau to collect data to ensure the sustainable management of targeted species.

Matrix 19: Aquaculture and Fisheries Action Plan

Goal: Sustainable Economic Development and Management of the Marine and Coastal Resources of Palau.

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost US\$	Timing
1. Improve Policy and Regulation	1	Finalise and Implement a National Fisheries Policy based on an “ecosystem approach” incorporating international standards of marine resource, environmental management and sustainable economic development.	7.0 (1)	Lead agencies MNRET (BMR) & PFAC. Assisted by MCT (BCD-DT&C), MOJ (OAG, BOI, BPS-DMLE & DFWP), MOF (BRCT), EQPB, OERC, PAN & MOH (BPH-DEH).	TA \$60,000C	Yr 1-2
	2	Ensure an updated single piece of fisheries legislation (National and State) based on sound environmental and sustainable development principles is finalised and implemented.	7.0 (1)	Lead agencies MNRET (BMR), PFAC, MOJ (OAG, BOI, BPS-DMLE). Assisted by MCT (BCD, BHRD), MOF (BRCT), EQPB, OERC, PAN & State Governments	TA \$100,000C	Yr 1-2
	3	Complete and implement the “National Aquaculture Strategy and Development Plan” including the “Code of Conduct for Responsible Aquaculture” (CCRA) and adopt into legislation.	6.75 (2)	Lead agencies MNRET (BMR) Assisted by MOS (BITTA), MOJ (OAG, BPS-DFWP), MOA, MOF (BRCT) MOH (BPH-DEH), EQPB, OERC, Pan & PCC.	TA \$60,000C	Y 2-3
	4	Finalise and implement the development polices and management issues detailed in the “National Tuna Fisheries Management Plan” (NTFMP).	6.1 (6)	Lead agencies MNRET (BMR) Assisted by MCT (BCD, BHRD), MOJ (OAG, BOI, BPS-DMLE), MOF (BRCT), MOH (BPH-DEH), MOS (BITTA), EQPB,	May require TA \$30,000	Y 2-3

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost US\$	Timing
				OERC, PAN		
	5	Improve and enforce existing fishing regulations to effectively address widespread non-compliance (offshore and inshore fisheries).	5.8 (8)	Lead agencies MNRET (BMR) & PFAC, MOJ (OAG, BOI, BPS-DMLE & DFWP). Assisted by MOF (BRCT), MOH -DEH (BPH), EQPB, OERC, State Government.	Increase operational costs \$5-10,000 R	Y 1-5 Ongoing
	6	Evaluate the shark Finning regulation to reassess current regulation banning the sale of sharks and their products accidentally caught during the normal fishing practices of the offshore fishing. This should include the implementation of the actions highlighted in the BMR comprehensive shark management plan.	5.4 (10)	Lead agencies MNRET (BMR) Assisted by MOJ (OAG, BOI, BPS-DMLE), MOF (BRCT), MOS (BITTA), EQPB & OERC.	nil	Y 1
	7	Evaluate the domestic sale of by-catch products from the commercial fishing industry and consider a change to allow the sale of by-catch products from this industry onto the domestic market.	4.5 (11)	Lead agencies MNRET (BMR) Assisted by MOJ (OAG, BPS), MOF (BRCT), MOH (BPH-DEH), EQPB, & OERC.	TA \$30,000	Y 1-2
	8	Improve the economic returns to Palau from the offshore fishing industry by undertaking tax and fishing license reforms to help ensure a reasonable return from offshore fishing resources is realized.	6.0 (7)	Lead agencies MNRET (BMR), MOF (BRCT), PFAC, MOJ (OAG, BPS-DMLE). Assisted by MCT (BCD, BHRD) & MOS (BITTA).	nil	Y 1-5 Ongoing

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost US\$	Timing
2. Institutional Development	9	Develop and improve fisheries and resource management capacity by strengthening the capacity of the BMR to collect, collate and analyse fisheries data to provide scientifically sound information to develop species-specific and ecosystems management protocols for the sustainable development of the nation's marine resources and fisheries. Implement measures to up skill and to retain staff.	6.3 (4)	Lead agencies MNRET (BMR) & PFAC. Assisted by PCC & NGO (e.g. PICRC, PCS, TNC),	TA \$10,000 data base management Increase office equipment (computer training) \$5-10,000 every 3 years R	Y 1-5 Ongoing
	10	Develop and improve fisheries and aquaculture extension services and information exchange through strengthening the capacity of the BMR to improve the delivery and efficiency of sound scientific extension and information exchange programs for aquaculture, fisheries and resource management.	6.3 (4)	Lead agencies MNRET (BMR) Assisted by EQPB, PCC & NGO (e.g. PICRC, PCS, TNC).	Increased operational costs \$5-10,000 R	Y 1-5 Ongoing
3. Increase on production and sustainable income opportunities	11	Further develop and diversify aquaculture production through research and extension to ensure a sustainable industry. All aquaculture projects need to be developed in accordance with the recommendations of the NASDP.	6.7 (2)	Lead agencies MNRET (BMR) Assisted by BOA (BLS), PCC, NGO (e.g. PICRC, PCS, TNC) & private sector.	Increased Operational costs \$3-6,000 R	Y 1-5 Ongoing
	12	Privatization of commercially viable aquaculture commodities (e.g. giant clams, hard and soft corals, grouper) produced at the PMDC. The BMR must redefine its role associated with	7.0 (1)	Lead agencies MNRET (BMR), MOJ (OAG), BOA (BLS). Assisted by PCC, PACA &	nil	Y 1-2

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost US\$	Timing
		proven commercial commodities and focus on other emerging aquaculture research and extension programs.		private sector.		
	13	Develop and diversify the BMR's programs for the economic development of subsistence, artisanal and commercial inshore fisheries and resulting livelihood opportunities. The development of a sustainable fisheries industry must be based on environment and economic best practices incorporating specific management, research and conservation programs.	6.5 (3)	Lead agencies MNRET (BMR) Assisted by MOJ (OAG, BOI, BPS), MOS (BITTA), PCC, NGO (e.g. PCRC, PCS, TNC) & private sector.	Increased operational costs \$5-8,000 R	Y 1-5 Ongoing
	14	Improve fish quality through increased product handling and processing resulting in improved economic returns per fish.	6.0 (7)	Lead agencies MNRET (BMR) Assisted by BOA (Quarantine), EQPB, MOH (BPH) & private sector.	nil	Y 1-5 Ongoing
	15	Encourage inshore fishers to shift fishing activities and pressure from inshore resources to target pelagic offshore fish resources through the use of FADs.	5.75(9)	Lead agencies MNRET (BMR) Assisted by fishing cooperative and private sector.	Funds needed for FAD's R	Y 2-5 Ongoing
	16	Develop both inshore (e.g. bone fish) and offshore (e.g. marlin and sailfish) sports fishing using sustainable fishing practises (e.g. tag and release). BMR to manage (management plans required), private sector to operate (tourism based).	6.5 (3)	Lead agencies MNRET (BMR) Assisted by Palau Sports Fishing Association (PSFA), fishing cooperative and private sector.	nil	Y 2-5 Ongoing
	17	Encourage inshore fishers to shift livelihood activities from inshore fishing to gain employment	6.25 (5)	Lead agencies MNRET (BMR)	nil	Y 1-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost US\$	Timing
		in the tourist sector (boat captains, tour guides, sport fishing guides).		Assisted by private sector (tourism), PCOC, PSFA, BTA, PVA.		Ongoing
	18	The government should consider the development of fishing cooperatives to assist in the sustainable development of the inshore fisheries. These would need to be self funded from contributions of members.	5.75 (9)	Lead agencies MNRET (BMR) Assisted by private sector.	nil	Y 2-3

11. Agriculture and Forestry Strategies and Actions

721. The Agriculture and Forestry Action Plan in Matrix 20 summarizes the priority actions for the agriculture sector, indicating the level of priority, responsibility for implementation, indicative cost and proposed timing. A brief narrative explanation is presented in the following sub-sections. Strategies and actions are outlined for improving production and marketing as well as institutional effectiveness.

11.1 Strategies and Actions for Improving Production and Marketing

11.1.1 Outlets for Agricultural Produce

722. There continues to be an urgent need to construct and operate a fresh produce or farmers' market in Koror (Action 1). Subject to a review of the feasibility study undertaken in 2004, with particular reference to the scale of operations and size of the envisaged market, this should proceed as a matter of priority. One possible site is the old OEK grounds.
723. It is suggested the market be constructed and owned as a public utility, but tendered to a private sector operator who would sub-lease individual stalls to individual vendors.
724. Once the market is operating, the BOA should work with vendors, farmers (subsistence and commercial) and others in the market chain to facilitate the smooth supply of fresh produce onto the market (Action 2).
725. The BOA and EQPB should also work with the market operator to develop and enforce regulations to ensure that all produce sold in the market meets minimum standards of quality – including food safety and produce grading standards (Action 3).
726. The Koror central market would replace the existing market chain from farmers to supermarkets. What is envisaged is another market outlet of a suitable scale that enhances market access for all farmers with good quality produce. This would be especially relevant to Palauan subsistence producers who may want to market small parcels of product on an irregular supply basis.
727. The existing market chains for fresh produce involve either farmers delivering direct to supermarket outlets, or farmers selling produce door to door.
728. Farmers and retailers need an improved communications process to ensure that farmers obtain better feedback on quality, demand and prices, while retailers need advance information on production and supply issues. If the BOA and the Palau Chamber of Commerce could facilitate a regular process of exchanges and feedback between: (i) supermarket produce managers; (ii) producers (subsistence and commercial); and (iii) producer associations and researchers this would ultimately result in improved quality, regularity of supply and the range of crops being supplied. Such a system could involve quarterly forums, or simple quality and price reports provided to major suppliers and producers associations by supermarkets. Individual communications between growers and retailers can be enhanced by greater use of cell phone technology.

729. Based on the feedback on demand for new products, the BOA, in conjunction with its collaborating donor partners, could be encouraged to undertake research into feasible, environmentally sound production systems for those products (Action 4).
730. For example, there is already demand for lettuce, sweet corn, and head cabbage which could potentially be met locally. It is likely that supplies will build from small individual lots of product, which will highlight the need for development of a collection, or product aggregation service. While this should be a private sector activity, it may be initially facilitated by BOA.
731. In the case of traditional agriculture, there are opportunities to undertake research into value adding. TTM has already begun this process but there are opportunities for further development.
732. It is recommended that the two research stations begin a collaborative research program looking at developing products based on traditional subsistence crops. For example, taro chips, cassava starch and tropical fruit juices (Action 5).

11.1.2 Poor Quality Soil

733. Palau is not endowed with large areas of quality arable soils. Most soils are acidic and low in organic matter. There are approximately 4,750ha of soils that are of reasonably good quality. These soils are an important national asset and should be identified and protected. Thus, a GIS mapping exercise should be undertaken to identify the locations of these soils. This could be undertaken as part of the PALARIS SLMP as it is integral to preparing land use management plans.
734. It is recommended that BOA should work with the States where the soils are located to develop appropriate sustainable land use plans for each grade of soil (Action 6). In addition, those on soils designated as exclusively agriculture soils, building development should be prohibited, other than for farm homesteads. The development of land use plans should be managed by the BOA, but the process should be undertaken in collaboration with State authorities, especially land use planners and the Palau Public Lands Authority (PPLA). The process may be enhanced by collaboration with agencies such as EQPB, TNC or PCS.

11.1.3 Sustainable and Effective Land Use Practices

735. Having established sustainable land use plans, the next logical step is development and regulation of sustainable land use practices (Action 7). Important aspects of sustainable land use practices are the use of integrated pest management (IPM) techniques, maintenance of soil fertility and minimization of soil run-off. SPC is already funding the DSAP, which focuses on subsistence agriculture. These sustainable land use guidelines need to be developed in conjunction with the States and farmers. They should be functional and address the reasonable requirements of Palau's conservation ethic, but also be relevant to the reasonable demands of commercial farmers.
736. Such a package of practices would include: (i) development of an IPM program (based on an effective mix of organic and chemical remedies); (ii) further development of effective soil enhancement (ESE) techniques that meet the soil fertility maintenance

requirements of any given soil type (based on an effective mix of organic and compound fertilizers); and (iii) development of effective land contouring techniques to minimize soil losses on cultivated soils as a result of run-off during heavy rains.

737. Once the guidelines have been established, ideally, an Act of Congress should enshrine the land use practices in law (Action 8). During a two year awareness raising period: (i) farmers and landowners would be required to attend a farmers field school (FFS) in IPM techniques run by BOA staff; (ii) EQPB staff would develop a more regular and rigorous program of residue testing in fruit and vegetables (with all results made public, including the name of both the “front” and the farmer if residue limits are exceeded); and (iii) a regular program of soil testing is established on behalf of farmers (on a user pays basis).
738. After the two year awareness raising period, enforcement of the regulations should begin (Action 9). In parallel to enforcement of the sustainable land use regulations, there should also be strict monitoring and enforcement of agricultural chemical import regulations, based on improved collaboration between DEH, EQPB and BOA.
739. In addition, it is recommended that the EQPA be amended to allow deportation of persistent foreign offenders and penalties for breaches of the pesticide regulations should be applied to landowners, not just employees (Actions 10 and 11). This is especially relevant where business “front” are being used.

11.1.4 Increase the Participation of Palauans in Agriculture

740. The current situation of strong focus on conservation, while subsistence livelihoods and productive agriculture are quietly pushed to the background needs to stop. Agriculture needs strong vocal support (a champion), based around a well defined marketing and publicity campaign to promote agriculture on an equal footing with the well represented conservation lobby.
741. A good starting point for this process would be to develop a package of commercially oriented support for young Palauan farmers that provide the necessary backup, but without going to the point of subsidies or “spoon feeding”. Palauans have shown they have commercial acumen. The challenge and opportunity is to encourage that acumen towards commercial agricultural production of both traditional crops and fresh fruit and vegetable crops.
742. Such a package could include the promotion and demonstration of both traditional and subsistence farming as a way to make a good financial living and include financial analysis and improved access to credit for young Palauan farmers (Action 12).
743. As a means of raising the profile and visibility of agriculture to potential young Palauan farmers and to consumers, it is recommended that a publicity campaign be aimed at Palauans (Action 13). The purpose of such a campaign would be to inform Palauans of: (i) the education opportunities available, especially at the PCC; (ii) the commercial opportunities in the sector from production of both traditional and commercial crops; (iii) the value of agriculture as a means of improving subsistence livelihoods through enhanced food and financial security; and (iv) the economic importance of agriculture as means of replacing some food imports with local production, and hence improving

national food security as well as providing business opportunities.

744. Further, PCC should be encouraged to develop and offer adult education classes in agriculture (Action 14). It is suggested that, in part, the curriculum should be based on the BOA strategic plan.
745. It is also recommended that the BOA could establish a website which would not only inform, but also provide a data base of information to planners, donors, potential investors, etc (Action 15).
746. To underpin the renewed focus on agriculture and subsistence livelihoods, and as means of increasing the incentives for local food production, the government is advised to review the current import duty free status for foods that can potentially be produced in Palau (Action 16).
747. Producers pay gross revenue tax (GRT), but importers do not pay import duty. But at the retail stage, GRT is levied on all food, whether local or imported. Thus, imported foods have an unfair advantage at the retail stage. In addition, the GOVERNMENT currently offers a package of incentives to Palauan farmers, but only for projects with an investment value greater than \$50,000. It is recommended that the tax situation with respect to agriculture be reviewed and amended where appropriate (Action 17).

11.1.5 Reorient BOA Forestry to Production Activities

748. Analysis of the BOA strategic plan shows that Forestry Section planned activities are entirely oriented towards conservation activities – mostly through the inputs of USDA funded staff. There are currently no significant commercial forestry initiatives, although there are some nursery activities, but seedlings are given away, not sold.
749. There are significant areas of savannah land on Babeldaob Island which have potential for commercial forestry. The soils are of poor quality and subject to degradation. This is another area that can be addressed under SLMP through coordination by BOA.
750. It is considered that with sustainable management practices, including staggered planting and harvesting systems and mixed planting of species, these soils could be forested (Action 18). The economic advantages to landowners include carbon sequestration and lumber production.
751. While the potential benefits from carbon trading will vary according to the price of tradable carbon, calculations show that over the life of a planted forest, annual income from carbon trading would be in the order of \$170-260 per acre per year, depending on species, soil type and rotation length (see Separate FEIM Agriculture Sector Report, Annex Two and www.pointcarbon.com for details).
752. The Acacia species has been branded by USDA as an “invasive” species. While there may be some justification to this decision, the broader implications of the judgment should be more fully considered in consultation with all relevant agencies. As a legume, Acacia has excellent potential as an inter-crop for specialized lumber species such as mahogany or teak. It is recommended that a proper risk assessment of Acacia

as an invasive species, in the Palauan context, should be undertaken (Action 19). BOA will need to coordinate with OERC in this regard.

753. Based on the outcome of this assessment, it is recommended that initially, BOA and EQPB make a joint submission to the Minister of MNRET to inform him of the wider implications - supported by independent submissions from other interested parties (e.g. TNC and PCS) (Action 20). On the assumption that the Minister accepts the submission, then it is recommended that the Minister of Resource Development use official channels to appeal to the USDA, explaining the situation, including the review of the risk assessment and appealing for a reversal of the decision (Action 21).
754. It is recommended that BOA Forestry staff engage landowners in a consultative process to inform them about economic opportunities available from commercial forestry on Babeldaob Island (Action 22). An important aspect of the consultation would be presentation of a thorough business plan, including financial analysis of a forestry investment, risk analysis (e.g. fire), and an environmental impact assessment. This can be facilitated through the BWA.
755. Forestry seedlings are currently provided by the BOA Nursery at Nekken Agriculture Station, with about 12 states having or about to have seedling nurseries built by BOA with USDA and TNC funds. Nurseries are an activity which could well be provided by the private sector, which is already producing ornamental plant seedlings. However, once the private sector becomes involved, it is important to ensure there is fair competition with respect to any government competition. Continued production by BOA using grant funds would not be fair competition.
756. It is recommended that BOA and the States be required to divest themselves of nurseries within 3 years (Action 23). This would be consistent with the MAP's (2001) "guiding principles" which include one broad goal to "shift resources, wherever possible, from the public to the private sector and to minimize governmental intervention in the private sector".
757. It is also recommended that the USDA be approached to either fund two additional staff members who will be responsible for plantation forestry or to replace two of the existing USDA-funded staff with plantation specialists (Action 24).

11.1.6 Strengthen the SBDC

758. The SBDC has approved 14 percent of 78 loan applications for agricultural activities in the last 5 years. Funding for further lending is available from the USDA FSA, however processing of loan applications is slow. The SBDC uses the services of BOA to assist with loan appraisal, but due to work pressure and shortage of suitably trained staff, this process can take BOA several months to complete.
759. It is recommended that SBDC should improve the speed of service to their clients by looking beyond BOA to trained local agriculturalists to provide additional appraisal services (Action 25).
760. To support young Palauan business people get started (i.e. to repay their loan), SBDC should be resourced (funds and staff) to further develop and expand their business

support networks and new business incubation programs to include monitoring of young farmer borrowers during loan repayment (Action 26).

11.1.7 Transparent Land Leases

761. The informal land tenure arrangements (“business fronts”) that are currently practiced in Palau are allowing elite and influential Palauan citizens to protect their (informal) lessees from adherence to the laws and regulations of the country. Foreign farmers pay a monthly fee for this level of “protection” which in reality is a short term lease. In return, the business “front” ensures that his client is protected. For example, quarantine, food safety, tax and sustainable land use practice regulations may all be potentially evaded.
762. It is strongly recommended that the government address this “front” masquerade and make all land tenure agreements transparent by requiring them to be properly registered with the Attorney General’s Office (Action 27).

11.2 Strategies and Actions for Improving Institutional Effectiveness

763. To effectively achieve the goal of diversifying and significantly increasing the level of agricultural and forestry production, the institutional arrangements for the sector need to be reviewed. The Director of Agriculture needs a clear, prioritized set of objectives, with associated action plans, that relate to the human and financial resources. With goodwill and good leadership, the various agencies in the sector could come together to agree on an allocation of tasks or division of responsibilities in respect of agriculture. Such a decentralized approach would require collaboration between the various agencies, under the leadership of the BOA Director.
764. The agriculture sector has reasonable levels of operational (research and extension) funds available to it. The issue appears not to be one of lack of funds, but rather lack of: i) a sector strategy to address the issues effectively; and ii) lack of effective inter-agency collaboration. In short, not all the institutions working in the sector are working together for the benefit of farmers and consumers. In fact as one senior Palauan agriculturalist stated “we do not collaborate, we compete”. At the core of improved collaboration must be a BOA with clear strategic goals, and the means to achieve those goals. Only then will collaborating agencies be able to see where they best “fit” into the agriculture sector strategy, and contribute accordingly.

