

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. Like other small Pacific economies, Palau relies heavily on overseas development assistance. Its major development partners are the Asian Development Bank (ADB); Australia; the European Union; Japan; Taipei,China; the United Nations; and the United States (US). The partners provide aid through budget support and project or program operations. The International Monetary Fund (IMF) carries out economic surveillance, and the World Bank provides technical assistance (TA).

2. Excluding grants, Palau has run considerable fiscal deficits in FY2011–FY2017, averaging the equivalent of about 15.7% of gross domestic product (GDP). Official development assistance is substantial, at about 47.1% of total government expenditures (14.4% of GDP) over the same period. In the aftermath of recent disasters, development partners, including the governments of Australia, Japan, New Zealand, Taipei,China, and United States mobilized funds for relief and recovery, and the United Nations Development Programme (UNDP) mobilized relief items and technical support from several offices in the region.

3. Palau receives annual grants from the US for national development projects under the Compact of Free Association, which is a political, strategic, and economic treaty between the Republic of Palau and the US.¹ The US provides support across sectors and subsectors, with the major focus on education, health, and infrastructure. Through the Compact, Palau expects to be able to access grants of up to \$40 million annually from 2015 to 2020.

4. Australia's bilateral aid program in Palau focuses on two strategic objectives: improving economic growth through upgraded telecommunications and internet coverage, and achieving gender equality and enhancing women's empowerment.² Australia's regional programs include those that assist Palau in mitigating the impacts of severe climate, tidal, and oceanographic events. The European Union's strategic focus is on the energy sector and environmental issues, especially renewable energy. Japan's strategic focus is on energy, environment, education, and health. It supports the improvement of solid waste management and the establishment of a recycling system, as well as projects for natural resources management and sustainable development. Its support for coral reef research is an important contribution to monitoring the impacts of sewage outflow on the reef's health. The Government of Japan, through the Japan International Cooperation Agency, also supports development of clean energy sources, and improvements in medical and health services. Taipei,China focuses its development assistance on infrastructure, agriculture, and the environment. It supports small-scale rural water collection and transmission infrastructure as well as a cloud services project for the Ministry of Health. The UNDP focuses on the environment.³ It mostly supports natural resources management and monitoring. The World Bank has no projects in Palau to date but is providing TA towards regulatory reform of the information and communication technology sector. The same TA is supporting the establishment of Belau Submarine Cable Company to operate and manage the proposed submarine cable system. The World Bank is also involved in discussions with Palau on possibly securing typhoon insurance cover through the Pacific Catastrophe Risk Insurance

¹ The US contributed about \$630 million dollars (over a 15-year period ending in 2009), and currently continues to provide annual grants under the Compact. Compact grants are expected to expire in FY2024.

² Australian Government. Department of Foreign Affairs and Trade. 2016. *Aid Investment Plan. Republic of Palau 2016/17–2018/19*. Canberra.

³ United Nations in the Pacific. 2017. *United Nations Pacific Strategy 2018–2022. A Multi-Country Sustainable Development Framework in the Pacific Region*. Fiji and Samoa.

Company. The development assistance programs of Japan; Taipei,China; and the US include volunteer programs. The table below summarizes development partners' involvements in major public sector programs with elements to tackle climate change and/or environmental issues.

| Major Development Partners | | | |
|---|---|-----------------|--------------------------------|
| Development Partner | Project (or Program) Name | Duration | Amount (\$ million) |
| Public Sector Management (with climate change and/or environmental elements) | | | |
| Australia | Aid Investment Plan: Republic of Palau | 2017–2019 | 15.8 ^a |
| European Union | General Budget Support under European Development Fund 11 | 2014–2020 | 1.9 ^b |
| Japan | Sustainable Management of Coral Reef and Island Eco-Systems | 2013–2018 | 37.7 ^b |
| | Palau Maricultural Demonstration Center | 2017 | ... |
| Taipei,China | Various projects, including Road Renovation Project, and Renewable Energy Project | 2013–2018 | ... |
| United Nations | United Nations Pacific Strategy (covering 14 Pacific islands) | 2018–2021 | 377.2 ^b |
| United States | Compact of Free Association | 2015–2020 | 240.0 ^b |

... = data not available.

^a This covers the Federated States of Micronesia, the Marshall Islands, and Palau.

^b This represents the estimated, expected, or indicative amounts, based on best available information.

Source: Asian Development Bank.

5. ADB is presently implementing two investment projects in Palau. A \$28.8 million project, approved in 2014, is improving sanitation infrastructure by rehabilitating the Koror sewer system and developing a new system in the town of Kesbelau in Airai State.⁴ A \$25 million project, approved in 2015, provides broadband connectivity at a much lower cost than Palau previously obtained through satellite connections.⁵ An earlier \$16 million program loan, approved in 2010, supported broad reforms to improve Palau's water and sanitation services, and helped familiarize the government with ADB's program loan modality supported through policy reforms.⁶

B. Institutional Arrangements and Processes for Development Coordination

6. Development assistance is coordinated through bilateral and multilateral consultations. ADB consults with other development partners when preparing the country operations business plan, and exchanges information on projects and TA provided to Palau through regular visits to the embassies in Koror, telephone conferences, and e-mails. For the proposed program, ADB participated in a number of meetings with development partners based in Palau, and exchanged information with the World Bank and the IMF.

7. The Government of Palau has created the Office of Budget and Grant Oversight, with the goal of providing a road map for development partners by setting national priorities. The US Department of Interior has provided a grant to support the Office of Budget and Grant Oversight. One of the objectives of the office is to improve the coordination of all grants and TA in Palau. Counterparts for development partners are still fragmented between the Office of the President,

⁴ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Republic of Palau for the Koror–Airai Sanitation Project*. Manila.

⁵ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Republic of Palau for the North Pacific Regional Connectivity Investment Project*. Manila.

⁶ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Republic of Palau for the Water Sector Improvement Program*. Manila.

the Ministry of Foreign Affairs, the Ministry of Finance, and various sector agencies. The government has not established a formal mechanism for coordination with development partners, and prefers to work through discussions and meetings as required.

8. With ADB assistance, the government has developed a medium-term budget framework.⁷ The budget approach includes all development assistance, in cash and in kind, aligned against each ministry's medium-term development objectives.

C. Achievements and Issues

9. In December 2012, ADB engaged a national development coordination officer to support collaboration between itself and the government as well as other key stakeholders, including development partners. An ADB development coordination office for Palau was opened in 2014. In 2013 and 2014, ADB worked closely with the government, the private sector, and other partners in facilitating the annual national economic summit, which allowed discussion of the government's key issues and priorities. Most recently, in April 2018, ADB attended the Forum of Economic Ministers Meeting in Koror, which placed heavy emphasis on the role of finance ministries in building resilience to climate change and disasters in the region. In general, the government prefers to coordinate through meetings and discussions with development partners as necessary, instead of establishing a regular forum for consultation.

D. Summary and Recommendations

10. Development partners are keen to harmonize their development programs for maximum benefit to Palau's socioeconomic development. All major partners agree on the need to prepare a sound, longer-term development strategy that encompasses Palau's future and its transition to the post-Compact era. To optimize development coordination, two areas are recommended for consideration: (i) TA coordination and (ii) periodic aid consultation meetings chaired by the government.

⁷ ADB. 2009. *Republic of Palau: Implementing a Medium-Term Budget Framework*. Manila. (TA 7421-PAL).