11.2.1 Focus BOA on Production

765. The conservation groups are noticeably better at promoting their message than the BOA. The Palauan public is very aware of conservation values, while their level of understanding of the value of, and opportunities offered by the agriculture and forestry sector is low.
766. TNC, PCS and EQPB each have their own Board of Directors (BOD). These BOD are comprised of qualified, respected persons from the Palauan community. While the BOD may have defined roles under their respective constitutions or Acts, in reality they also play important planning, monitoring, encouragement and advocacy roles which

provide the Director of each agency with motivation and stimulation. While the Director of BOA works under the Minister of MRD, he does not have the benefit of an equivalent support group.

767. It is recommended that an advisory council for agriculture (ACA) be established, with balanced representation of the four sections of BOA (horticulture, forestry, livestock and quarantine) (Action 28). Working under the overall supervision of the Minister of MRD, the ACA could provide back up to the Director of BOA in (inter alia) strategic planning, agency and sector performance monitoring (including inter-agency collaboration), funding access, staff appointments and interest group lobbying.
768. In the interests of functionality, it is recommended that: (i) the ACA should reflect a national perspective which would be of value to individual States as they prepare their individual priorities for agriculture within a national framework; and (ii) membership should be restricted to no more than 12 persons.
769. While BOA has recently (2006) prepared a strategic plan, it is recommended that this plan be revised to provide the Director with a more balanced set of activities that are achievable in the medium-term (Action 29).
770. The revised plan should provide a sensible balance of activities between: (i) subsistence crops and commercial production; (ii) the various sections of BOA (horticulture, forestry, livestock and quarantine); and (iii) productive agriculture versus conservation outcomes. In the interests of achievability, the revised plan would be prepared with reference to the resources available to the Director – both financial and staff resources. But, where necessary, the Director would be required to improve the value of those resources in the interests of service delivery and therefore, better sector outcomes.

11.2.2 Improve the Capacity of BOA Staff

771. Given that 100 percent of the government investment in BOA will be spent on wages and salaries in 2008, it is important that the return on this investment be optimized. The government's investment in the sector is not intended for the benefit of the staff members per se, but rather government is investing in a resource which can provide relevant services to the various BOA clients – including farmers.
772. Given the heavy international travel schedule of the Director of BOA and the complexity of the sector, it is suggested that a suitably qualified Deputy Director should be appointed who could assist the Director with management, especially during his absences. Without a deputy, the workload on the Director is too great (Action 30).
773. To optimize the investments in agricultural research, there needs to be agricultural extension services available that use skilled staff and modern technologies to extend the research messages to farmers. In many parts of the world, FAO uses an effective technique called farmer field schools (FFS) to ensure IPM messages are properly disseminated in a cost effective manner. The basis of the system is that it works with groups of farmers, using one selected farm as the classroom.

774. While it is recognized that numbers of farmers are relatively low, it is recommended that BOA and TTM review the existing extension system for fruit crops and adopt FFS with a view to optimizing efficiency (Action 31).
775. It is recommended that the education and skill levels of BOA staff should be enhanced to ensure those staff are better able to implement the BOA strategic plan and deliver the services required of the BOA by government, clients and stakeholders (Action 32).
776. Under the proposed budget cuts being discussed for BOA, it seems inevitable that the Director will be forced to reduce his staff costs. Such a tough decision would be difficult, especially in the context of Palau. If the Director was forced to make such a decision, there are two immediate possible approaches. First, he could remove those staff that have been politically appointed and second, he could remove staff that were selected for additional training but who are unwilling to participate. Either way, the important outcome for BOA is that the skill-sets of remaining staff are as relevant as possible to the services they are paid to deliver.
777. It is recommended that the PCC be approached to design tailor-made courses for staff of each of the four sections of BOA (Action 33). Funding could be sourced from Palau National Scholarship Board which has the capacity to fund "mature" or in-service students. Further, the PCC should be encouraged to develop and offer adult education classes in agriculture. It is suggested that, in part, the curriculum should be based on the BOA strategic plan.

11.2.3 Improve the Targeting of Funding

778. As explained in Section 3 of the separate FEIM report on the Agriculture Sector, there are significant resources being expended in the sector as a whole. The issue is whether or not those funds are being used and targeted as effectively as possible.
779. It is recommended that the agencies working in the sector should participate in a sector wide planning session to: (i) assist BOA to prepare a revised strategic plan; and (ii) to identify how each agency can best contribute towards the overall goals of the Bureau and sector (Action 34).
780. It is recommended that the Director of BOA should call the TTM and the PCC research station Directors together to review strengths and weaknesses, and then to rationalize the respective research programs to the best advantage of the sector (Action 35). One possible outcome might be for PCC to continue focusing on traditional subsistence agriculture, while TTM addresses the more commercial issues, including a new and important research program on production of new varieties of vegetables.
781. While donors are collaborating with the BOA in extension activities, there is a need to ensure the focus is relevant (Action 36). For example, the organic focus of the FAO in pesticide use may meet conservation objectives, but is not entirely relevant to the needs of commercial agriculture.
782. Once BOA has a revised strategic plan, the Director (with assistance from the proposed ACA) can encourage donors to match their programs to the specific needs of BOA (as identified in the strategic plan).

783. It is also recommended that once the BOA strategic plan has been revised, that the BOA Director actively pursues any additional operational donor funds he may need e.g. significant additional funds will be required if the BOA objective of eradication of fruit fly is to be achieved (Action 37).

11.2.4 Improve Quarantine Capacity

784. To underpin the conservation of bio-diversity, the quarantine section of BOA needs to be more effective. It is recommended that the Quarantine Section of BOA needs to be reviewed with the objective of assessing the adequacy of staff quality and numbers, and adequacy of equipment to provide quarantine services (Action 38). The review should be coordinated with bio-security requirements and plans prepared by OERC.
785. It is recommended that, whether or not staff numbers are increased, the quarantine section needs to be adequately equipped. In particular, they need: (i) X-ray equipment to detect biological matter at air and seaports; (ii) a properly equipped laboratory to analyze biological samples for insects and contamination; and (iii) BOA offices, including the offices of the quarantine service, need to be refurbished (Action 39).
786. Finally, to deal with the persistent language difficulties presented by Chinese clients, it is recommended that the quarantine service have on-demand access to Chinese translation services (Action 40).

Matrix 20: Agriculture and Forestry Action Plan

Goal: Diversify and significantly increase the level of agricultural production and develop productive forests

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
1. Improve the outlets for agricultural produce	1	Construct Central market after review of feasibility study.	8.8 (3)	Minister RD	\$500,000 C	Yr 1
	2	Work with market chain participants to facilitate regular supply of fresh produce onto the market.	7.3 (8)	BOA	Nil	Yr 1
	3	Develop regulations to ensure all produce sold in the market meets minimum quality standards.	6.3 (11)	BOA/DOEH	\$15,000 R	Yr 3
	4	BOA to undertake research into feasible, environmentally sound production systems for new crops and fruits	6 (12)	BOA/Chamber of Commerce	Nil	Yr 2
	5	Begin collaborative research program to develop value-added products based on traditional crops.	6 (12)	BOA/Station Directors of TTM & PCC Research	\$40,000 R	Yr 1 - 5
2. Address poor quality soil problems	6	Develop sustainable land use plans for each grade of soil	9.5 (1)	BOA/PPLA/PAL ARIS	\$30,000 R	Yr 2-4
3. Implement sustainable and effective land use practices	7	Develop land management practices in close consultation with BOA and EQPB. Also collaborate with agencies that have the appropriate skills, particularly SPC and USDA NRCS.	7 (9)	EQPB/BOA/PAL ARIS	\$75,000 C	Yr 2
	8	Act of Congress to enshrine land use practices in law. During a 2 year awareness raising period: (i) farmers and landowners would be required to attend a farmers field school (FFS) in IPM	7 (9)	Congress/EQPB/BOA	\$30,000 R	Yr 3-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		techniques run by BOA staff; (ii) EQPB staff would develop a more regular and rigorous program of residue testing in fruit and vegetables (with all results made public if residue limits are exceeded); and (iii) a regular program of soil testing would be established on behalf of farmers (and subsequently put on a user pays basis).				
	9	New regulations have 2 year awareness raising period, then enforcement. There should be monitoring and enforcement of agricultural chemical import regulations, based on improved collaboration between DEH, EQPB and BOA.	7 (9)	EQPB/BOA/DEH	\$10,000 R	Yr 3-5
	10	Amend EQPB Act to allow deportation of persistent foreign offenders for breaches of the pesticide regulations.	7.5 (7)	Congress/EQPB	Nil	Yr 1
	11	Amend EQPB Act to allow penalties for breaches of the pesticide regulations to apply to landowners, not just employees - especially relevant where business "front" are being used.	7.5 (7)	Congress/EQPB	Nil	Yr 1
4. Increase the participation of Palauans in agriculture	12	Promote and demonstrate benefits of traditional and subsistence farming – including financial analyses of main traditional and commercial crops.	7.8 (6)	PCC/BOA	\$50,000 R	Yr 2-5
	13	Run a sustained publicity campaign on agriculture and its potential.	7.8 (6)	PCC	\$50,000 C	Yr 1
	14	PCC to develop and offer adult education classes in agriculture. It is suggested that, in part, the curriculum should be based on the BOA strategic plan.	6.5 (11)	PCC	\$10,000 R	Yr 1 - 5
	15	Establish website to inform and provide a data base of information to planners, donors, potential	7.8 (6)	SBDC	\$15,000 C	Yr 1

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		investors.				
	16	Review import duty free status for imported foods that can potentially be produced in Palau and amend as appropriate.	8 (5)	Congress	Nil	Yr 1
	17	Review the tax status of the agriculture sector.	8 (5)	Congress	Nil	Yr 1
5. Reorient BOA Forestry to production opportunities	18	Use sustainable management practices to develop productive forests.	5 (13)	BOA/PALARIS	\$5,000 R	Yr 2-5
	19	Review the risk assessment of Acacia species as an invasive weed.	7 (9)	BOA	Nil	Yr 1
	20	Submission to Minister of RD to inform him of wider implications of USDA branding Acacia as invasive.	7 (9)	BOA/PCS/TNC	Nil	Yr 1
	21	Minister of Resource Development use official channels to ask USDA for repeal of decision.	7 (9)	Minister RD	Nil	Yr 2
	22	Inform landowners about economic opportunities available from commercial forestry.	5 (13)	BOA	\$50,000 C	Yr 2
	23	BOA and the States be required to divest themselves of nurseries within 3 years.	6.8 (10)	BOA/States	Nil	Yr 2
	24	Ask USDA to fund 2 additional staff members who will be responsible for plantation forestry.	5 (13)	BOA	Nil	Yr 1
6. Strengthen the SBDC business	25	Improve the speed of service to SBDC clients by looking beyond BOA to local agriculturalists to	8.8 (3)	SBDC/MOF	\$20,000 R	Yr 1 - 5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
support services		provide additional appraisal services.				
	26	SBDC be resourced to further develop business support networks and new business incubation programs.	9 (2)	MOF/SBDC	\$30,000 R	Yr 1 - 5
7. Make Land lease arrangements transparent	27	Address the business "front" masquerade and make all land tenure agreements transparent by requiring them to be properly registered with the Office of the Attorney General.	8 (5)	Congress/GOVERNMENT	Nil	Yr 1
8. Focus BOA on production priorities	28	Establish a BOA advisory council for agriculture with balanced representation for all sections of BOA .	8.2 (4)	Minister RD	\$5,000 R	Yr 1 - 5
	29	Review BOA strategic plan to identify priority activities within budget	9.5 (1)	BOA	\$50,000 C	Yr 1
9. Improve the capacity and skills of BOA staff	30	Appoint a suitably qualified Deputy Director to assist the BOA Director.	8 (5)	BOA	\$15,000 R	Yr 1 - 5
	31	Review existing extension systems and adopt group delivery techniques to optimize efficiency	7.3 (8)	BOA	Nil	Yr 2
	32	Require BOA staff to participate in in-service adult education program	7.5 (7)	BOA	\$20,000 C	Yr 2
	33	PCC design tailor-made courses for staff of each of the sections of BOA.	7.8 (6)	PCC/BOA	\$20,000 C	Yr 1
10. Improve the targeting of funding for the sector	34	Agencies working in the sector participate in a sector wide planning session to: (i) assist BOA to revise strategic plan; and (ii) identify how each agency can best contribute towards the overall	9.5 (1)	BOA and all sector agencies	\$10,000 C	Yr 1

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		goals of the Bureau.				
	35	Review strengths of TTM and PCC Research Stations and rationalize to best advantage of the sector.	7 (9)	BOA/PCC/TTM	Nil	Yr 2
	36	Ensure focus of BOA's collaborating donors is relevant to BOA strategic plan and BOA clients.	7.3 (8)	BOA/FAP/SPC/TTM	Nil	Yr 2
	37	Once BOA strategic plan has been revised, Director pursues additional operational donor funds needed.	8.8 (3)	BOA	Nil	Yr 2-5
11. Improve quarantine capacity	38	Review Quarantine Section to assess staff quality and numbers, and equipment to provide services. Coordinate bio-security measures with OERC.	7.5 (7)	BOA/OERC	\$30,000 C	Yr 2
	39	Quarantine Section need: (i) X-ray equipment to detect biological matter at air/seaports; (ii) laboratory to analyze biological samples; and (iii) refurbish all BOA offices, including quarantine service.	7.3 (8)	BOA	\$500,000 C	Yr 2
	40	Ensure quarantine service has on-demand access to Chinese translation services.	7 (9)	BOA	\$10,000 R	Yr 2-5

Note: "R" indicates recurrent cost; "C" indicates capital cost.

Summary:

Total capital costs: \$1.32million

Total recurrent costs: \$300,000

12. Infrastructure Strategies and Actions

787. In the infrastructure sector there was a large list of possible strategies and actions. Prioritization of the large list was undertaken using the SID process; a stakeholder survey; a more detailed assessment using criteria focussed on the sustainable economic development impact of possible actions and professional judgement. The approaches are described in the separate FEIM (2008g) action plan paper for infrastructure.
788. The **Goal for Infrastructure** is to: *Provide, protect and maintain infrastructure on an efficient and equitable basis to improve access, standards, reliability and value-for-money.*
789. A core agenda for infrastructure has been developed that specifies several **high priority programs and projects**.
790. The high priority **programs** are:
- i) Maintenance and supervision (roads, airport, buildings, equipment, skills), with most attention to immediately reducing losses and risks, achieving quality in every task and investment; and recovering adequate revenues;
 - ii) Appropriate pricing, reorganisation and regulations of services;
 - iii) Setting a tourism strategy with targets and obligations in the infrastructure sector;
 - iv) Setting a strategy for management of environment and resources;
 - v) Applying building codes and land use zoning;
 - vi) Appraising investment and maintenance choices.
791. The high priority **projects** are:
- i) Electricity: conservation, adequate PPUC revenues, and adequate capacity in generation, transmission and distribution;
 - ii) Sewerage in Koror and south Babeldaob;
 - iii) Water system conservation, upgrading and cost recovery;
 - iv) Waste reduction, management and future landfill preparation for Aimeliik;
 - v) Airport operations and business leases; and
 - vi) Public buildings and facilities – conservation, best uses, and schools, especially the strategy for Babeldaob.
792. The Action Plan of 2009-13 across all infrastructure sectors (excluding

telecommunications) will cost around **\$150m for capital and maintenance**, priced in 2008 dollars. The five year division would be around \$20m in year one, then \$27m, \$33m, \$36m and \$38m. The lower spending in years 1 and 2 reflects the realities of small revenue, as well as the need for Palau to concentrate on reforms in institutions, regulations and conservation. The larger spending in later years reflects the works needed in sewerage, electricity, solid waste landfill and the rising maintenance.

793. The probable and assumed **sources** of capital are in ODA for the electricity system, some pilot schemes in renewable energy, waste management and landfills, pumps for sewerage collection, Compact Road maintenance, and possibly for public buildings and for education facilities in Babeldaob. The most urgent need is to secure an ODA commitment for short term and long term solutions in the Koror sewerage system, and the design and building of a system for Airai-Aimeliik.

794. [To be completed when infrastructure action plan is finalized]

Matrix 21: Infrastructure Action Plan

13. Financing Education Strategies and Actions

13.1 Focus and Context

795. There has been considerable effort in the ongoing development of policies and plans for the education and health sectors. It is considered that existing strategic and operational plans in the education and health sectors are themselves products of extensive consultative processes and thorough analysis of desirable future directions given available information and socio-political realities. Thus the focus of the MTDS is in developing options and action plans for financing education policies and strategies.
796. Financing education is a sector-wide concern. And even though Palau outspends most other countries, educators identify shortfalls in current spending. For example, the Education Master Plan for 2006-2016 (encompassing public schools grades 1-12) calls for \$9.5m in new education spending (\$0.5m for capital improvements and \$9m for operations improvements) over the ten years but most of this sum is currently unfunded.
797. Beyond immediate financial short-falls, the sector confronts an uncertain macro-economic environment. The future of US Federal categorical grants for education is subject to change as a part of the ongoing COFA review. These grants supplement national appropriations but in general, support essential, as opposed to discretionary, services. Two sub-sectors – pre-primary and post-secondary – rely heavily on Federal grants and would face serious challenges in the event that Federal funds were reduced or discontinued. Palau lost eligibility for several education grants earmarked for the elementary and high school sub-sector at the time the initial Compact of Free Association came into force. Over first phase of COFA, Federal funds to the sub-sector were reduced by more than one-half (in real dollars). Although OEK appropriations increased (in real dollars), the increase did not fully offset the loss of Federal funds resulting in an overall reduction in real dollars expended. Reduction in expenditures is even more dramatic as a proportion of GDP (see separate FEIM paper on “Medium Term Sustainable Financing Strategy for Education”).
798. The possibility of further cut-backs in Federal grant funds looms as compact review begins in March 2008 for COFA Phase II (2009-2024). If all COFA funding was discontinued, a sustainable fiscal strategy would require across-the-board expenditure reductions of 12.5 per cent over five years along with considerable increases on government domestic revenues. Further reductions in expenditure of a similar order of magnitude would then be required over the following five years, amounting to a reduction of some 25 per cent over ten years. Thus while educators are calling for increased investment in education, there is a significant risk that with a continuation of current policies substantially less funding will be available.
799. The challenge for sustainable financing of education is four-fold.
- i) First, there is the challenge of adopting a sector-wide approach in which priorities are explicitly set across the sector as well as within subsectors.
 - ii) Second, there is the challenge of funding un-funded or under-funded priorities already identified in strategic planning documents.
 - iii) Third, there is the challenge of doing more with less as the government struggles

to implement across-the –board macro-economic adjustment.

iv) Fourth, there is the challenge of gaining clear political support for internal adjustments necessary to reduce costs while still protecting core instructional services.

800. To address current and projected financial shortfalls, a multi-strategic sustainable financing plan is needed with the following features:

- i) Sector wide in approach;
- ii) Clear priorities established between and within sub-sectors;
- iii) Revenue generating options identified and adopted;
- iv) Cost-saving and efficiency options identified and adopted;
- v) Implementation strategy that identifies costs of implementation and a realistic timeframe;
- vi) Communications strategy that involves stakeholders (educators, the public, and political leaders) in planning and ongoing monitoring to ensure their support for implementation and ongoing success.

13.2 Summary of Policies and Strategies for Education

801. The proposed sector-wide vision of the Education Master Plan 2006-2016 is:

Vision: Our students will be successful in the Palauan society and the world.

802. This vision captures the dual obligation of educators – to individual students and to the nation - and the multiple demands placed on educators – to ground students in Palauan custom, tradition, values and language while simultaneously preparing students for domestic and global labor markets. Key strategies for achieving this vision include:

- i) Enhancing children's readiness to learn prior to school entry;
- ii) Enhancing the ability of parents and guardians to provide effective support for children throughout the educational process;
- iii) Progressively improving the quality of classroom instruction and assessment across all levels of schooling while providing a balanced educational experience that imparts:
 - Basic skills in literacy, numeracy, civic and scientific knowledge;
 - Practical life skills;
 - Knowledge of Palau's history, culture, natural environment and core values;
 - Essential workforce readiness skills;
- iv) Providing access to post-secondary schooling that imparts higher level skills needed in the workforce together with lifelong learning opportunities

13.3 Strategies and Actions for Financing Education

803. In support of this vision and goal, 13 strategies and 27 actions have been identified. Strategies include:

- Sector-wide strategies:
 - To develop a sector-wide plan for sustainable education financing;
 - To develop a coordinated public-private strategy for expanding high school capacity while reducing drop-out rates.
- Pre-primary sub-sector strategy:
 - To achieve and sustain universal participation in quality pre-primary education.
- Elementary and high school sub-sector (public schools) strategies:
 - To minimize expenditures for non-instructional purposes;
 - To maximize efficiency in school operations;
 - To increase revenues (where allowed under the constitution).
- Elementary and high school sub-sector (private schools) strategy:
 - To reduce dependency on the government-aid to private schools grant.
- Post-secondary sub-sector (vocational-technical) strategy:
 - To strengthen voc-tech education by progressively expanding training capacity focused around a small number of high priority fields.
- Post-secondary sub-sector (Palau Community College) strategy:
 - To enhance financial sustainability by reducing dependency on government revenues.
- Post-secondary sub-sector (Palau National Scholarship Board) strategies:
 - To better align student assistance awards with current national development priorities;
 - To diversify funding for student awards;
 - To enhance efficiency in board operations.
- Post-secondary sub-sector (cross-cutting) strategy:
 - To critically assess a proposal put forth in 2007 to develop educational products targeting the Asian market demand for instruction in English.

804. The strategies and actions for financing education are set out in Matrix 22.

Matrix 22: Sustainable Financing of Education Action Plan

Vision. Palau's students will be successful in the Palauan society and the world.

Goal. To provide Palau students with access to quality educational opportunities from pre-school through to post-secondary at

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
1. Develop sector-wide plan for sustainable education financing.	1.1.	Facilitate cooperative planning by all education providers leading toward sector-wide sustainable financing implementation plan based on the working paper and this matrix.	8.5 (5)	Minister & Director of Education to facilitate collaboration	Nil	Year 1 or as soon thereafter as possible
	1.2.	Create permanent sector-wide organization (e.g. Palau Educator's Association) to: <ul style="list-style-type: none"> - Facilitate sector-wide coordination and planning - Advocate for children and education. 	5.2 (14)	Voluntary initiative by professional educators	Nil	Year 1 or as soon thereafter as possible
2. Develop a coordinated public-private strategy for expanding high school capacity while reducing drop-outs	2.1.	Providers of secondary education to come together to: <ul style="list-style-type: none"> - Examine need for expansion - Examine need for alternative educational experiences for students who experience difficulty in traditional settings - Examine plans of each service provider to expand - Develop coordinated strategy for meeting expansion needs over medium-term. 	7.5 (8)	MOE to facilitate with private providers (CMS, PEC, SDA, BMS)	Planning = nil new costs; Implementation costs TBD; Benchmark: new public high school capital cost =\$12m; operating costs =\$0.3-\$0.4m per year	Planning to begin Year 1 or as soon thereafter as possible

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
3. Achieve and sustain universal participation in quality pre-primary education programs	3.1.	Increase public awareness of benefits of early childhood education - Intensify information and education	9.0 (4)	Early Childhood Consortium	Nil	Years 1-5
	3.2.	Facilitate research to generate Palau-specific data on educational and economic impacts of different forms of early childhood education.	7.3 (9)	Early Childhood Consortium, Head Start, MOE	Nil	Years 1-5
	3.3.A.	Option 1 – If status quo continues with Head Start the main service provider but with “cap” on enrollment - Develop training, support, and incentives for NGOs and CBOs to expand private services reaching out to children not served by existing providers.	6.0 (13)	PCAA, MOE, Early Childhood Consortium	Additional costs to be determined	Years 2-5
	3.3.B.	Option 2 – If there are alterations in status quo due to COFA-induced changes in Head Start funding or administration: - Expand government and private services by: Creating network of public kindergartens affiliated with elementary schools Providing training, support, and incentives for NGOs and CBOs to expand private services.	8.0 (6)	PCAA, MOE, Early Childhood Consortium	Public kindergartens cost=\$500,000 Incentives & support to CBOs & NGOs Cost =\$100,000	Years 2-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
4. Minimize expenditures for non-instructional purposes.	4.1.	Fully recover cost of school lunch program: - Change cooks from full-time to part-time employment status (working only when students are present) -Develop income guidelines to identify students qualifying for free/reduced-cost lunches -Institute progressive increase in lunch fees (add \$0.25 per year) until full cost recovery is achieved (estimate 4-5 years).	9.0 (4)	Minister & Director of Education	Savings by change in status of cooks = \$120,000 New revenues through fees = 400,000	Years 1-5
	4.2.	Reduce costs associated with school transportation -Change bus drivers from full-time to part-time status (short-term measure) -Privatize school bus services through contractual arrangements (medium-term measure).	6.8 (11)	Minister & Director of Education	Savings by change in driver status = \$40,000 Savings from privatization TBD	Years 2-5
5. Enhance efficiency in public school operations.	5.1.	(All options) Implement public consultation and education program to gain support of Babeldaob parents and communities for consolidation.	10 (1)	MOE Management Team	Nil	Year 1
	5.2.	(All options) Work with Public Service System to plan for reduction-in-force to bring staff levels in line with requirements as consolidation progresses.	7 (10)	MOE Management Team	Nil	Year 1
	5.3.	Choose from among three options for consolidation of schools on Babeldaob and proceed to implementation.		MOE Management Team	Nil	Years 2-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
	5.3.A.	Option 1 – Regionalize schools (grades 1-4 remain in villages; grades 5-8 consolidate into 3 regional schools).	8.5 (5)	MOE Management Team	Savings \$335,000	Years 2-5
	5.3.B.	Option 2 – Implement official 1999 consolidation plan resulting in 5 schools in rural Babeldaob plus Airai.	8.5 (5)		Savings \$430,000	Years 2-5
	5.3.C.	Option 3 – Implement expanded consolidation resulting in 3 schools in rural Babeldaob (in addition to Airai).	8.5 (5)		Savings \$570,000	Years 2-5
	5.4.	Gradually expand use of multi-grade teaching to enhance efficiency in small schools: - Target small schools to train in multi-grade techniques - Gradually increase use of multi-grade teaching as existing staff resign, retire, or are redeployed.	7.0 (10)	MOE Management Team	Savings of up to \$100,000 per year may be possible; Additional costs for training to be determined	Years 2-5
6. Increase revenues (where constitutional)	6.1.	Institute charges for ancillary services provided to non-students (e.g. use of MOE facilities and equipment, services by MOE personnel, etc). - Work with OEK to gain authorization for charges - Identify opportunities for revenue generation - Develop system of charges and procedures for collection.	7.3 (8)	MOE Management Team	Additional revenues to be determined	Years 1-5
7. Reduce	7.1.	Take actions to enable schools to meet recurrent	8.5 (5)	Management &	Nil	Years 1-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
dependency on government aid to education grant		costs from revenues while gradually earmarking government aid to program development. - Critically assess operations and implement efficiency measures - Identify new revenue-generating services to be offered - Diversify funding sources beyond government aid and tuition.		Boards of Directors of the various schools		
8. Strengthen voc-tech by progressively expanding training capacity by focusing on a small number of priority fields.	8.1.	Develop human resource strategy for increasing Palauan participation in vocational and technical fields - Identify priority fields to target for increased Palauan participation - Develop holistic strategy for action (training, support, policy).	6.8 (11)	Palau Training Council, PCC, MOE, Chamber of Commerce	Costs to be determined	Years 2-5
	8.2.	Strengthen vocational-technical training - Review 2007-08 Voc-Tech study recommendations (study by Forum Secretariat) - Accept or modify recommendations - Implement as modified.	7.5 (8)	Palau Training Council, PCC & MOE	Study proposes new investments = \$1.5m in public schools & \$4.5m in PCC	Years 1-5
	8.3.	Assess feasibility of developing a civilian apprenticeship training program focusing on fields not currently included in military ("CAT") apprenticeship program: - Assess current apprenticeship program with CAT team to distill elements that make this	6.5 (12)	PCAA with Training Council, Chamber of Commerce, PCC, MOE	Initial new costs \$50,000	Years 3-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		program so successful - Identify opportunities for civilian apprenticeship program in one or more of priority fields (see 6.1) - Implement pilot project; monitor, assess, and expand as appropriate.				
9. Enhance financial sustainability by reducing reliance on government revenues (Federal and OEK)	9.1.	Progressively increase charges until in line with the average of community colleges across the U.S. & affiliated jurisdictions of the Western Pacific.	9.5 (2)	PCC President & Board of Trustees	Cumulative new revenues \$2.25m (based on \$10 per credit hour increase per year)	Years 1-5
	9.2.	Fully capitalize PCC Trust Fund: Seek new donors; Seek designation as a "501(C)3" non-profit (under U.S. tax laws) -- Option 1, direct designation through COFA; Option 2, affiliate with U.S. based non-profit partner.	9.5 (2)	PCC President & Board of Trustees	Target capital in-flow of \$8.3m Once capitalized fund will generate up to \$1m per year.	Years 1-5
10. Align scholarship awards with national development priorities.	10.1.	Update list of priority fields of study: - Create public-private partnership task force to carry-out HRD study (PNSB, PCC, MOE, OEK, Chamber of Commerce, and other interest groups) - Seek OEK endorsement of outputs - Set aside a portion of scholarship funds for students in priority fields.	8.5 (5)	PNSB Board of Directors with partner organizations	Estimated cost of study \$15,000	Years 1-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
11. Diversify funding sources.	11.1.	Amend law to designate PNSB a non-profit corporation.	8.5 (5)	OEK	Nil	Years 1-5
	11.2.	Attract new non-ROP funding for scholarships and loans: Develop a marketing plan; Develop multi-year plan that sets targets for non-ROP scholarship and loan funds; Aggressively implement marketing plan to increase funding for scholarships and loans from non-traditional sources (bilateral, multi-lateral, and private).	8.5 (5)	PNSB Board of Directors & Staff	Nil	Years 2-5
	11.3.	Institute new requirements for a portion of student loans to be repaid in cash; this money to be designated for new awards.	8.5 (5)	PNSB Board of Directors	New revenues to be determined	Years 1-2
12. Enhance efficiency in operations.	12.1.	Increase graduation rates: Desk review of student records and survey of current & former students to identify success factors; Integrate research information into policies and procedures designed to improve success rates.	9.3 (3)	PNSB Board of Directors & Staff	Short-term technical support may be needed (estimate one-time \$10,000)	Years 1-2
	12.2.	Increase proportion of first and second year students who attend PCC: Develop communications strategy to gain support for policy; Implement changes in policies and procedures to limit 1 st & 2 nd year awards to PCC except where PCC does not offer necessary coursework for student's intended field of study.	7.8 (7)	PNSB Board of Directors & Staff	Costs – Nil Increase graduation rates	Years 2-3

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
	12.3.	Assess feasibility of channeling more students to lower-cost Asian schools: Form a committee (PNSB, PCC, MOE, Ministry of State, diplomatic community) to identify affordable "schools of excellence" with programs relevant to Palau; Identify strategies & incentives to encourage student acceptance.	7.0 (10)	PNSB Board of Directors & Staff with program partners	Costs – Nil Potentially increase # study awards offered	Years 2-3
13. Assess proposal for Palau to develop educational products targeting Asian market for instruction in English	13.1.	Create task force to further develop concept, identify pitfalls, and undertake preliminary feasibility assessment; information to be used in determining if full feasibility assessment warranted.	7.0 (10)	Office of the ROP President	Costs \$20,000-\$25,000 for initial assessment (short-term technical assistance and some travel)	Years 2-3

14. Financing Health Strategies and Actions

14.1 Focus and Context

805. The health sector, and in particular the public health sector, faces a number of financial challenges over the medium-term that will require fiscal adjustments of about \$3.3m. These are not new challenges, however, and the Ministry of Health has already established a framework for future action in the form of planning, budgeting, and fee-collection systems. These existing systems provide a solid foundation for new activities to address current and future needs. However, most plans in the health sector are based on an implicit assumption that the macro-economic environment in which the health sector operates will change only incrementally and this is not likely to be the case in the medium term. Thus the focus of the MTDS is in developing options and action plans for financing health sector policies and strategies.
806. The medium-term (five year) goal for sustainable health financing is to implement a combination of strategies that will meet the current resource gap (estimate \$1.2m per year), allow some local financing of capital equipment costs (estimate \$0.5m per annum will represent an adequate start), and future revenue reductions that may result from macro-economic adjustments (estimate \$1.6m) for a total adjustment of \$3.3m. This is equivalent to 23 percent of funds available to the Ministry of Health for the baseline FY2007 (including OEK appropriations, Federal awards, and actual revenues but excluding in-kind assistance).

14.2 Summary of Policies and Strategies for Health

807. The Ministry of Health's vision and two core strategies for the health sector are as follows:
- Vision: Healthy people in a healthful environment
- Strategy: Making healthy choices the only choices.
- Strategy: Promoting community ownership of health.
808. This vision of health conceptualizes health as being a product of the environment with "environment" broadly defined to encompass physical, genetic, social, spiritual, cultural, legal, and political dimensions. It then follows that an important function of the Ministry of Health is to influence the environment, in all its dimensions, as an essential support for health.
809. The Ministry recognizes that it faces significant limitations in its ability to influence many of the environmental dimensions of health, hence the second complementary strategy of "commoditizing" health. This means that health workers will strive to empower people and communities to take actions of their own choice that promote health.
810. Work is in progress on a Human Resource Plan for health and a new Public Health Strategic Plan. This Public Health plan will represent a radical departure from previous plans. It focuses not on populations (children, women, etc) or on service units but rather on priority health issues and strategic directions. As each unit within the Bureau develops its budget and unit-specific plan, the unit will be expected to report on their achievements and activities relevant to these

cross cutting priorities.

14.3 Strategies and Actions for Financing Health

811. Elements of a financially sustainable health system include:

- i) **Healthy People.** A financially sustainable health system targets underlying social, policy, environmental and behavioral causes of illness and as a result, is able to minimize spending for treatment of disease. Treatment is always more expensive and less desirable than prevention.
- ii) **Efficient.** An efficient health care system chooses the services that will be provided wisely in a manner that balances individual needs with the public good. Wastage is minimized (staff, money, supplies, buildings). An efficient system sets aside monies to maintain and replace equipment and infrastructure as needed.
- iii) **Predictable Public Funding.** The Constitution has already earmarked health as a national priority. Budget allocations should reflect this priority by providing sufficient funds to support all essential services. National appropriations are supplemented by multiple donors with external funds earmarked primarily for developmental activities (training, infrastructure, research, demonstration) instead of day-to-day running costs.
- iv) **Equitable and Efficient Fees and Charges.** An efficient system of charging for health care reflects actual cost-of-service as well as public health priorities, is efficiently managed, and transparent. And from an equity perspective people with the greatest need should receive the greatest subsidy. There needs to be a collective sense of shared ownership in the system that reduces default rates in addition to an efficient collection mechanism.

812. These elements of sustainability are admittedly somewhat utopian – no population is fully free of preventable diseases, no system is fully efficient, no service provider ever has all the resources s/he wants, there are always disagreements about priorities, and no user is ever truly happy to pay fees. Nevertheless, focusing on these four elements is critical for ensuring financial sustainability.

813. In the medium term a number of strategies and actions to increase revenues and reduce costs have been identified that are set out below and summarized in Matrix 23. Reduction in certain high cost services must be considered but should be an option of “last resort” in the event of severe macro-economic deterioration or lack of success in implementing other strategies.

14.3.1 Strengthen the Enabling Environment for Financial Sustainability

814. The Ministry of Health has an excellent budgeting and financial accounting system. This is an essential foundation for all sustainability strategies. To this foundation, the following measures need to be added:

- i) A ministry-wide sustainability task force to engage managers from all units along with health care providers to consider sustainability

- issues and prepare a medium-term Health Care Financing Plan;
- ii) Information about the actual cost of services including supplies, materials, the depreciation of capital assets and capital investment needs over a rolling five year planning horizon;
 - iii) Improved tracking of patient account receivables with a focus on current accounts that can potentially be collected;
 - iv) Integration of financial considerations into all program, division, and bureau plans;
 - v) Increased awareness of costs by both consumers and health care providers.

14.3.2 Prevention of Disease

815. Prevention of disease and complications of disease is the ultimate sustainable financing strategy. Prevention, however, will have only modest impact on the medium-term financial outlook since the behavioral risk factors that give rise to today's health problems are set in the past. Prevention will mainly impact on the long-term financial outlook as younger people (hopefully) adopt more healthful behaviors.
816. The prevention of disease and complications of disease has been a longstanding strategy in the health sector. The following strategies and actions are identified for the medium term strategy for the prevention of disease:
- i) Prioritize existing primary and preventive health services based on evidence of their impact on priority diseases & underlying causes of ill-health.
 - ii) Earmark revenues from tobacco and alcohol taxes, and food items that are deleterious to health to relevant health services.
 - iii) Facilitate development of health promoting environments and development policies.
 - iv) Maintain monitoring, surveillance, and response capacities against emerging and re-emerging diseases.

14.3.3 Efficiency and Privatization – Target \$1.25m

817. Assessing and enhancing efficiency is an ongoing management process. In recent years the Ministry has taken a number of measures to enhance efficiency examples of which are found in the text of the paper. For the future, actions identified to further enhance efficiency include:
- i) Improving the skills of middle managers;
 - ii) Devolving procurement authority back to the MOH;

- iii) Improving maintenance of medical equipment and prospective planning for replacing equipment at the end of its economic life;
 - iv) Reducing the administration and management costs associated with US Federal grants;
 - v) Addressing the problem of medical ward beds doubling as long-term care beds;
 - vi) Improving diagnostic capabilities to reduce off-island referrals; and
 - vii) Consolidating health offices now scattered around Koror.
818. Privatization is a sub-strategy closely linked to efficiency. To date, mortuary and janitorial services have been privatized in whole (mortuary) or in part (janitorial). Several other services are identified as candidates for future privatization - security, laundry, and biomedical services. Privatization for several other services is also under discussion. Decisions about privatization, however, need to await completion of cost analysis since it is difficult to make informed judgments about potential savings from alternative service mechanisms in the absence of cost data. For privatization to make an impact on costs over the medium-term there is also need for the Ministry of Health to work with the Ministry of Finance to streamline procedures for reduction-in-force that may be necessitated by privatization.

14.3.4 Diversifying Funding Sources – Target \$0.8m

819. This strategy addresses short-term adjustment issues albeit not the larger issue of sustainable health financing since in many cases diversification substitutes one donor for another. Diversification does, however, reduce vulnerability and for this reason, is worth pursuing.
820. The Ministry of Health has long relied on bilateral donors to finance capital investments (including training) and more recently has enjoyed success in expanding this strategy to meet recurrent costs (e.g. emergency room staffing paid for by the Republic of China-Taiwan). To meet adjustment targets through diversification, external relations will need to be given higher priority within the Ministry and an explicit “sales and marketing” structure created.

14.3.5 Revenue Enhancement – Target \$1.25m

821. The current fee schedule has several features that promote health such as: differential charges for visits to community health centers, hospital clinics, and the emergency room; protection of the medically indigent from excessive charges; full or partial subsidies for services that promote the public interest (e.g. immunization, communicable disease control, and health promotion). As changes are made in charges and fees, these health promoting features of the existing fee schedule should be retained.
822. Revenue enhancement must begin with an up-to-date cost-of-service analysis. Charges will then need to be gradually revised in line with actual costs. This will mean that some people will pay more for health care but their burden can be lightened by modifying the existing sliding fee scale to:

- i) introduce 80 and 90 percent charge categories so that the highest earning households pay closer to the full cost of care;
 - ii) revoke the 30 percent subsidy now enjoyed by foreign workers since there is no constitutional prerogative for non-citizens to receive subsidized health care;
 - iii) introduce nominal charges for behavioral health services; and
 - iv) introduce nominal charges for services delivered at home or in the community.
823. The burden will also be lightened if an insurance or insurance-like scheme can be introduced. Currently about 2,000 residents have traditional private health insurance through three on-island affiliates of U.S. based insurance companies. These are employees (or their dependents) of twenty of Palau's largest private or semi-private corporations. Monthly premiums (\$65-\$75) are high relative to wages in part because of Palau's small population made smaller by the few enrollees. If government as the largest employer were to facilitate access to insurance by its employees (even without sharing a portion of the cost), the pool of insured persons would expand and costs would theoretically drop as risk is distributed over a larger population pool.
824. There have been several proposals for national insurance dating back to 1995 but no proposal has garnered sufficient support to gain endorsement by the OEK. A proposal now before the OEK will establish mandatory Medical Savings Accounts (MSA) with employee-employer contributions for every worker and government contributions for the medically indigent. Following an 18-month period of capitalization, individuals can draw on their MSA to pay medical bills. Collections under this scheme will be in the range of \$8m-\$9m per annum but the funding actually flowing to the Ministry of Health cannot be easily calculated on the basis of available information. A subsidiary component of the MSA proposal is a requirement that the MOH identify a secondary insurance carrier with premiums for individuals paid from their medical savings accounts. The Asian Development Bank will field a specialized team of health economists in July 2008 to further assess this proposal.
825. Other strategies identified for enhancing revenues include:
- i) New environmental health fees associated with proposed new services incorporated in the National Environmental Health Action Plan (2008-2010);
 - ii) Introduction of rental charges for commercial operations using government facilities;
 - iii) Designated tax revenues to underwrite costs associated with tobacco, alcohol, injuries, and obesity control, the four primary underlying causes of ill-health in the Republic.

14.3.6 The Special Issue of Medical Referral and Hemodialysis

826. No discussion of sustainable financing is complete without mention of the special issue of hemodialysis and medical referral, both high cost services benefiting only a small number of people. Although the Ministry has successfully curtailed demand for referral in recent years through aggressive

management and cost recovery mechanisms, demand for hemodialysis has increased and based on the number of at-risk patients already identified, will double over the MTDS period. At a current annual cost of \$1.2m (18 percent of the OEK appropriation for health or \$400,000 per patient), increasing demand threatens to bankrupt the health care system.

827. The special situation presented by these services creates a difficult economic and ethical dilemma. Politically and ethically it is difficult to contemplate termination of these services. A more palatable strategy, albeit one that is challenging given the high costs, is to identify an alternative financing mechanism – possibly a catastrophic health insurance scheme – that will allow people in need to have continued access to services while government's share of the cost is minimized.

14.3.7 Health as a Future Public Service Corporation?

828. An increasing number of health care providers are calling for a major overhaul of the health care system with some services (inpatient care and possibly some ambulatory care services) organized along the lines of a public service corporation. Clearly such an idea requires careful study and if viable, careful marketing. Over the medium-term it is recommended that the proposed Sustainability Task Force be assigned responsibility for thoroughly evaluating the concept. If viable, implementation actions can be specified in the next MTDS (2014-2018).
829. An increasing number of health care providers are calling for a major overhaul of the health care system with some services (inpatient care and possibly a portion of ambulatory care services) reorganized along the lines of a public service corporation albeit with continued government subsidy in accordance with the constitutional mandate for health. Such a move would allow health managers greater control over personnel, procurement, and other inputs. This is a radical proposal and one that is sure to be controversial with the public. Clearly it requires careful study. Over the medium-term, it is recommended that the proposed Sustainability Task Force be given responsibility for thoroughly evaluating the concept. If considered viable, implementation steps can be integrated into the health care financing plan later in the MTDS period with implementation targeted for the next MTDS (2014-2019).

Matrix 23: Sustainable Financing of Health Action Plan

Vision. Healthy Palau in a healthful environment at a cost affordable to government and people.

Goal. By 2013, to implement a combination of strategies that will achieve fiscal adjustment equivalent to \$3.3m.

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
1. Strengthen enabling environment within MOH in support of sustainability	1.1	Create a ministry-wide sustainability task force. <ul style="list-style-type: none"> - Finalize sustainable financing plan and address long-term financing issues - Continuously monitor implementation throughout the MTDS period 	8.1 (5)	Minister	Staff time Yr 1, \$7200 Yr 2-5 \$4800	Yr 1 & Ongoing
	1.2	Determine actual cost of services and develop data base to periodically update as costs of inputs change.	8.2 (4)	Task Force with Office of Health Administration	Staff time or local contractor, \$10,000	Yr 1
	1.3	Increase awareness of costs. <ul style="list-style-type: none"> - Revise patient bills to reflect subsidy and charges - Educate staff about costs - Create incentives for staff to identify waste and inefficiency - Conduct periodic willingness to pay surveys 	8.0 (6)	Task Force with directors, chiefs, coordinators	Nil	Yr 2
	1.4	Produce regular timely reports on patient accounts receivable <ul style="list-style-type: none"> - Distinguish accounts by age and collection status - Write off old accounts that cannot be collected" 	8.0 (6)	Office of Administration	Nil	Yr 2
2. Prevent disease and complications of disease	2.1	Prioritize services based on impact on priority diseases and underlying causes; information will be used to: <ul style="list-style-type: none"> - Set fees to ensure they reflect public 	8.7 (2)	Bureau of Public Health	Nil	Year 1

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		<p>health priorities</p> <ul style="list-style-type: none"> - Develop a tracking system to identify resources allocated to public health priorities - Develop a tracking system to identify costs to the nation of selected conditions of ill health - Make selections among competing priorities for funding 				
	2.2	Ensure sustainable local financing for tobacco control and closely associated activities through a designated tobacco tax as proposed in the Draft Comprehensive Tobacco Control legislation now before Congress.	7.8 (7)	Advocacy – Bureau of Public Health; Action – OEK	Revenue Generating	Year 1
	2.3	Ensure sustainable local funding for alcohol control and closely associated activities through a designated tax on alcohol (work in progress through Division of Behavioral Health).	7.4 (11)	Research, development, advocacy – Bureau of Public Health; OEK	Revenue Generating	Year 2-4
	2.4	Ensure sustainable local funding for control of obesity and management of obesity-related NCDs through a designated tax on certain unhealthy foods.	7.2 (13)	Research, development, advocacy – Bureau of Public Health; OEK	Revenue Generating	Year 4-5
	2.5	Identify opportunities for sustainable financing of other public health priorities now funded by Federal grants (immunization, depression, emerging & re-emerging diseases)	Not Ranked	Research, development, advocacy – Bureau of Public Health	Revenue Generating	Year 2-5
	2.6	<p>Facilitate health promoting environments, policies and development programs.</p> <ul style="list-style-type: none"> - Strengthen MOH capacity to assess health impacts of policies and development 	8.0 (6)	Research, development, advocacy – Bureau of Public Health	Revenue Generating	Year 2-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		projects - Advocate for health to be more strongly integrated into the EIS process - Facilitate community initiatives on health promoting environments				
3. Revenue enhancement - increase revenues from \$1.9m (FY 2007) to \$3.1m (FY2013)	3.1	Revise patient care charges and fees in line with actual costs and charges: - Add 80 and 90 percent charge categories to sliding fee schedule so that high income earners pay closer to full cost of services - Remove subsidy for guest workers and dependents; facilitate formation of employer groups for purposes of private insurance - Introduce charges at least equivalent to transportation costs for services delivered in the home and community - Introduce nominal charges for behavioral health services - Revise fees paid for other services based on public health priorities.	7.7 (8)	Ministry-wide with focal action by Bureau of Public Health led by Environmental Health Division	Additional costs to be determined	Year 1-5
	3.2	Introduce insurance or insurance-like scheme	8.8 (1)	Task Force & Office of Administration with Minister	Revenue generating	Year 2-3
	3.3	Increase non-patient revenues: - Institute rent charges for private vendors using hospital facilities - Additional fees proposed by the Environmental Health Division for new consumer protection services (inspection of household kitchens used for commercial food preparation and worker barracks)	6.1 (15)	Office of Health Administration	Revenue Generating	Year 2

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
4. Diversify funding sources to generate \$0.8 new operating revenues	4.1	<p>Strengthen external relations and marketing within the Ministry:</p> <ul style="list-style-type: none"> - Designate an office or individual to manage and coordinate external relations with prospective donors - Obtain training in fundraising for staff responsible 	7.7 (8)	Office of Health Administration	<p>Revenue Generating but some additional cost</p> <p>Yr 2 \$10k</p> <p>Yr 3-5 \$5k</p>	Year 2
	4.2	Develop a planned strategy for seeking and cultivating non-traditional donors.	7.5 (10)	Designated office	Revenue generating	Yr 2 & ongoing
5. Pursue efficiency improvements with a targeted cumulative value of \$1.25m.	5.1	<p>Enhance the managerial capacity of middle managers:</p> <ul style="list-style-type: none"> - Strengthen human resource functions along the lines of the IPP recommendations - Provide formal training for middle managers leading to recognized credential 	8.6 (3)	Human Resource Development Office	Additional cost to be determined	Yr 3
	5.2	<p>Enhance efficiency in procurement of medical supplies and drugs</p> <ul style="list-style-type: none"> - Return procurement authority to the Ministry of Health - Strictly follow 40 PNC 624(d) governing procurement sources 	8.8 (1)	Minister with Office of Administration & Director of Ancillary Services	Cost Savings	Year 1
	5.3	<p>Improve reliability of medical equipment to improve patient care and reduce referrals</p> <ul style="list-style-type: none"> - Develop a 5-year rolling depreciation schedule to project future medical equipment replacement needs and facilitate early resourcing 	8.1 (5)	Office of Health Administration with Division of Ancillary Services	Short-term increased costs but reduced costs over longer-term	Year 1-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		<ul style="list-style-type: none"> - Contract biomedical maintenance and repair to specialized contractors - Earmark funding from each year's budget for equipment procurement (new and replacement) 				
	5.4	<p>Enhance efficiency in management of U.S. Federal grants (duplication in administrative functions estimated to cost \$0.8-1.4 m/yr):</p> <ul style="list-style-type: none"> - Centralize administrative functions reducing staff in accordance with requirements - Centralize transportation - Standardize equipment and supplies and pool procurement across programs - Delegate patient care functions to dispensary staff to reduce transportation and fuel costs (reassign personnel from the central facility to dispensaries as needed) 	7.6 (9)	Bureau of Public Health	Cost savings	Year 1-5
	5.5	<p>Address issue of acute care beds (medical ward) occupied by persons in need of long-term care:</p> <ul style="list-style-type: none"> - Social marketing of "death with dignity" at home - Expand existing home health services to include additional elements of hospice care (home medical and nursing visits, rental and loan of medical equipment, low cost provision of home nursing supplies and palliative drugs) 	7.4 (11)	Division of Clinical Services with Bureau of Public Health (Division of Primary and Preventive Services)	Short-term & ongoing costs and savings to be determined	Year 2
	5.6	<p>Selectively privatize functions that the private sector can do well at less cost than government:</p> <ul style="list-style-type: none"> - Dependent on Action 2. - With central government address 	7.5 (10)	Office of Health Administration	Cost savings to be determined	Yr 3-5

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
		<p>personnel issues associated with privatization</p> <ul style="list-style-type: none"> - Conduct cost benefit analysis of tier 1 candidates for privatization (housekeeping, security, laundry, biomedical, and curative-restorative dental services) 				
	5.7	<p>Improve diagnostic capability to enhance patient care and reduce off-island referral</p> <ul style="list-style-type: none"> - Specifics to be determined 	8.2 (4)	Task Force on Sustainability	Costs and savings to Be Determined	TBD
	5.8	<p>Consolidate public health offices scattered around Koror</p> <ul style="list-style-type: none"> - Negotiate with national government and Koror State government to identify existing public facilities that could accommodate these offices 	7.4 (11)	Bureau of Public Health	Short-term increased costs; medium-term cost savings	TBD
6. Critically assess options reducing expenditures for medical referral and hemodialysis - high cost services benefiting only a few people	6.1	<p>Prevent diseases and complications of diseases that give rise to the conditions that require these services.</p> <ul style="list-style-type: none"> - See Strategy 2 - See Bureau of Public Health Strategic Plan - Strengthen outreach screening for NCDs and risk factors - Intensify case management of patients diagnosed with NCDs or pre-disease conditions (hypertension, diabetes, renal diseases) 	7.3 (12)	Bureau of Public Health (primary prevention) & Bureau of Clinical Services (secondary prevention)	Huge savings possible from better prevention; some increase in public health outreach costs possible	Ongoing

Strategy	Action No.	Action	Overall Priority (Rank)	Responsibility	Cost	Timing
	6.2	Examine feasibility of "catastrophic care" insurance (also see Action 11)	7.3 (12)	Task Force on Sustainability with Office of Health Administration	Costs and savings to be determined	Year 2-3
7. Evaluate feasibility of applying public service utility model to health services	7.1	Require Task Force on Sustainability to undertake feasibility analysis of this concept.	7.1 (14)	Task Force on Sustainability with Minister & Directors	Nil	Year 3-4

Note: "R" indicates recurrent cost; "C" indicates capital cost.

15. Social Services for Vulnerable People Strategies and Actions

15.1 Focus and Context

830. Vulnerable people are broadly characterized as: (a) persons who have special needs due to physical or social characteristics; and (b) persons (or households) experiencing economic hardship. During consultations with service providers, several populations in Palau were identified as having special needs due to their social or physical characteristics. These are: (a) persons with disabilities and other special health care needs; (b) adolescents; (c) women and children who are victims of abuse or in the case of children and dependent elderly, neglect; (d) certain other categories of women who are under stress; and (e) certain categories of elderly.
831. Vulnerability is defined as the inability of individuals or households to easily withstand economic shocks such as death of a breadwinner or loss of employment. Vulnerability is very high in Palau due to high consumption patterns, low levels of savings, and high levels of indebtedness. Vulnerability will increase unless attention is paid over the MTDS period to strengthening the safety net represented by Palau's natural resources and almost universal access to land, cultural tradition of "caring and sharing," and extended family network.

15.2 Summary of Policies and Strategies for Social Services for Vulnerable People

832. For the MTDS, the proposed vision for vulnerable populations is "life with dignity". This vision is supported by three goals:
- To ensure the basic needs of all residents are met;
 - To reduce vulnerability by preserving and strengthening safety nets represented by:
 - The Palauan ethic of "sharing and caring";
 - Universal access to productive land and sea resources.
 - To provide compassionate, timely assistance to people falling through the "safety net".
833. Five strategies and 21 actions have been identified for inclusion into the MTDS to meet the needs of vulnerable populations and persons living with economic hardship. The five strategies are:
- Laying the policy foundation;
 - Accessing basic services;
 - Extending opportunities;
 - Sustaining safety nets;
 - Meeting basic needs.
834. The Social Services for Vulnerable People Action Plan is summarized in Matrix 24 below. The ranking in the matrix is based largely on "SID" scores although broad-based strategies that enhance the ability of the nation to address needs of vulnerable populations are generally assigned a higher priority ranking than services that specifically target any single vulnerable group.

Matrix 24: Social Services for Vulnerable People Action Plan

Vision. Life with dignity

- Goal.**
- (1) To ensure the basic needs of all Palau's residents are met;
 - (2) To reduce vulnerability by preserving safety nets represented by:
 - The Palauan ethic of "sharing and caring";
 - Universal access to productive land and sea resources.
 - (3) To provide compassionate, timely assistance to people who fall through the "safety nets".

Strategy	Action No.	Action	SID Rank (1-10)	Priority Rank (1-5)	Responsibility	Cost	Timing
1. Develop, implement, and monitor a pro-poor strategy that addresses the needs of all vulnerable groups.	1.1.	Identify a policy focal point for poverty analysis and monitoring - comprised of policy makers, service providers, and community representatives	9.2	1	Office of the President	No additional	Yr 1
	1.2.	Formalize poverty (hardship) guidelines based on analysis of 2006 HIES and community consultations - Income dimensions of poverty - Social-cultural dimensions of poverty	9.0	1	Policy Focal Point with advisory council	Additional funds needed for consultation	Yr 1
	1.3.	Develop an explicit pro-poor strategy based on data analysis and consultations with persons experiencing hardship and service providers - Engage community based and faith based organizations in the dialogue about poverty and hardship	9.2	1	Policy Focal Point with advisory council	No additional	Yr 1-2
	1.4.	Monitor the situation of poverty and hardship - Integrate comprehensive measures into census and HIES - Identify sentinel indicators for routine monitoring	9.2	1	Office of Planning & Statistics	No additional	Yr 1-5

Strategy	Action #	Action	SID Rank (1-10)	Priority Rank (1-5)	Responsibility	Cost	Timing
2.Ensure universal access to basic public services (health, education, water, sanitation, and power)	2.1.	For each of the essential services, develop an explicit subsidy system that protects access by low income households.	8.7	2	Policy focal point with service providers	To be determined	Yr 2-3
3. Ensure equitable opportunities to participate in social and economic life.	3.1.	Progressively reduce the number of children who leave school prior to high school graduation; (see MTDS strategies and actions for EDUCATION).	8.5	2	Ministry of Education	See Education Paper	Ongoing
	3.2.	Progressive expand vocational-technical training opportunities; (see MTDS strategies and actions for EDUCATION).	7.5	4	Ministry of Education; PCC; Nat'l Training Council	See Education Paper	Yr 3-5
	3.3.	Progressively increase the number of Palauans active in the labor force in jobs that pay a “living wage;” (see MTDS strategies PRIVATE SECTOR DEVELOPMENT, LABOR, IMMIGRATION).	8.7	1	Ministries of Finance, Education & Labor Office	See Economic Policies Papers	Yr 1-5
4. Ensure continued resilience of safety nets – natural resources, tradition of “caring and sharing,” family and culture	4.1.	See MTDS strategies and actions for ENVIRONMENTAL PROTECTION.	8	2	See Environment Paper	See Environment Paper	Yr 1-5
	4.2.	Develop a strategy (or strategies) to enable land owners to access the equity represented by their land without alienation of land.	7.5	2	Policy focal point with States	To be determined	Yr 2-5

Strategy	Action #	Action	SID Rank (1-10)	Priority Rank (1-5)	Responsibility	Cost	Timing
	4.3.	Develop policies and systems to address the looming issue of displaced families.	8	2	Policy focal point, service focal point (see 5.1), EQPB, FIB, States	To be determined	Year 2-5
	4.4.	Develop at least one community-based model for delivering culturally competent community-based social services.	7.3	3	Policy & Service focal point with service providers, CBOs & State Governments	To be determined	Yr 2-4
5. Meet the basic needs of vulnerable populations and people living with economic hardship.	5.1.	Identify a Social Service focal office to take leadership in: <ul style="list-style-type: none"> - Providing a “one stop shop” for assistance, information and referral services for persons in need of services; - Advocating for vulnerable populations and people living with hardship. 	8.2	2	Office of the President	No additional	Yr 1
5.1. Address the needs of the vulnerable – disabled	5.2.	Strengthen services that ease the transition for disabled children to adulthood <ul style="list-style-type: none"> - Mechanisms for follow-up and ongoing support - Sheltered workshop - Expanded job opportunities 	7.7	5	Interagency Task Force & Special Education	Additional (Amount to be determined)	Yr 2-5

Strategy	Action #	Action	SID Rank (1-10)	Priority Rank (1-5)	Responsibility	Cost	Timing
	5.3.	Strengthen services for disabled adults <ul style="list-style-type: none"> - Needs identification - Coordination among service providers - Life-long follow-up and support for severely disabled 	7.7	5	Ministries of Health, Education, Community & Cultural Affairs	Additional (Amount to be determined)	Yr 2-5
5.2. Address the needs of the vulnerable – domestic violence, abuse, neglect	5.4.	Amend the child abuse law (PNC 21.601-606) to address identified deficiencies in: <ul style="list-style-type: none"> - Penalties - Coverage - Definitions - Protections 	8	5	VOCA, Attorney General, Ministry of Justice (Advocates); OEK (action)	No additional	Yr 2
	5.5.	Enact legislation to protect adult victims: <ul style="list-style-type: none"> - spouse abuse - elderly - disabled and others with special needs 	7.7	5	Same as 5.4	No additional	Yr 2
	5.6	Identify a strategy to provide “respite” measures for short-term protective housing of persons in need while more permanent arrangements are made by service providers.	8.5	5	Service providers (advocates)	Additional determined by strategy selected	Yr 2
5.3. Address the needs of the vulnerable – adolescents	5.7	Monitor implementation of the Palau National Youth Policy.	8.5	3	Ministry of Community-Cultural Affairs (Youth Services)	No additional	Yr 1-5

Strategy	Action #	Action	SID Rank (1-10)	Priority Rank (1-5)	Responsibility	Cost	Timing
5.4. Address the needs of the vulnerable – senior citizens with special needs	5.8	Strengthen health and social outreach to seniors with the greatest need <ul style="list-style-type: none"> - Advanced age - Homebound - Isolated - At risk of abuse or neglect 	8.2	5	Ministries of Health & Community-Cultural Services	Some additional to be determined	Yr 1
	5.9.	Strengthen prevention-oriented health services for senior citizens	9.0	4	Ministries of Health & Community-Cultural Services	Some additional to be determined	Yr 2
	5.10	Identify strategies to improve end-of-life care for elderly and terminally ill (of any age) that can realistically be financed by a combination of government, community, and family resources <ul style="list-style-type: none"> - Community based hospice-like care and/or - Long-term care facilities 	8.2	4	Ministries of Health & Community-Cultural Services	Additional determined by strategy selected	Yr 2-5

16. The Annual Budget and Expenditure Priorities

835. This section sets out a framework for helping to ensure policy priorities in the MTDS are reflected in expenditure priorities in the annual budget.

16.1 Expenditure adjustment and resource allocation

836. It is clear that significant expenditure adjustment will be necessary given the fiscal pressures that Palau will face but also in order to ensure efficient delivery of government services. The allocation of resources will be especially difficult in a tight budgetary situation if MTDS priorities are to be met. This is because some programs and activities will need to receive additional resources while others will need to receive less in order to meet total resource availability constraints.

16.1.1 Economic rate of return

837. There are several ways to formulate priorities for a reduction in expenditure. In terms of economic efficiency, the most desirable method assuming information is available is to calculate the economic rate of return for each program or activity and to prioritize projects and activities in terms of the returns they are expected to realize.
838. The economic rate of return is not just a financial return but rather a measure that indicates the gross benefits to society (broadly measured) relative to the costs. Where programs, projects or activities do not realize reasonable economic returns then their expenditure should be reduced.
839. The problem with this approach, when applied in detail, is that it is extremely information intensive and not likely to be feasible in Palau. However, it does highlight that at the department or broad functional level, professional and managerial staff should be best placed to determine the allocation of expenditures across programs and activities based on their experience and available information. To improve the quality of these estimates, the departments must be held accountable for performance and must develop meaningful key performance indicators for the program/project/activity expenditures. This approach is being pursued in the health and education sectors and it is recommended for all sectors over the medium-term.

16.1.2 Across-the-board versus targeted expenditure reductions

840. In the medium term there is a need to significantly reduce overall government expenditures relatively quickly. Where the economic rate of return approach is not feasible in prioritizing expenditure reductions, three approaches are available. These are:
- i) across-the-board reductions to existing expenditures to meet the overall expenditure constraint (for example, all departments and all programs will receive 5 per cent less funding next year than this year);
 - ii) specific reductions to specific sectors, departments or programs (for example, departments X, Y and Z will receive 10 per cent less funding next year but departments A and B will receive the same amount of funding); and

iii) a combination of approaches 1 and 2 (for example, all departments will receive 5 per cent less funding for staffing expenses, but departments A, B and C will receive 3 per cent more funding for their programs).

841. It is reasonably clear that there is a need to increase maintenance expenditure and to focus a more than proportionate reduction on the wage bill rather than on other goods and services in order to meet aggregate fiscal expenditure targets. However, some consideration needs to be given as to whether it is possible to establish priorities at the broad functional level that in turn imply greater expenditure adjustment for some functions compared to others.
842. Ultimately, decisions on the allocation of expenditures across sectors and programs are made by elected officials. However, the entity or committee responsible for implementing the MTDS could undertake its own assessment of priorities in the functional allocation of expenditure and suggest changes or priorities. This assessment could be informed by:
- (i) reviewing the current allocation at a broad level and discussing how best to allocate a reduced budget across broad functional levels, with input from the various sectoral studies undertaken as part of the FEIM project; and
 - (ii) requesting an expert functional expenditure review to identify the extent to which activities can be modified or eliminated for each major functional expenditure category and also suggesting broad priorities at the functional level in the context of the anticipated necessary expenditure adjustment.
843. As a starting point the functional allocation of expenditure is shown in Table 4.
844. From an economic efficiency perspective an important candidate for an expenditure reduction is subsidies to public enterprises. This would constitute only about 1 percent of the adjustment, however as a proportion of GDP, and most of it would probably need to be achieved at least in the short term with price increases for public enterprises. Elimination of other subsidies would contribute about another 1.8 percent of GDP (see separate FEIM report on a Medium Term Fiscal Strategy for Sustainable Economic Development). A decision on reducing current expenditure in other categories would be best informed by the suggested detailed review as well as the separate FEIM reports on agriculture, aquaculture and fisheries, tourism, the social sectors, the environment, infrastructure and public enterprise reform. These reports should highlight areas where there should be greater priority for individual programs and activities.

Table 4: Government Expenditure by Function, 1999/00 to 2006/07

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Percent of total							
Office of the President and Vice President	2.8	2.6	3.2	2.2	2.1	2.3	2.5	6.2
Health	12.1	13.0	12.6	13.9	15.3	15.9	15.0	17.0
Education	10.7	11.8	10.9	11.2	11.1	10.4	9.8	13.5
Resources and Development	10.9	9.6	8.5	8.5	8.0	9.4	8.0	8.0
Finance	3.2	3.1	3.6	5.0	4.1	5.5	3.7	3.4
Justice	5.2	4.4	4.5	4.6	4.4	5.0	4.5	4.0
State	2.9	3.0	2.7	3.1	2.7	2.8	2.7	2.5
Commerce and Trade	1.7	1.9	1.6	2.0	2.0	2.2	1.9	1.4
Community and Cultural Affairs	0.9	1.0	1.0	1.5	1.6	1.9	1.1	2.5
Legislative Branch	4.3	4.2	4.2	4.4	4.1	4.5	4.0	3.3
Judiciary	2.7	2.8	2.9	2.8	2.7	2.8	2.5	1.9
Agencies and Other	6.8	7.6	5.9	8.2	4.8	6.0	6.5	7.3
Boards and Public Enterprises	4.4	4.2	2.6	2.7	2.6	2.8	2.4	0.6
State Block Grants	5.8	5.6	5.6	5.9	5.6	5.9	5.3	4.0
Other Transfers	10.6	4.9	3.1	3.1	3.7	3.9	3.4	3.7
Interest Payments	0.2	0.9	0.9	0.9	0.8	0.9	0.7	0.8
Capital Expenditure	14.8	19.3	26.3	20.1	24.4	17.8	25.8	19.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Republic of Palau Office of Budget and Planning.

845. Given the information constraints, institutional inertia and political constraints in changing sectoral allocations, one approach for consideration would be to commit to a reallocation of expenditure over the medium-term to priorities identified in the separate sections and reports on each sector. The commitment could be to increase the proportion of the total budget allocated to a specified list of priorities based on the detailed sectoral work. For example a commitment could be made to increasing the proportion of the budget spent on: certain activities focused on improving the environment, HIV/AIDS prevention, primary health, a high priority area in education, maintenance of infrastructure, improving land leasing arrangements and promotion of priority income earning opportunities. With these commitments the functional allocations would need to change to ensure the priorities were met and this would mean more than proportional reductions for non-priority and marginal activities and programs. These reductions could then be agreed to as part of the normal budget processes.
846. However, as noted it would be useful to seek preliminary views from the entity responsible for the MTDS on whether the existing functional allocation should be changed if there is an absolute need for an expenditure adjustment. This could be the subject of a workshop discussion on determining priorities and reallocating expenditure across the broad functions of government even before a detailed review was undertaken.

17. Monitoring and Evaluation

17.1 Scope

847. This section covers a number of monitoring and evaluation issues for the MTDS. It explains how performance monitoring and evaluation of strategies and actions in the MTDS will be undertaken and presents a number of suggested performance indicators for tracking progress in implementation of key recommendations. However, the performance indicators will need to be developed further under the supervision of the entity responsible for the MTDS as it is implemented.

17.2 Responsibilities

848. The recommendations in the MTDS will need to be reflected in the strategic and operational plans at the Ministerial level and also in the budget allocations of all government entities. The performance reports that are required by all Ministries and government entities will need to cover the strategies and actions set out in the MTDS and include the performance indicators that are finalized as part of the MTDS.
849. The Office of Budget and Planning has been improving its processes for integration of policies into the budget formulation and approval process. It is recommended that the Office of Budget and Planning should continue to take a lead role in the oversight of the MTDS, in the coordination of responsibilities and activities across Ministries and other government entities and in the development of a performance monitoring and evaluation framework and key performance indicators. However, primary responsibility for ensuring the MTDS is implemented for each policy and sector and suggesting key performance indicators should rest with each Minister or person nominated by a Minister at the operational level.
850. A medium-term expenditure planning and monitoring framework will be developed with the help of Pacific Finance Technical Assistance Center (PFTAC) as a key part of the monitoring and evaluation system. The other key parts are performance reports, performance indicators and detailed evaluations as needed.
851. It is recommended that in order to better promote understanding and commitment to the effective integration of the MTDS into Ministry and agency plans and budgets, that an inter-departmental Coordination Committee be established to oversee the process. The committee could include representatives from the key Ministries affected by the priorities set out in the MTDS i.e. Ministry of Finance, Ministry of Resources and Development, Ministry of Education, Ministry of Health, Ministry of Commerce and Industry and the Office of Environmental Response and Coordination and possibly representatives from States, civil society and the private sector.
852. It is suggested that the proposed MTDS inter-departmental committee should take responsibility for overseeing overall monitoring and evaluation of performance in relation to the MTDS. This will involve ensuring the following are put in place:

- i) A communication process to explain the medium-term expenditure planning and monitoring framework that the Ministry of Finance is developing and the key elements and implications of the MTDS.
- ii) Ministerial and operational plans that are consistent with the MTDS and NMDP.
- iii) Annual assessments of performance relative to proposed plans.
- iv) Improvements in the monitoring and evaluation process including the further development of meaningful key performance indicators.

853. It is suggested that the Office of Budget and Planning should act as secretariat to the MTDS inter-departmental Coordination Committee. The committee may also suggest the establishment of sector working groups where this is considered to be likely to be effective, for example in developing and evaluating meaningful performance indicators.

854. It is also noted that the Republic of Palau endorses the Paris declaration adopted by partner countries and donors in March 2005. The Paris declaration recognizes the importance of aligning aid flows and objectives to national priorities. Thus the MTDS will be presented to donors so that their aid flows and modalities can be adjusted to align with Palau's priorities for sustainable economic development.

17.3 Performance Indicators

855. This section provides a summary of goals and suggested performance indicators for the various sectors covered by the MTDS. The most relevant performance indicators relate to completing the various actions specified in the action plan matrices for each sector. As there are many factors that can impact on performance it is difficult to specify quantitative performance indicators that are both meaningful and readily available. Quantitative performance indicators will be further developed by the Co-ordination Committee as actions are agreed to wherever possible.

17.3.1 Fiscal Strategy

Goal: A sustainable fiscal policy that will maximize income for the country, that is equitable and that will contribute as much as possible to other development objectives

Key Performance Indicators:

- Increase domestic revenues by target percent of GDP over 5 years.
- Reduce current expenditures by target percent of GDP over 5 years with emphasis on the wage bill and most of the reduction occurring in the first two years.
- Wage bill as a proportion of GDP.
- Government expenditure on goods and services as a proportion of GDP.

- Comprehensive tax reform adopted.
- Real per capita value of the trust fund at target level.
- Public debt as a proportion of GDP at target level.
- Purpose of financing for any new public debt and extent of direct debt servicing from a project.
- Strategic and operational plans for Ministries and Bureaus and public enterprises are consistent with the MTDS and are used to prioritize policies and public expenditure.
- The functional allocation of expenditure reflects priorities in the MTDS and allocations are increased for higher priorities and decreased for other categories.
- Relevant performance indicators are available and regularly evaluated to help determine priorities and the allocation of expenditure.
- External assistance is focused on non-current expenditure items and maintenance.

17.3.2 Economic Policies and Institutions

Goal: Establish an enabling environment to support sustained and widespread private sector development

Key Performance Indicators:

- Progress on each of the Actions as specified in the Action Plan Matrix.
- Growth of real GDP per capita.
- Inflation rate.
- Private sector employment relative to total employment.
- Time taken for development approvals for State infrastructure and basic development projects.
- Certificates of title relative to total land claims.
- Bi-annual survey of occupational employment needs in the private sector and public enterprises.
- Courses and student numbers appropriate to meet occupational demands as indicated in the survey.

- Greater involvement of the private sector with education content and priorities through establishment of a Vocational Education Advisory Committee.
- Proportion of private workforce that is Palauan.
- Foreign investment relative to GDP.
- Extent of “front businesses”
- Strategic and operational plans for Ministries and government entities are consistent with the MTDS and relevant performance indicators are in place.

17.3.3 The Roles and Responsibilities of Government and Reform of Business Enterprises

Goal: Lower the relative size of the public sector in Palau over time and increase the efficiency, integrity and effectiveness in delivering essential services, products and policies required by the community that cannot be provided by the private sector efficiently, in the long-term national interest of Palau.

Key Performance Indicators:

- Progress on each of the Actions as specified in the Action Plan Matrix.
- A commercialization policy that contains the following principles: clear and non-conflicting objectives; management autonomy and authority; strict accountability for performance; and competitive neutrality in relation to private sector activities.
- Economic regulations that establish price and service standards based on efficient costs and that can be easily monitored.
- Current government expenditure as a proportion of GDP.
- Entities or functions where private sector becomes successfully involved.
- Entities rationalized and improved financial performance and efficiency of public enterprises.
- Financial, unit cost and service quality indicators for public utilities.
- The suggested goals, key strategies and activities and possible performance indicators for the role of government and public enterprises are set out in the table below.

17.3.4 Environment

Goal: To protect, conserve, and manage the environment and natural resources of Palau for present and future generations of Palauans while providing for sustainable social, cultural, and economic development.

Key Performance Indicators:

- Progress on each of the Actions as specified in the Action Plan Matrix.
- Development of strategies and sectoral plans with natural resources and environmental management policies and requirements (including specification of environmental targets) effectively mainstreamed.
- Development strategies and sectoral plans with CRMA mainstreamed.
- Establishment of minimum environmental standards and meeting of key targets set.
- Establishment and/or updating of flora and fauna baselines and databases through systematic survey (by which to improve planning and monitor effectiveness of management plans).
- Achievement of PAN and Micronesian Challenge targets.
- Increase in budget allocations to, and/or operating expenses for, EQPB.
- Increase in staff with relevant and required expertise and adequate provisioning of equipment in EQPB.
- Documentable increase in EQPB successfully receiving reimbursement for operations including permit application inspections, compliance, monitoring and enforcement.
- Increase in provision of technical expertise and support from bureau/division level to states in environmental management, engineering, and survey.
- Effectiveness of shared expertise and human resources (environmental, engineering and survey) utilised by states.
- Increase in successful application of enforcement procedures (violations, fines, corrective actions).
- Progress made on establishment of the MCSF.

17.3.5 Tourism

Goal: To upgrade the image of Palau as a tourist destination and position Palau as the island of choice for environmentally conscious visitors, with quality visitor experiences and high financial and other benefits to Palau on a sustainable basis

Key Performance Indicators:

- Progress on each of the Actions as specified in the Action Plan Matrix.
- Total visitor numbers.
- Expenditure per visitor per day.
- Average length of stay.
- Scheduled flights as a proportion of total flights.
- Cruise ship visitors as a proportion of total visitor numbers.
- High quality accommodation rooms as a proportion of total rooms available.
- Palauan workers as a proportion of tourism workforce.
- Visitor survey results.
- Adherence to guidelines established in tourism site capacity assessment.

17.3.6 Agriculture

Goal: Diversify and significantly increase the level of agricultural production and develop productive forests

Key Performance Indicators:

- Progress on each of the Actions as specified in the Action Plan Matrix.
- Agricultural production as a proportion of GDP.
- Imports of food as a proportion of GDP.
- Business loans for agriculture provided by the PNDB as a proportion of total loans.
- Qualifications of BOA staff – proportion with training higher than high school diploma.

17.3.7 Aquaculture and Fisheries

Goal: Sustainable Economic Development and Management of the Marine and Coastal of Palau

Key Performance Indicators:

- Progress on each of the Actions as specified in the Action Plan Matrix.
- Completion and Implementation of the Policies, Legislation and Development Plans.
- Increased aquaculture production as a proportion of GDP
- Increase in GDP derived from the offshore commercial fishery
- Increase in employment in the private aquaculture and marine based tourist sector.
- Decrease in infringement and legal proceedings for inshore and offshore fishing sector.
- Increase in fisheries data collection and management programs.
- Increase in formal Qualification and training for BMR staff.

17.3.8 Infrastructure

Goal: Provide and maintain infrastructure on an efficient and equitable basis to improve access and support expansion of economic activity.

Key Performance Indicators:

- Existence of an adequate maintenance fund and maintenance system, maintenance reports, level of maintenance expenditure as a proportion of capital expenditure.
- Outsourced maintenance expenditure as a proportion of total maintenance expenditure.
- Financial position for key infrastructure services and structure of user charges.
- A commercialization policy that contains the following principles: clear and non-conflicting

objectives; management autonomy and authority; strict accountability for performance; and competitive neutrality in relation to private sector activities

- Financial, unit cost and service quality indicators for public utilities
- Economic regulations that establish price and service standards based on efficient costs and that can be easily monitored.
- National ports strategy in place with appropriate regulatory arrangements for economic, environment and national security aspects.
- Building and zoning code in place that ensures a pleasant, low impact, safe and sustainable environment. The code should provide for uniform national standards for at least electrical wiring, sanitary facilities, structural design and aesthetic requirements.
- Infrastructure plans that are designed to address environmental objectives and requirements.
- Existence of entity responsible for investment evaluation, criteria designed on the basis of improving welfare of Palau as a whole and adherence to criteria in decision making.

17.3.9 Education

Goal: To provide Palau students with access to quality educational opportunities from pre-primary through to post-secondary at a cost affordable to families and to government.

Key Performance Indicators:

- Strategy 1 – Cooperative planning for sustainable financing
 - Indicator – Permanent sector-wide educators' forum established
 - Indicator – Sector-wide sustainable financing plan developed and endorsed by educator's forum and the OEK
- Strategy 2 – Expanding high school capacity
 - Indicator – Strategy for achieving universal high school participation developed and endorsed by secondary education providers
- Strategy 3 – Achieving universal participation in pre-primary education
 - Indicator – Proportion of children 3-5 years of age who participate in pre-primary education programs

- Strategy 4 – Minimizing expenditures for non-instructional purposes in public schools
 - Indicator – Proportion of school lunch program costs recovered in user fees
 - Indicator – Cost of school transportation

- Strategy 5 – Enhancing efficiency in public schools
 - Indicator – Number of schools consolidated on Babeldaob
 - Indicator – Teacher-to-student ratio in rural schools

- Strategy 6 – Increasing revenues for public schools
 - Indicator – Revenues collected from ancillary services provided to non-students

- Strategy 7 – Reducing dependency on government grants in private schools
 - Indicator – Number of private schools that earmark a portion of the government grant to private schools for developmental purposes as opposed to operations

- Strategy 8 – Strengthening vocational-technical education
 - Indicator – Number of Palauan students enrolled in and completing vocational-technical training programs at home or abroad
 -

- Strategy 9 – Enhancing financial sustainability at Palau Community College
 - Indicator – Proportion of instructional costs recovered through student fees
 - Indicator – Proportion of \$10m target for PCC Trust Fund received

- Strategy 10– Aligning post-secondary student assistance with national priorities
 - Indicator – Student assistance priorities aligned with MTDS

- Strategy 11- Diversifying funding for post-secondary student assistance
 - Indicator – Legal status of PNSB changed to non-profit corporation
 - Indicator – Funding for scholarships and loans provided by donors other than the Palau Government

- Strategy 12- Enhancing efficiency in post-secondary student assistance
 - Indicator – Graduation rates for students receiving post-secondary financial aid
 - Indicator – Percentage of first and second year students attending PCC
 - Indicator – Percentage of post-secondary students attending Asian institutions

- Strategy 13- Assessing the feasibility of education products that target the Asian market
 - Indicator – Formal report on feasibility of Asian-oriented education industry.

17.3.10 Health

Goal: By 2013, to implement a combination of strategies that will achieve fiscal adjustment equivalent to \$3.3m.

Key Performance Indicators:

- A ministry-wide financial sustainability task force is appointed and meets regularly throughout the MTDS period;
- Actual costs of delivering services to patients are calculated; a data base is developed to enable costs to be periodically updated;
- Patient accounts receivable reports are prepared monthly; accounts receivable prior to 2003 are written off except for substantial bills for which there remains a reasonable likelihood of collection;
- Health services are prioritized in relation to their impact on priority diseases and underlying causes of ill-health;
- At least one designated tax is passed that channels funding directly to the Bureau of Public Health for support of one or more preventive services;
- Every health service employee participates in at least one local workshop, training, or conference on the “healthy places” strategy of health promotion;
- Patient revenues increases by at least \$125,000 each year of the MTDS period; this is 50% of the plan target;
- A focal point for external relations and marketing is designated by the Minister and a plan for diversification of funding sources is prepared;
- At least one new “non-traditional” donor provides support to programs and projects designated by the Ministry of Health;
- The Ministry of Health takes various efficiency measures that result in annual savings of no less than \$1.25m.
- The Financial Sustainability Task Force produces a report on financing options for medical referral and hemodialysis.
- The Financial Sustainability Task Force produces a feasibility report on the application of the public service corporation model to the Ministry of Health (or components thereof).

17.3.11 Social Services for Vulnerable People

- Goal:**
- (1) To ensure the basic needs of all Palau's residents are met;
 - (2) To reduce vulnerability by preserving safety nets represented by:
 - The Palauan ethic of "sharing and caring";
 - Universal access to productive land and sea resources.
 - (3) To provide compassionate, timely assistance to people who fall through the "safety

Key Performance Indicators:

- Strategy 1 – Policy
 - An institutional focal point for pro-poor policy development and monitoring will be identified;
 - An explicit national pro-poor strategy will be developed;
 - A system of sentinel indicators will be developed to monitor policy implementation.
- Strategy 2 – Basic Services
 - A system of targeted subsidies will be developed to ensure that low income households have access to essential services – basic education, primary and preventive health care, potable water, safe sanitation, and power.
- Strategy 3 – Opportunities
 - The number of children who drop-out of school prior to high school graduation will progressively decline;
 - Vocational and technical training opportunities will increase;
 - More Palauans will be employed in the labor force at jobs that pay progressively increasing wages.
- Strategy 4 – Safety Nets
 - A strategy will be developed to enable land owners to access the equity in their land without alienating the the land;
 - Policies and systems will be developed to address the looming issue of displaced families;
 - At least one model of community-based social support for vulnerable populations will evolve.
- Strategy 5 – Basic Needs
 - The proportion of households (and individuals) living below the basic needs poverty line will progressively decline;
 - A focal office for social services and social support of individuals and families will be officially designated.

18. Annex 1: Establishing Priorities

856. The tables in this annex establish priorities for each of the specific actions recommended in the MTDS paper by applying the SID Criteria that were explained in Section 4.3. The Impact criterion is given a weight of 50 percent and the other Support and Doable criteria are each given weights of 25 percent. Each action is given a ranking out of 10 with 10 being the highest score. Some comments on the rankings are also provided to aid in understanding. Each action is given a ranking out of 10 with 10 being the highest score. The actions were then ranked in accordance with the overall score and are shown in the action plans in each of the specific sectors in this paper, with the ranking shown in parenthesis (). A ranking of 1 is the highest ranking.

Table A1: Economic Policies and Institutions Strategies, Actions and Priorities

Goal: Establish an enabling environment to support sustained and widespread private sector development

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
1. Ensure Fiscal Sustainability	1	Implement a Sustainable Fiscal Policy as per Paper on “Medium-Term Fiscal Strategy for Sustainable Economic Development.	8	10	8	9 (4)	Sustainable fiscal policy is critical but some aspects will not be readily acceptable and some aspects will be difficult to implement.
2. Improve Access to Land	2	Put in place land use plans and zoning laws and regulations and institutional capacity that facilitate economic development while preserving environmental values, with priority given to States where intensive development is likely in the near future.	10	10	7	9.3 (3)	The main problem is implementation capacity.
	3	Establish a regular forum for National-State cooperation on zoning, land use planning and other policies affecting the use of land.	7	8	9	8 (8)	The main difficulty may be getting National Government commitment.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	4	Continue the program to provide Certificates of Title to land.	10	10	10	10 (1)	Existing program has been successful and should continue but with more funding.
	5	Consolidate the formal register of Titles to a single, efficient and reliable source.	7	7	7	7 (10)	May be difficult to get agreement on this.
	6	Continue to support the GIS that is being implemented.	10	7	10	8.5 (6)	PALARIS project is relevant but will need monitoring.
	7	Support a community awareness function so the community can (i) understand the potential value of land and how to realize that land for their benefit; and (ii) understand and address any adverse impact on the environment from economic development and economic uses of land.	7	7	6	6.8 (11)	May be difficult to organize.
	8	Standardized land lease guidelines.	5	5	7	5.5 (15)	Helpful but not critical.
3. Ensure Well Functioning Labor Market	9	Monitor the number of foreign workers to facilitate private sector growth, adopt a uniform foreign worker fee to minimize labor hiring distortions and adjust the foreign worker fee to limit the total number of foreign workers where considered necessary for social and cultural reasons.	3	10	9	8 (7)	Difficult to get community and leadership support and more relevant for longer term.
	10	Increase the number of Palauans with vocational skills to support demands in the private sector.	9	7	5	7 (10)	Difficult to encourage Palauans to train for a trade.
	11	Remove the restrictions on foreign workers being	4	9	10	8 (7)	Difficult to get community

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
		able to work for only 1 employer, being required not to work for another employer for 5 years except under certain conditions, and to limit the entry of dependents and their scope to work.					and leadership support but would have strong impact and would be effective in conjunction with action 9.
	12	International Labor Organization requested to provide an assessment and recommendation for an Occupational Health and Safety Act.	6	2	10	5 (16)	Not a high priority given Palau's circumstances.
	13	Division of Labor, Department of Health and Attorney General's Office to assess Palau's needs for a Workers Compensation Act.	4	2	8	4 (17)	Not a high priority given Palau's circumstances.
4. Facilitate Investment	14 (I)	A liberal approach to foreign investment with complementary policies. The key elements would be: no reserve list; no detailed approval process for foreign investment; no limit on business duration; a performance bond for foreign investment to address concerns about the risk of money laundering, scams and other adverse impacts; improved capacity and powers to investigate and prohibit money laundering activities; uniform foreign worker fees with no exceptions for both foreign owned and Palauan owned companies; increased emphasis on vocational education for Palauans; increased support for the SBDC to help Palauans start and develop businesses; and transparent, fair, secure and speedy leasing arrangements and effective tax arrangements to ensure that foreign investment provided appropriate benefits to Palau. To address the possible problem of "front businesses establishing to avoid the performance bond, there may need to be legislation to establish	8	10	10	9.5 (2)	An action that is likely to be one of the most important in terms of economic impact.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
		a number of specific presumptions for determining if a business enterprise is effectively set up as a "front business" and with penalties for front businesses based on civil liability.					
	14 (II)	A less restrictive foreign investment regime but with improved legislative arrangements for enforcement. This would involve Action 13 plus a small list of businesses reserved for Palauans.	9	7	10	8.2 (7)	Less beneficial in terms of economic impact than removal of the reserve list.
5. Ensure financial stability and efficiency	15	Continue to use US dollar as the official currency in Palau.	10	10	10	10 (1)	Strong consensus for this.
	16	Ensure Financial Institutions Commission has appropriate powers and sufficient resources to monitor the finance sector and enforce breaches of regulations.	8	10	8	9 (4)	Resource availability is likely to be a problem.
	17	Take meaningful steps to ensure the Civil Service Pension Plan (CSPP) and Social Security Fund (SSF) are fully funded over the longer term.	6	7	6	6.5 (12)	More important for the longer term.
	18	Integrate the objectives of the Palau National Development Bank (PNDB) into the MTDS and government policies.	7	6	7	6.5 (12)	Current arrangements work reasonably well.
	19	Merge the PNDB and the Palau Housing Authority (PHA).	6	6	9	6.3 (13)	Not a high priority in terms of impact.
	20	Investigate the scope for the PNDB to offer infrastructure bonds	6	6	6	6 (14)	Difficult to reach agreement.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	21	Investigate the scope for an international corporate registry and supporting legislation to facilitate the legal minimization of international taxes.	6	6	6	6 (14)	Difficult to implement.
6. Ensure appropriate commercial laws	22	Secured transactions legislation and supporting regulations and filing system.	8	9	8	8.5 (6)	Should be able to get donor support .
	23	Bankruptcy legislation.	8	6	8	7 (10)	Not critical given Palau's circumstances.
	24	Low-cost procedure and supporting legislation for commercial arbitration.	8	8	7	7.8 (9)	Important given the extent of litigation in small economy.
	25	Sale of goods legislation specifying rights and obligations.	7	5	8	6.3 (13)	Not critical given Palau's circumstances.
7. Address key National-State issues	26	National Government to fund an Environmental Specialist and adequate engineering and land survey expertise to assist the States in complying with EQPB requirements.	8	10	10	9.5 (2)	The main issue is funding.
	27	Review and revise the role objectives, functions, governance arrangements, and specific regulatory requirements and procedures of the EQPB to simplify and streamline requirements for development purposes.	7	10	8	8.8 (5)	Governors support but high level aspects are likely to be controversial. EQPB staff recognize existing legislation is very demanding given capacity constraints.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	28	Review and revise regulations and procedures of the Bureau of Arts and Culture to simplify and streamline requirements for State governments for development purposes.	7	10	8	8.8 (5)	Governors support.
	29	Establish a regular formal forum to facilitate National-State cooperation and progress the development and implementation of key policies at the State level.	6	8	6	7 (10)	Difficult to organize.
8. Improve planning, monitoring and evaluation	30	Establish and implement an effective monitoring and evaluation system for the MTDS.	10	8	6	8 (8)	Difficult to implement.
	31	Undertake a review of the effectiveness of the current institutional arrangements and legislation with respect to conflicts of interest and make recommendations to ensure that conflict of interest issues are effectively addressed.	7	10	7	8.5 (6)	Important in terms of potential impact but difficult to organize.
	32	An experienced economist recruited or facility established to provide independent evaluations and advice to the executive, congress and public interest groups. Evaluations to be made publicly available.	7	10	7	8.5 (6)	Important in terms of potential impact but difficult to organize.

Table A2 Environment Strategies, Actions and Priorities

Goal: To protect, conserve, and manage the environment and natural resources of Palau for present and future generations of Palauans while providing for sustainable social, cultural, and economic development.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
1. Update and improve legislation	1.1	Review, update and strengthen enabling legislation (EQPA and Regulations); address inadequacies and gaps (e.g. agricultural activities not covered by Earth Moving Regulations) include additional regulations (e.g. vegetation clearance); establish minimum environmental standards for resources other than water; and, address previously unforeseen risks including climate change and bio-security	8.3	8.8	7.7	8.4 (7)	Supports Themes 1, 2, 3, 5, 6, 7 & 8 of NBSAP; Would most likely require grant or donor funding; Unsure of support under new administration
	1.2	Simplify procedures for permit applications and clearly define triggers for EA and EIS	8.3	8.8	7.7	8.4 (7)	Can be addressed as part of 1.1
	1.3	Complete and approve existing drafts of laws e.g. climate change, energy conservation, and bio-security	7.2	8.5	6.5	7.7 (12)	Supports Themes 1, 2, 3, 5, 6, 7 & 8 of NBSAP
	1.4	Within, or following, framework established under the SLMP, support states to establish zoning rules and regulations (recognising need for CRMA mechanisms), and building codes (with priority given to states where intensive development is likely in the near future)	9.0	10.0	9.0	9.5 (1)	Also incl. in Economic Policy & Institutions Action Plan; Partially being covered under SLMP
	1.5	Address element of SLMP (zoning regulations, rules and building codes) omitted from current project through engagement of planner to assist states	9.0	10.0	9.0	9.5 (1)	Requires support through TA for land use/environmental planner
	1.6	Revise and expand Endangered Species Act to cover additional species (CITES issues)	6.7	6.0	6.3	6.3 (16)	Supports Themes 1 & 2 of NBSAP
2. Strengthen environmental management framework	2.1	Complete national (over-arching) policy and regulatory framework; prepare and/or complete management policies for key sectors such as forestry (incl. mangroves), minerals, water, watershed management, energy; incorporate CRMA into existing policies; and, ensure policies and plans comply or link with key action plans prepared to meet requirements of international conventions	8.3	9.0	8.0	8.6 (4)	Supports Themes 1, 2, 3, 5, 6, 7 & 8 of NBSAP; Unsure of support under new administration; Support & doability dependent on commitment of staff to process and funding

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	2.2	Address land use issues (i.e. few developed or functioning land use plans) based on integrated management approach (recognising links between land and water management, community participation in sustainable land management); recognise importance of CRMA in integrated land use management plans	7.8	8.7	8.2	8.3 (7)	Supports Theme 1 of NBSAP; Link with UN/GEF SLMP and National Action Plan to Combat Desertification and Land Degradation; Partially being covered under SLMP
	2.3	Mainstream environmental considerations and CRMA (as per national framework) in planning process; incorporate environmental management requirements and targets in state plans, sector plans (agriculture, tourism, infrastructure, energy etc) and development strategies	8.0	8.3	7.5	8.0 (10)	Supports Theme 8 of NBSAP; Support & doability dependent on commitment of staff to process and funding
	2.4	Establish a national strategic plan for environmental response linked with updated Disaster Management Plan (identifying CRMA mechanisms)	7.7	7.8	8.5	8.0 (10)	Supports Theme 3 of NBSAP; Doable as can be supported by ADB regional climate change initiatives
3. Strengthen and simplify national environmental management structure	3.1	Clearly define bureau and division roles and responsibilities within MNRET to ensure jurisdictions do not overlap and duplication ("over-management" of resources) is removed; clarify and formalise functions of OERC within MNRET; Energy Office to be included in MNRET (recognising conservation and climate change aspects of management)	8.8	9.3	8.7	9.0 (2)	Should be adequately covered in detailed description of roles, functions and responsibilities of MNRET; Unsure of support under new administration;
	3.2	Review and revise the role objectives, functions, governance arrangements, and specific regulatory requirements and procedures of the EQPB to simplify and streamline requirements	8.8	9.3	8.7	9.0 (2)	Also incl. in Economic Policy & Institutions Action Plan; EQPB staff recognize existing legislation is very demanding given capacity constraints
	3.3	Ensure appropriate staffing for bureaus, divisions, Energy Office, EQPB; support additional staff recruitment for EQPB Office as identified in NMDP if still required under simplified or streamlined (as above) structure	7.7	8.3	7.2	8.2 (8)	Doability linked with funding for additional staff and resources required

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	3.4	Ensure mineral resources are addressed and covered in new structure (MNRET)	5.3	5.7	5.7	5.6 (17)	Should be adequately covered in detailed description of roles, functions and responsibilities of MNRET
	3.5	Office or division of MNRET with similar functions to OERC has mandate to ensure that provisions of international agreements are complied with at sector level and requirements are mainstreamed into sector strategies and plans	9.0	10.0	9.0	9.5 (1)	
	3.6	Request TA to review organisation structure, roles and responsibilities of Executive Order originally establishing MRD to address above issues (3.1 – 3.5 and 10.4) for MNRET and to enable 2.1; make recommendations as appropriate pursuant to new organisation; address staffing requirements of MNRET and EQPB	9.0	10.0	9.0	9.5 (1)	Very high priority as new organisation effective from January 2009. Issues need to be resolved; Requires small grant/TA
4. Fully support state level resource management	4.1	Clearly define role of, and support states in, environmental management; states have flexibility to comply with national framework in manner in-keeping within their own context and capacity	7.8	8.5	8.0	8.2 (8)	Doability linked with support available to, and improved capacity of, states
	4.2	Improve state capacity for environmental management - government to fund an environmental specialist and adequate engineering and land survey expertise – as a shared resource - to assist the states in complying with national environmental management framework	8.0	8.5	8.2	8.3 (7)	Also incl. in Economic Policy & Institutions Action Plan; The main issue is funding (have had similar before)
	4.3	Encourage states to work together in respect of trans-boundary resources (such as BWA model)	7.8	8.2	8.3	8.1 (9)	BWA excellent model for showing willingness for cooperation
	4.4	Bureau and division level of MNRET to support and assist states to prepare and implement key resource management plans such as watershed plans, protected area management plans, land use plans	7.3	8.5	7.5	8.0 (10)	Disparate capacity for resource management across states, some would require more assistance than others
	4.5	Facilitate better communication between national and state levels through regular formal forum to discuss resource management issues and CRMA	4.8	5.5	5.5	5.3 (18)	
5. Improve enforcement and	5.1	Retain independent process and agency (EQPB) with mandate for monitoring, compliance and enforcement	7.5	8.3	8.3	8.1 (9)	Maintaining status quo

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
compliance in respect of environmental protection and resource management	5.2	Strengthen enforcement capabilities and improve compliance monitoring; improve performance in respect of inspections; cooperation with State Rangers	7.2	7.8	6.5	7.3 (15)	Doability linked with funding for additional staff and resources required
	5.3	Support Endangered Species Program in new bureau of MNRET (will allow for resource sharing) to enforce existing and new regulations	7.7	7.0	7.5	7.3 (15)	Supports Theme 2 of NBSAP; Also incl. in Fisheries Action Plan
6. Improve infrastructure and implement maintenance plans to support sound environmental management; energy conservation, safe and secure water supplies, adequate sanitation, and waste management	6.1	Complete and implement energy (incl. indigenous and renewable sources) policy linked with climate change policy; develop and implement a comprehensive energy conservation program for all government facilities and ability to impose sanctions for non-compliance	8.0	8.8	8.5	8.5 (5)	Supports Themes 5 & 6 of NBSAP; Energy Office developing strategy (with funding from SOPAC), needs to integrate with sustainable development, disaster management and climate change adaptation initiatives
	6.2	Implement solid waste management strategy; management plans to identify areas at risk from climate change, coastal zones and other sensitive areas as "no go" areas for landfill sites;	8.0	8.7	8.0	8.3 (7)	Supports Themes 1& 6 of NBSAP; Draft Solid Waste Management Plan already prepared under JICA funding
	6.3	Work with TAPC to promote waste control and minimization in tourism sector	7.8	8.8	7.2	8.2 (8)	TAPC highly organized and motivated
	6.4	Establish a comprehensive and effective water conservation program; ensure water conservation included as part of mandate of new MPIIC; work with OERC and EQPB on water quality and drought mitigation issues	7.2	8.3	7.0	7.7 (12)	Supports Theme 5 of NBSAP; Doability linked with funding
7. Improve general capacity for environmental management at all levels	7.1	Establish a regular forum for national-state cooperation on resource management, zoning, land use planning and other policies affecting the use of land	4.8	5.5	5.5	5. (18)	As per rankings in Economic Policy & Institutions Action Plan
	7.2	Support establishment of Regional Sustainable Development Centre (improve coordination of development strategies and programs)	7.5	9.0	9.0	8.6 (4)	Will require funding from several sources; Promotes regional cooperation

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	7.3	Support a community awareness function so that the community can (i) understand need for resource management, compliance and monitoring; (ii) risks such as climate change (iii) potential value of land and how to realize that land for their benefit; and (iv) understand and address any adverse impact on the environment from economic development and economic uses of land	7.7	7.7	7.7	7.7 (12)	Also incl. in Economic Policy & Institutions Action Plan
	7.4	Support NEPC and PNRC to reconvene and hold regular meetings	7.2	7.3	7.2	7.3 (15)	
	7.5	Improve coordination, raise awareness and improve community education; increase knowledge and integrate with custom, strengthen community based organisations (such as BWA) & NGOs	7.8	8.2	7.8	8.0 (10)	
	7.6	Develop and implement an environmental training program highlighting cross-cutting issues; organisation (e.g. PCC, PICRC or NGO) to develop in cooperation with gov. agencies curricula for government agencies/staff, and deliver program; in-house staff with skills to deliver monthly training sessions	7.2	7.8	7.5	7.6 (13)	
8. Ensure adequate funds are allocated for environmental management, compliance and enforcement	8.1	Promulgate statute that permits EQPB to charge for water quality testing and monitoring and charge an environmental impact fee (could be linked with performance bond recommended in Economics working paper)	7.0	7.7	6.8	7.3 (15)	Public expenditure on environmental management is heavily dependent on foreign aid; OERC relies entirely on external sources of funding; expenditure (incl. national government contribution) on EQPB budget has declined; sustaining expenditure crucial issue in the event of future reduction in foreign aid
	8.2	EQPB supported to exercise duties under EQPA and EIS Regulations to seek reimbursement for inspections and miscellaneous expenses related to permit applications and EIS review	7.2	8.3	7.2	7.8 (11)	
	8.3	Permit fees and reimbursement of expenses to be separated from National Treasury and used solely for activities and operations of EQPB i.e. allow permit application charges to be used for inspections and monitoring	6.8	8.0	7.2	7.5 (14)	
	8.4	Ensure baseline operational needs of resource management agencies are met; improve existing monitoring capabilities by addressing lack of equipment, appropriately trained personnel, and operational budgets	7.7	8.7	7.7	8.2 (8)	

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
9. Improve environmental management monitoring and evaluation	9.1	Improve evaluation, prioritisation and monitoring techniques through establishment of policies and plans formulated with a framework for evaluation of investments that takes into consideration environmental impacts	7.8	9.0	8.0	8.5 (5)	
	9.2	Establishment and/or updating of flora and fauna baselines and databases through systematic survey (by which to improve planning and monitor effectiveness of management plans)	7.8	9.0	7.8	8.4 (6)	Doability linked with funding for additional staff and resources required
	9.3	Sector plans include environmental targets	8.2	8.8	8.2	8.5 (5)	
	9.4	EQPB to develop and implement procedures that include other appropriate government agencies in the EA/EIS review process; identify bureau, office or division within MNRET to be tasked with role of coordinating responses on EIS and permit applications from government agencies	7.7	9.0	8.0	8.4 (6)	
	9.5	Ensure EQPB has resources to undertake follow up and final inspections for permit applications	7.7	8.7	7.7	8.2 (8)	Doability linked with funding
	9.6	Energy Office to prepare compliance reports and set realistic targets for conservation for each sector	7.8	7.8	7.5	7.8 (11)	Doability linked with funding for additional staff and resources required
	9.7	Energy Office to prepare annual reports; energy conservation issues to be addressed in annual performance reviews	5.0	5.3	5.0	5.2 (18)	
10. Improve collation and management of environmental data	10.1	Coordinate data made available from initiatives and programs; share task between EQPB and PALARIS	7.5	8.7	8.0	8.2 (8)	PALARIS required to consolidate data into library under SLMP
	10.2	Assist EQPB to establish new database for monitoring and compliance audits; expand environmental statistics base in line with SPREP requirements	7.8	8.3	8.2	8.2 (8)	Doable with assistance from PALARIS
	10.3	Publicise availability of EQPB data as resource for information provision and planning	7.8	7.3	8.0	7.6 (13)	Could charge for access to, or provision of, information/data as revenue generating activity

Table A3: Tourism Strategies, Actions and Priorities

Goal: “To upgrade the image of Palau as a tourist destination and position Palau as the island of choice for environmentally conscious visitors, with quality visitor experiences and high financial and other benefits to Palau on a sustainable basis”

Strategy	Action No.	Action	S (25%)*	I (50%)*	D (25%)*	Overall Priority (Rank)	Comment
1. Create a more conducive environment for tourism and taking care of tourism’s resource base by aligning the agendas of government agencies and creating partnerships for resource management.	1	Brief new Minister of Natural Resources, Environment and Tourism on the roles of tourism organizations	8	8	8	8 (12)	Relationships need to be forged
	2	Create a partnership for the environmental management of key tourism resources.	10	10	10	10 (1)	Environmental management is the highest concern of the industry
	3	Create partnerships to help in other priority issues	3	7	1	4.5 (16)	While this is required, from past experience it may be difficult to achieve.
2. Position Palau tourism in the world tourism marketplace. Refocus the national tourism product, rebrand the destination, properly fund destination marketing and build effective	4	Refocus Palau’s position as a quality holiday destination.	10	10	7	9.25 (5)	High priority for the industry but maybe difficult.
	5	Reform the taxes paid by tourists / tourism and include a charge to fund destination marketing.	8	10	7	8.75 (9)	There is industry support for a tied tax for marketing.
	6	Target destination marketing activities to encourage low volume / high spend styles, discourage high volume / low spend styles and avoid undesirable segments	10	10	8	9.5 (2)	High priority to industry.

Strategy	Action No.	Action	S (25%)*	I (50%)*	D (25%)*	Overall Priority (Rank)	Comment
public/private/partnerships for implementing destination marketing							
3. Improve air access by adjusting bilateral air service agreements	7	Review air service agreements with view to encouraging additional carriers, increasing scheduled flights and reducing charter flights	7	10	5	8 (13)	Perceived as difficult to achieve.
4. Diversify and improve the product base by improving existing products and attractions and developing new attractions to match rebranding	8	Develop a thematic tourism development plan for Babeldaob	8	10	7	8.75 (10)	Necessary and industry will support. Funding may difficult.
	9	Develop a training program to assist states foster "ecotourism, Palau-style"	10	10	8	9.5 (3)	Necessary and will have wide support. Funding may difficult.
	10	Advocate enhancing the tourist appeal of Malakal, Koror, Ngerkebesang and Airai	10	10	5	8.75 (11)	Very necessary. May be hard to achieve
	11	Evaluate tourist cruise visits and visiting private vessels and address constraints	7	7	7	7 (14)	Priority for some.
	12	Pool market information and develop strategies for other target segments	10	10	7	9.25 (6)	Very necessary. May be hard to achieve
5. Increase private sector	13	Encourage investment in quality, high-end accommodation	10	10	8	9.5 (4)	Very necessary.

Strategy	Action No.	Action	S (25%)*	I (50%)*	D (25%)*	Overall Priority (Rank)	Comment
investment in quality accommodation by attracting new investment and encouraging upgrading of existing operations	14	Promote product quality upgrades	7	7	7	7 (15)	Necessary, challenging
6. Encourage Palauan participation in the tourism industry by improving vocational and in-service training and showcasing Palauan hospitality.	15	Develop vocational training in the skills of tourism.	9	10	8	9.25 (7)	Important
	16	“AliiHost” hospitality training for front line staff	10	10	7	9.25 (8)	Very important. Will take effort to achieve

*SID scores were assigned by the TAP Committee of the Tri-Org

Table A4: Aquaculture and Fisheries Strategies, Actions and Priorities

Goal: Sustainable Economic Development and Management of the Marine and Coastal of Palau.

Strategy	Action No.	Action	S(25%)	I (50%)	D(25%)	Overall Priority (Rank)	Comment
1. Improve Policy and Regulation	1	Finalise and Implement a National Fisheries Policy based on an “ecosystem approach” incorporating international standards of marine resource, environmental management and sustainable economic development.	7	7	7	7.0 (1)	Reasonable support from all stakeholders. Will require donor assistance.
	2	Ensure an updated single piece of fisheries legislation (National and State) based on sound environmental and sustainable development principles is finalised and implemented.	7	7	7	7.0 (1)	Reasonable support. Will require donor assistance, and extensive stakeholder involvement.
	3	Complete and implement the “National Aquaculture Strategy and Development Plan” including the “Code of Conduct for Responsible Aquaculture” (CCRA) and adopt into legislation.	6.5	8	4.5	6.75 (2)	Reasonable support.
	4	Finalise and implement the development policies and management issues detailed in the “National Tuna Fisheries Management Plan” (NTFMP).	6.5	7	4	6.1 (6)	Reasonable support, further debate required on the removal of the offshore fisheries roles from the BMR to an independent entity.
	5	Improve and enforce existing fishing regulations to effectively address widespread non-compliance (offshore and inshore fisheries).	6	6.5	4.5	5.8 (8)	Medium support but should improve with community awareness. Enforcement a problem.

Strategy	Action No.	Action	S(25%)	I (50%)	D(25%)	Overall Priority (Rank)	Comment
	6	Evaluate the shark Finning regulation to reassess current regulation banning the sale of sharks and their products accidentally caught during the normal fishing practices of the offshore fishing. This should include the implementation of the actions highlighted in the BMR comprehensive shark management plan.	5	6	4.5	5.4 (10)	Support varies and controversial issue. Further debate required to define the role of the offshore fishing industry and its management of these resources. Removal of the ban will increase government revenue.
	7	Evaluate the domestic sale of by-catch products from the commercial fishing industry and consider a change to allow the sale of by-catch products from this industry onto the domestic market.	4	5	4	4.5 (11)	Further debate required to define the economic value of legalising the sale of this product. Legalising the sale of by-product catch would create income opportunities and tax revenue.
	8	Improve the economic returns to Palau from the offshore fishing industry by undertaking tax and fishing license reforms to help ensure a reasonable return from offshore fishing resources is realized.	6	7	4	6.0 (7)	Consensus on how it can be achieved is yet to be reached. Effective collection of revenue requires considerable work but will provide long term revenue to the government.
2. Institutional Development	9	Develop and improve fisheries and resource management capacity by strengthening the capacity of the BMR to collect, collate and	6.5	7	5	6.3 (4)	Reasonable support. Core function of BMR. Increased program

Strategy	Action No.	Action	S(25%)	I (50%)	D(25%)	Overall Priority (Rank)	Comment
		analyse fisheries data to provide scientifically sound information to develop species-specific and ecosystems management protocols for the sustainable development of the nation's marine resources and fisheries. Implement measures to up skill and to retain staff.					coordination and cost sharing between agencies required.
	10	Develop and improve fisheries and aquaculture extension services and information exchange through strengthening the capacity of the BMR to improve the delivery and efficiency of sound scientific extension and information exchange programs for aquaculture, fisheries and resource management.	6.5	7	5	6.3 (4)	Reasonable support. Concerns expressed on implementation under current staffing/skills level at BMR. Core function of BMR. Increased program coordination and cost sharing between agencies required.
3. Increase production and sustainable income opportunities	11	Further develop and diversify aquaculture production through research and extension to ensure a sustainable industry. All aquaculture projects need to be developed in accordance with the recommendations of the NASDP.	7.5	8	3.5	6.7 (2)	Reasonable support. Concerns expressed on implementation under current staffing/skills level at BMR. Core function of BMR. Increased program coordination and cost sharing between agencies required.
	12	Privatization of commercially viable aquaculture commodities (e.g. giant clams, hard and soft corals, grouper) produced at the PMDC. The BMR must redefine its role associated with proven commercial commodities and focus on other emerging aquaculture research and extension	8	8	4	7.0 (1)	Strong support from private/community sector mixed support from BMR BMR core role is management, extension

Strategy	Action No.	Action	S(25%)	I (50%)	D(25%)	Overall Priority (Rank)	Comment
		programs.					and research not commercial production.
	13	Develop and diversify the BMR's programs for the economic development of subsistence, artisanal and commercial inshore fisheries and resulting livelihood opportunities. The development of a sustainable fisheries industry must be based on environment and economic best practices incorporating specific management, research and conservation programs.	6	8	4	6.5 (3)	General support by all sectors but some concerns on how these initiatives will be implemented, managed (included enforcement component) and what options are available to fishers. Core function of BMR. Increased program coordination and cost sharing between agencies and training/skills development for BMR staff.
	14	Improve fish quality through increased product handling and processing resulting in improved economic returns per fish.	7	6	5	6.0 (7)	Reasonable support. Requires increased public awareness and extension support.
	15	Encourage inshore fishers to shift fishing activities and pressure from inshore resources to target pelagic offshore fish resources through the use of FADs.	7	6	4	5.75(9)	Reasonable support. Requires increased public awareness and extension support. Operational costs a major factor.
	16	Develop both inshore (e.g. bone fish) and offshore (e.g. marlin and sailfish) sports fishing using sustainable fishing practises (e.g. tag and	7	7	5	6.5 (3)	Reasonable support. Requires BMR to manage the resources

Strategy	Action No.	Action	S(25%)	I (50%)	D(25%)	Overall Priority (Rank)	Comment
		release). BMR to manage (management plans required), private sector to operate (tourism based).					through species specific management plans and catch release programs.
	17	Encourage inshore fishers to shift livelihood activities from inshore fishing to gain employment in the tourist sector (boat captains, tour guides, sport fishing guides).	7	7	4	6.25 (5)	Reasonable support for the concept, however opportunities need to increase to provide benefits.
	18	The government should consider the development of fishing cooperatives to assist in the sustainable development of the inshore fisheries. These would need to be self funded from contributions of members.	7	6	4	5.75 (9)	Reasonable support however concerns raised over past failures. These issues need to be addressed.

Table A5: Agriculture and Forestry Sector Strategies, Actions and Priorities

Goal: Diversify and significantly increase the level of agricultural production and develop productive forests

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
1. Improve the outlets for agricultural produce	1	Construct Central market after review of feasibility study.	8	10	7	8.8 (3)	There is strong support from the community but less so at the political level. Doable will depend on donor support.
	2	Work with market chain participants to facilitate regular supply of fresh produce onto the market.	8	8	5	7.3 (8)	The main problem is implementation capacity.
	3	Develop regulations to ensure all produce sold in the market meets minimum quality standards.	7	6	6	6.3 (11)	The economic impact is not clear.
	4	BOA to undertake research into feasible, environmentally sound production systems for new crops and fruits	6	6	6	6 (12)	The economic impact is not clear and it may be difficult to obtain adequate resources.
	5	Begin collaborative research program to develop value-added products based on traditional crops.	6	6	6	6 (12)	The economic impact is not clear and it may be difficult to obtain adequate resources.
2. Address poor quality soil problems	6	Develop sustainable land use plans for each grade of soil	10	9	10	9.5 (1)	There is very strong community support, a likely significant impact and good prospect of donor assistance.
3. Implement sustainable and	7	Develop land management practices in close consultation with BOA and EQPB. Also	7	8	5	7 (9)	Difficult to organize

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
effective land use practices		collaborate with agencies that have the appropriate skills, particularly SPC and USDA NRCS.					
	8	Act of Congress to enshrine land use practices in law. During a 2 year awareness raising period: (i) farmers and landowners would be required to attend a farmers field school (FFS) in IPM techniques run by BOA staff; (ii) EQPB staff would develop a more regular and rigorous program of residue testing in fruit and vegetables (with all results made public if residue limits are exceeded); and (iii) a regular program of soil testing would be established on behalf of farmers (and subsequently put on a user pays basis).	7	8	5	7 (9)	Difficult to organize
	9	New regulations have 2 year awareness raising period, then enforcement. There should be monitoring and enforcement of agricultural chemical import regulations, based on improved collaboration between DEH, EQPB and BOA.	7	8	5	7 (9)	Difficult to organize
	10	Amend EQPB Act to allow deportation of persistent foreign offenders for breaches of the pesticide regulations.	8	8	6	7.5 (7)	Difficult to enforce
	11	Amend EQPB Act to allow penalties for breaches of the pesticide regulations to apply to landowners, not just employees - especially relevant where business "front" are being used.	8	8	6	7.5 (7)	Difficult to enforce
4. Increase the participation of Palauans in agriculture	12	Promote and demonstrate benefits of traditional and subsistence farming – including financial analyses of main traditional and commercial crops.	8	8	7	7.8 (6)	Will need donor support

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	13	Run a sustained publicity campaign on agriculture and its potential.	8	8	7	7.8 (6)	Will need donor support
	14	PCC to develop and offer adult education classes in agriculture. It is suggested that, in part, the curriculum should be based on the BOA strategic plan.	6	7	6	6.5 (11)	Will take time for student interest
	15	Establish website to inform and provide a data base of information to planners, donors, potential investors.	8	8	9	7.8 (6)	Success depends on other measures to encourage agriculture.
	16	Review import duty free status for imported foods that can potentially be produced in Palau and amend as appropriate.	9	7	9	8 (5)	Success depends on other measures to encourage agriculture.
	17	Review the tax status of the agriculture sector.	9	7	9	8 (5)	Success depends on other measures to encourage agriculture.
5. Reorient BOA Forestry to production opportunities	18	Use sustainable management practices to develop productive forests.	6	4	6	5 (13)	Low priority
	19	Review the risk assessment of Acacia species as an invasive weed.	7	7	7	7 (9)	
	20	Submission to Minister of RD to inform him of wider implications of USDA branding Acacia as invasive.	7	7	7	7 (9)	

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	21	Minister of Resource Development use official channels to ask USDA for repeal of decision.	7	7	7	7 (9)	
	22	Inform landowners about economic opportunities available from commercial forestry.	6	4	6	5 (13)	Low priority
	23	BOA and the States be required to divest themselves of nurseries within 3 years.	6	7	7	6.8 (10)	Would facilitate private sector involvement.
	24	Ask USDA to fund 2 additional staff members who will be responsible for plantation forestry.	6	4	6	5 (13)	Low priority
6. Strengthen the SBDC business support services	25	Improve the speed of service to SBDC clients by looking beyond BOA to local agriculturalists to provide additional appraisal services.	6	9	7	8.8 (3)	Depends on additional funding.
	26	SBDC be resourced to further develop business support networks and new business incubation programs.	9	9	9	9 (2)	SBDC needs to expand.
7. Make land lease arrangements transparent	27	Address the business "front" masquerade and make all land tenure agreements transparent by requiring them to be properly registered with the Office of the Attorney General.	7	9	7	8 (5)	Success would depend on other policies to address business front issue.
8. Focus BOA on production priorities	28	Establish a BOA advisory council for agriculture with balanced representation for all sections of BOA .	7	9	8	8.2 (4)	May be difficult to get support.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	29	Review BOA strategic plan to identify priority activities within budget	9	10	9	9.5 (1)	Should be a high priority given potential return on effort.
	30	Appoint a suitably qualified Deputy Director to assist the BOA Director.	6	9	8	8 (5)	Difficult to get support
	31	Review existing extension systems and adopt group delivery techniques to optimize efficiency	6	8	7	7.3 (8)	Difficult to get support and implement
9. Improve the skills of BOA staff	32	Require BOA staff to participate in in-service adult education program	7	8	7	7.5 (7)	Difficult to get support and implement
	33	PCC design tailor-made courses for staff of each of the sections of BOA.	7	8	8	7.8 (6)	Difficult to get support
10. Improve the targeting of funding for the sector	34	Agencies working in the sector participate in a sector wide planning session to: (i) assist BOA to revise strategic plan; and (ii) identify how each agency can best contribute towards the overall goals of the Bureau	9	10	9	9.5 (1)	Should be a high priority given potential return on effort.
	35	Review strengths of TTM and PCC Research Stations and rationalize to best advantage of the sector.	8	6	8	7 (9)	Impact is not clear.
	36	Ensure focus of BOA's collaborating donors is relevant to BOA strategic plan and BOA clients.	7	8	6	7.3 (8)	Difficult to get effective cooperation of donors
	37	Once BOA strategic plan has been revised, Director pursues additional operational donor funds needed.	8	10	7	8.8 (3)	Difficult to implement

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
11. Improve quarantine capacity	38	Review Quarantine Section to assess staff quality and numbers, and equipment to provide services.	8	8	6	7.5 (7)	Funding is a constraint.
	39	Quarantine Section need: (i) X-ray equipment to detect biological matter at air/seaports; (ii) laboratory to analyze biological samples; and (iii) refurbish all BOA offices, including quarantine service.	7	8	6	7.3 (8)	Funding is a constraint
	40	Ensure quarantine service has on-demand access to Chinese translation services.	6	8	6	7 (9)	Funding is a constraint

Table A6: Financing Education Strategies, Actions and Priorities

<p>Vision. Palau’s students will be successful in the Palauan society and the world.</p> <p>Goal. To provide Palau students with access to quality educational opportunities from pre-school through to post-secondary at a cost affordable to families and to government.</p>							
Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall priority (rank)	Comments
1. Develop sector-wide plan for sustainable education financing.	1.1.	Facilitate cooperative planning by all education providers leading toward sector-wide sustainable financing implementation plan based on the working paper and this matrix.	7	9	9	8.5 (5)	Substantial benefits over long-term but strong resistance on part of many service providers.
	1.2.	Create permanent sector-wide organization (e.g. Palau Educator’s Association) to: - Facilitate sector-wide coordination and planning - Advocate for children and education.	4	6	5	5.2 (14)	
2. Develop a coordinated public-private strategy for expanding high school capacity while reducing drop-outs	2.1.	Providers of secondary education to come together to: - Examine need for expansion - Examine need for alternative educational experiences for students who experience difficulty in traditional settings - Examine plans of each service provider to expand - Develop coordinated strategy for meeting expansion needs over medium-term.	6	8	8	7.5 (8)	Scope of benefits from collaboration to be determined; pressures for MOE to work alone considering only “public school solution” to constraints in secondary sub-sector.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall priority (rank)	Comments
3. Achieve and sustain universal participation in quality pre-primary education programs	3.1.	Increase public awareness of benefits of early childhood education - Intensify information and education	9	9	9	9.0 (4)	
	3.2.	Facilitate research to generate Palau-specific data on educational and economic impacts of different forms of early childhood education.	8	7	7	7.3 (9)	
	3.3.A.	Option 1 – If status quo continues with Head Start the main service provider but with “cap” on enrollment - Develop training, support, and incentives for NGOs and CBOs to expand private services reaching out to children not served by existing providers.	6	6	6	6.0 (13)	
	3.3.B.	Option 2 – If there are alterations in status quo due to COFA-induced changes in Head Start funding or administration: - Expand government and private services by: Creating network of public kindergartens affiliated with elementary schools Providing training, support, and incentives for NGOs and CBOs to expand private services.	8	8	8	8.0 (6)	

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall priority (rank)	Comments
4. Minimize expenditures for non-instructional purposes.	4.1.	Fully recover cost of school lunch program: - Change cooks from full-time to part-time employment status (working only when students are present) -Develop income guidelines to identify students qualifying for free/reduced-cost lunches -Institute progressive increase in lunch fees (add \$0.25 per year) until full cost recovery is achieved (estimate 4-5 years).	8	10	8	9.0 (4)	Expect some opposition to changing status of cooks.
	4.2.	Reduce costs associated with school transportation -Change bus drivers from full-time to part-time status (short-term measure) -Privatize school bus services through contractual arrangements (medium-term measure).	6	7	7	6.8 (11)	Expect opposition to changing status of drivers; privatization will require new roles, policies, procedures for Ministry.
5. Enhance efficiency in public school operations.	5.1.	(All options) Implement public consultation and education program to gain support of Babeldaob parents and communities for consolidation.	9	10	10	10 (1)	No impediments to discussing consolidation with communities.
	5.2.	(All options) Work with Public Service System to plan for reduction-in-force to bring staff levels in line with requirements as consolidation progresses.	3	10	5	7 (10)	Expect lot of opposition but key to receiving benefits of consolidation.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall priority (rank)	Comments
5. Efficiency continued...	5.3.	Choose from among three options for consolidation of schools on Babeldaob and proceed to implementation.					
	5.3.A.	Option 1 – Regionalize schools (grades 1-4 remain in villages; grades 5-8 consolidate into 3 regional schools).	8	8	10	8.5 (5)	Less savings from this options but more support.
	5.3.B.	Option 2 – Implement official 1999 consolidation plan resulting in 5 schools in rural Babeldaob plus Airai.	7	9	9	8.5 (5)	More savings but less support.
	5.3.C.	Option 3 – Implement expanded consolidation resulting in 3 schools in rural Babeldaob (in addition to Airai).	6	10	8	8.5 (5)	Most savings but least support.
	5.4.	Gradually expand use of multi-grade teaching to enhance efficiency in small schools: - Target small schools to train in multi-grade techniques - Gradually increase use of multi-grade teaching as existing staff resign, retire, or are redeployed.	7	7	7	7.0 (10)	Low level of basic teacher training in many small schools will be an impediment
6. Increase revenues (where constitutional)	6.1.	Institute charges for ancillary services provided to non-students (e.g. use of MOE facilities and equipment, services by MOE personnel, etc). - Work with OEK to gain authorization for charges - Identify opportunities for revenue generation - Develop system of charges and procedures for collection.	9	5	10	7.3 (8)	

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall priority (rank)	Comments
7. Reduce dependency on government aid to education grant	7.1.	Take actions to enable schools to meet recurrent costs from revenues while gradually earmarking government aid to program development. - Critically assess operations and implement efficiency measures - Identify new revenue-generating services to be offered - Diversify funding sources beyond government aid and tuition.	8	10	6	8.5 (5)	
8. Strengthen voc-tech by progressively expanding training capacity by focusing on a small number of priority fields.	8.1.	Develop human resource strategy for increasing Palauan participation in vocational and technical fields - Identify priority fields to target for increased Palauan participation - Develop holistic strategy for action (training, support, policy).	6	8	5	6.8 (11)	
	8.2.	Strengthen vocational-technical training - Review 2007-08 Voc-Tech study recommendations (study by Forum Secretariat) - Accept or modify recommendations - Implement as modified.	8	8	6	7.5 (8)	Actual impact is still to be determined; coordination between providers & funding constraints.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall priority (rank)	Comments
	8.3.	Assess feasibility of developing a civilian apprenticeship training program focusing on fields not currently included in military ("CAT") apprenticeship program: - Assess current apprenticeship program with CAT team to distill elements that make this program so successful - Identify opportunities for civilian apprenticeship program in one or more of priority fields (see 6.1) - Implement pilot project; monitor, assess, and expand as appropriate.	6	7	6	6.5 (12)	May not be seen as a priority but success of CAT program suggests worthwhile to strive for replication.
9. Enhance financial sustainability by reducing reliance on government revenues (Federal and OEK)	9.1.	Progressively increase charges until in line with the average of community colleges across the U.S. & affiliated jurisdictions of the Western Pacific.	9	9	10	9.5 (2)	
	9.2.	Fully capitalize PCC Trust Fund: Seek new donors; Seek designation as a "501(C)3" non-profit (under U.S. tax laws) -- Option 1, direct designation through COFA; Option 2, affiliate with U.S. based non-profit partner.	10	10	8	9.5 (2)	Strong support & high impact but implementation challenging.
10. Align scholarship awards with national development priorities.	10.1.	Update list of priority fields of study: - Create public-private partnership task force to carry-out HRD study (PNSB, PCC, MOE, OEK, Chamber of Commerce, and other interest groups) - Seek OEK endorsement of outputs - Set aside a portion of scholarship funds for students in priority fields.	9	8	9	8.5 (5)	Impact dependent on political & administrative "will" to prioritize awards based on HRD priorities.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall priority (rank)	Comments
11. Diversify funding sources.	11.1.	Amend law to designate PNSB a non-profit corporation.	8	8	10	8.5 (5)	
	11.2.	Attract new non-ROP funding for scholarships and loans: - Develop a marketing plan; Develop multi-year plan that sets targets for non-ROP scholarship and loan funds; Aggressively implement marketing plan to increase funding for scholarships and loans from non-traditional sources (bilateral, multi-lateral, and private).	8	9	8	8.5 (5)	
	11.3.	Institute new requirements for a portion of student loans to be repaid in cash; this money to be designated for new awards.	6	9	10	8.5 (5)	
12. Enhance efficiency in operations.	12.1.	Increase graduation rates: Desk review of student records and survey of current & former students to identify success factors; Integrate research information into policies and procedures designed to improve success rates.	10	10	7	9.3 (3)	Do ability may be challenging
	12.2.	Increase proportion of first and second year students who attend PCC: Develop communications strategy to gain support for policy; Implement changes in policies and procedures to limit 1 st & 2 nd year awards to PCC except where PCC does not offer necessary coursework for student's intended field of study.	5	8	10	7.8 (7)	Expect strong opposition from students, parents, and politicians.

	12.3.	Assess feasibility of channeling more students to lower-cost Asian schools: Form a committee (PNSB, PCC, MOE, Ministry of State, diplomatic community) to identify affordable “schools of excellence” with programs relevant to Palau; Identify strategies & incentives to encourage student acceptance.	5	8	7	7.0 (10)	Impact is still to be determined during process of feasibility assessment.
13. Assess proposal for Palau to develop educational products targeting Asian market for instruction in English	13.1.	Create task force to further develop concept, identify pitfalls, and undertake preliminary feasibility assessment; information to be used in determining if full feasibility assessment warranted.	7	8	5	7.0 (10)	Strategy & action are for assessment; valid SID rating of options not possible until assessment complete.

Table A7: Financing Health Strategies, Actions and Priorities

Goal: Diversify and significantly increase the level of agricultural production and develop productive forests

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
1. Strengthen enabling environment within the Ministry of Health in support of sustainability	1.1	Create a ministry-wide sustainability task force. <ul style="list-style-type: none"> - Finalize sustainable financing plan and address long-term financing issues - Continuously monitor implementation throughout the MTDS period 	1.9	4.1	2.1	8.1 (5)	Task force for Public Health already created.
	1.2	Determine actual cost of services and develop data base to periodically update as costs of inputs change.	1.9	4.4	1.9	8.2 (4)	Framework developed by Dr. Fiu, economist
	1.3	Increase awareness of costs. <ul style="list-style-type: none"> - Revise patient bills to reflect subsidy and charges - Educate staff about costs - Create incentives for staff to identify waste and inefficiency - Conduct periodic willingness to pay surveys 	1.9	4.1	2.0	8.0 (6)	
	1.4	Produce regular timely reports on patient accounts receivable <ul style="list-style-type: none"> - Distinguish accounts by age and collection status - Write off old accounts that cannot be collected" 	2.0	3.9	2.1	8.0 (6)	Focus on current accounts while gradually clearing "old" accounts
2. Prevent disease and	2.1	Prioritize services based on impact on priority diseases and underlying causes; information will	2.0	4.6	2.1	8.7 (2)	Priorities used in setting fees to ensure highest

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
complications of disease		be used to: <ul style="list-style-type: none"> - Set fees to ensure they reflect public health priorities - Develop a tracking system to identify resources allocated to public health priorities - Develop a tracking system to identify costs to the nation of selected conditions of ill health - Make selections among competing priorities for funding 					priority services competitively priced
	2.2	Ensure sustainable local financing for tobacco control and closely associated activities through a designated tobacco tax as proposed in the Draft Comprehensive Tobacco Control legislation now before Congress.	1.8	3.9	2.1	7.8 (7)	
	2.3	Ensure sustainable local funding for alcohol control and closely associated activities through a designated tax on alcohol (work in progress through Division of Behavioral Health).	1.5	3.9	2.0	7.4 (11)	
	2.4	Ensure sustainable local funding for control of obesity and management of obesity-related NCDs through a designated tax on certain unhealthy foods.	1.4	4.1	1.7	7.2 (13)	
	2.5	Identify opportunities for sustainable financing of other public health priorities now funded by Federal grants (immunization, depression, emerging & re-emerging diseases)				Not Ranked	
	2.6	Facilitate health promoting environments, policies and development programs.	2.0	4.1	1.9	8.0 (6)	This is new "cutting" edge of health promotion; many public, private,

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
		<ul style="list-style-type: none"> - Strengthen MOH capacity to assess health impacts of policies and development projects - Advocate for health to be more strongly integrated into the EIS process - Facilitate community initiatives on health promoting environments 					international grants available to support this strategy..
3. Revenue enhancement - increase revenues from \$1.9m (FY 2007) to \$3.1m (FY2013)	3.1	Revise patient care charges and fees in line with actual costs and charges: <ul style="list-style-type: none"> - Add 80 and 90 percent charge categories to sliding fee schedule so that high income earners pay closer to full cost of services - Remove subsidy for guest workers and dependents; facilitate formation of employer groups for purposes of private insurance - Introduce charges at least equivalent to transportation costs for services delivered in the home and community - Introduce nominal charges for behavioral health services - Revise fees paid for other services based on public health priorities. 	1.4	4.3	2.0	7.7 (8)	Challenge is to increase revenues while protecting low-income & vulnerable people.
	3.2	Introduce insurance or insurance-like scheme	2.3	4.6	1.9	8.8 (1)	Strong support for concept but difficult to agree on specifics; small population increases risks.
	3.3	Increase non-patient revenues: <ul style="list-style-type: none"> - Institute rent charges for private vendors using hospital facilities 	1.7	3.1	1.3	6.1 (15)	Options are limited.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
		<ul style="list-style-type: none"> - Additional fees proposed by the Environmental Health Division for new consumer protection services (inspection of household kitchens used for commercial food preparation and worker barracks) 					
4. Diversify funding sources to generate \$0.8 new operating revenues	4.1	<p>Strengthen external relations and marketing within the Ministry:</p> <ul style="list-style-type: none"> - Designate an office or individual to manage and coordinate external relations with prospective donors - Obtain training in fundraising for staff responsible 	2.0	3.9	1.8	7.7 (8)	Concept and techniques of external relations and marketing new to the Ministry.
	4.2	Develop a planned strategy for seeking and cultivating non-traditional donors.	1.0	3.7	1.9	7.5 (10)	
5. Pursue efficiency improvements with a targeted cumulative value of \$1.25m.	5.1	<p>Enhance the managerial capacity of middle managers:</p> <ul style="list-style-type: none"> - Strengthen human resource functions along the lines of the IPP recommendations - Provide formal training for middle managers leading to recognized credential 	2.2	4.5	1.9	8.6 (3)	Strong support.
	5.2	<p>Enhance efficiency in procurement of medical supplies and drugs</p> <ul style="list-style-type: none"> - Return procurement authority to the Ministry of Health - Strictly follow 40 PNC 624(d) governing procurement sources 	2.2	4.5	2.1	8.8 (1)	Strong support within MOH.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
	5.3	<p>Improve reliability of medical equipment to improve patient care and reduce referrals</p> <ul style="list-style-type: none"> - Develop a 5-year rolling depreciation schedule to project future medical equipment replacement needs and facilitate early resourcing - Contract biomedical maintenance and repair to specialized contractors - Earmark funding from each year's budget for equipment procurement (new and replacement) 	2.1	4.2	1.8	8.1 (5)	Capital investments needed to bring equipment up to standard.
	5.4	<p>Enhance efficiency in management of U.S. Federal grants (duplication in administrative functions estimated to cost \$0.8-1.4 m/yr):</p> <ul style="list-style-type: none"> - Centralize administrative functions reducing staff in accordance with requirements - Centralize transportation - Standardize equipment and supplies and pool procurement across programs - Delegate patient care functions to dispensary staff to reduce transportation and fuel costs (reassign personnel from the central facility to dispensaries as needed) 	1.7	4.1	1.8	7.6 (9)	Internal resistance anticipated.
	5.5	<p>Address issue of acute care beds (medical ward) occupied by persons in need of long-term care:</p> <ul style="list-style-type: none"> - Social marketing of "death with dignity" at home - Expand existing home health services to 	1.8	3.8	1.8	7.4 (11)	Culturally sensitive issue.

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
		include additional elements of hospice care (home medical and nursing visits, rental and loan of medical equipment, low cost provision of home nursing supplies and palliative drugs)					
	5.6	<p>Selectively privatize functions that the private sector can do well at less cost than government:</p> <ul style="list-style-type: none"> - Dependent on Action 2. - With central government address personnel issues associated with privatization - Conduct cost benefit analysis of tier 1 candidates for privatization (housekeeping, security, laundry, biomedical, and curative-restorative dental services) 	1.7	4.1	1.7	7.5 (10)	Cost assessment prerequisite for expanded privatization.
	5.7	<p>Improve diagnostic capability to enhance patient care and reduce off-island referral</p> <ul style="list-style-type: none"> - Specifics to be determined 	2.2	4.3	1.7	8.2 (4)	Lack of consensus on the level of diagnostic services the MOH should strive to maintain.
	5.8	<p>Consolidate public health offices scattered around Koror</p> <ul style="list-style-type: none"> - Negotiate with national government and Koror State government to identify existing public facilities that could accommodate these offices 	1.9	4.0	1.5	7.4 (11)	Without central health center, options are limited..

Strategy	Action No.	Action	S (25%)	I (50%)	D (25%)	Overall Priority (Rank)	Comment
6. Critically assess options reducing expenditures for medical referral and hemodialysis - high cost services benefiting only a few people	6.1	Prevent diseases and complications of diseases that give rise to the conditions that require these services. <ul style="list-style-type: none"> - See Strategy 2 - See Bureau of Public Health Strategic Plan - Strengthen outreach screening for NCDs and risk factors - Intensify case management of patients diagnosed with NCDs or pre-disease conditions (hypertension, diabetes, renal diseases) 	2.5	4.6	2.0	7.3 (12)	
	6.2	Examine feasibility of "catastrophic care" insurance (also see Action 11)	1.6	4.2	1.5	7.3 (12)	Impact on financial sustainability is high but support for change very low; will need to achieve not by terminating services but finding alternative payment mechanisms.
7. Evaluate feasibility of applying public service utility model to health services	7.1	Require Task Force on Sustainability to undertake feasibility analysis of this concept.	1.7	3.9	1.5	7.1 (14)	Further investigation needed to determine feasibility, costs, benefits.

Table A8: Social Services for Vulnerable People Strategies, Actions and Priorities

Vision. Life with dignity.

- Goal.**
- (1) To ensure the basic needs of all Palau's residents are met;
 - (2) To reduce vulnerability by preserving safety nets represented by:
 - The Palauan ethic of "sharing and caring";
 - Universal access to productive land and sea resources.
 - (3) To provide compassionate, timely assistance to people who fall through the "safety nets".

Strategy	Action Number	Action	S (25%)	I (50%)	D (25%)	Overall Priority
1. Develop, implement, & monitor a pro-poor strategy that addresses needs of vulnerable groups.	1.1.	Identify a policy focal point for poverty analysis and monitoring <ul style="list-style-type: none"> - Identify an institutional focal point - Identify advisory council comprised of policy makers, service providers, and community representatives 	8	9	9	8.7
	1.2.	Formalize poverty (hardship) guidelines based on analysis of 2006 HIES and community consultations <ul style="list-style-type: none"> - Income dimensions of poverty - Social-cultural dimensions of poverty 	9	9	10	9.2
	1.3.	Develop an explicit pro-poor strategy based on data analysis and consultations with persons experiencing hardship and the service providers who assist them <ul style="list-style-type: none"> - Engage community based and faith based organizations in the dialogue about poverty and hardship 	9	10	8	9.2

Strategy	Action Number	Action	S (25%)	I (50%)	D (25%)	Overall Priority
	1.4.	Monitor the situation of poverty and hardship <ul style="list-style-type: none"> - Integrate comprehensive measures into census and HIES - Identify sentinel indicators for routine monitoring 	10	10	7	9.2
2.Ensure universal access to basic public services (health, education, water, sanitation, and power)	2.1.	For each of the essential services, develop an explicit subsidy system that protects access by low income households.	9	10	6	8.7
3. Ensure equitable opportunities to participate in social and economic life.	3.1.	Progressively reduce the number of children who leave school prior to high school graduation; (see MTDS strategies and actions for EDUCATION).	10	8	8	8.5
	3.2.	Progressive expand vocational-technical training opportunities; (see MTDS strategies and actions for EDUCATION).	8	8	6	7.5
	3.3.	Progressively increase the number of Palauans active in the labor force in jobs that pay a "living wage;" (see MTDS strategies PRIVATE SECTOR DEVELOPMENT, LABOR, IMMIGRATION).	10	10	5	8.7

Strategy	Action Number	Action	S (25%)	I (50%)	D (25%)	Overall Priority
4. Ensure continued resilience of safety nets – natural resources, tradition of “caring and sharing,” family and culture	4.1.	See MTDS strategies and actions for ENVIRONMENTAL PROTECTION.	8	8	8	8.0
	4.2.	Develop a strategy (or strategies) to enable land owners to access the equity represented by their land without alienation of land.	7	8	7	7.5
	4.3.	Develop policies and systems to address the looming issue of displaced families.	7	9	7	8.0
	4.4.	Develop at least one community-based model for delivering culturally competent community-based social services.	8	8	5	7.2
5. Meet the basic needs of vulnerable populations and people living with economic hardship.	5.1.	Identify a Social Service focal office to take leadership in: <ul style="list-style-type: none"> - Providing a “one stop shop” for assistance, information and referral services for persons in need of services; - Advocating for vulnerable populations and people living with hardship. - 	7	9	8	8.2

Strategy	Action Number	Action	S (25%)	I (50%)	D (25%)	Overall Priority
5.1. Address the needs of the vulnerable – disabled	5.2.	Strengthen services that ease the transition for disabled children to adulthood <ul style="list-style-type: none"> - Mechanisms for follow-up and ongoing support - Sheltered workshop - Expanded job opportunities 	8	9	5	7.7
	5.3.	Strengthen services for disabled adults <ul style="list-style-type: none"> - Needs identification - Coordination among service providers - Life-long follow-up and support for severely disabled 	8	9	5	0.775
5.2. Address the needs of the vulnerable – domestic violence, abuse, neglect	5.4.	Amend the child abuse law (PNC 21.601-606) to address identified deficiencies in: <ul style="list-style-type: none"> - Penalties - Coverage - Definitions - Protections 	8	8	8	8
	5.5.	Enact legislation to protect adult victims: <ul style="list-style-type: none"> - spouse abuse - elderly - disabled and others with special needs 	7	8	8	7.7
	5.6	Identify a strategy to provide “respite” measures for short-term protective housing of persons in need while more permanent arrangements are made by service providers.	8	9	8	8.5

Strategy	Action Number	Action	S (25%)	I (50%)	D (25%)	Overall Priority
5.3. Address the needs of the vulnerable – adolescents	5.7	Monitor implementation of the Palau National Youth Policy.	9	9	7	8.5
5.4. Address the needs of the vulnerable – senior citizens with special needs	5.8	Strengthen health and social outreach to seniors with the greatest need <ul style="list-style-type: none"> - Advanced age - Homebound - Isolated - At risk of abuse or neglect 	9	8	8	8.2
	5.9.	Strengthen prevention-oriented health services for senior citizens	9	9	9	9.0
	5.10	Identify strategies to improve end-of-life care for elderly and others with terminal illnesses that can realistically be financed by a combination of government, community, and family resources <ul style="list-style-type: none"> - Community based hospice-like care and/or - Long-term care facilities 	8	9	7	8.2

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