

SECTOR ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. **Disaster risk.** Palau is prone to a range of natural hazards such as tropical cyclones, tidal surges, droughts, and sea-level rise. Disasters can have devastating economic and social impacts on affected communities, resulting not only in loss of lives, infrastructure, livelihoods, and housing, but also in additional demands on limited public resources. The narrowly based Palau economy relies on tourism and agriculture—both highly vulnerable to natural hazards. Thus, major disasters can cause significant downward swings in gross domestic product.¹

2. **Recent disaster events.** The serious threat of disaster risk was highlighted by three recent national states of emergency declared due to disasters caused by natural hazards. In December 2012, Typhoon Bopha caused extensive damage in the states of Ngaraard, Ngiwal, Melekeok, Ngchesar, Koror, Peleliu, and Angaur due to wind speeds of up to 155 miles per hour, heavy rains, and sea waves brought by the typhoon. While no lives were lost, more than 300 people had to be evacuated and about half the houses in the six states were in need of extensive repairs. Severe damage was recorded for agriculture (taro patches in swampy areas); livelihoods (betel nut farms, small shops, and guest lodges); and infrastructure (roads near coastal areas, school buildings, electricity, drinking water, and communication lines). Authorities estimated about \$6.3 million in initial damages. In November 2013, Typhoon Haiyan passed directly over Kayangel State in northern Palau, with sustained winds of more than 160 miles per hour. The initial damage estimate was \$5.9 million across six sectors (education, utilities, health, agriculture, public works, and housing). While no lives were lost, more than 900 people had to be evacuated to emergency shelters. Furthermore, 39 homes were totally destroyed, and another 415 across 13 states were severely damaged.² In March 2016, a severe drought associated with El Niño weather conditions led to water shortages across Palau, and the government had to resort to water rationing, which continued in 2017. Koror State's only dam dried up, and the alternative source of water, Ngerikiil River, reached just 19% of its capacity. Government estimates placed financing needs at \$3.2 million, mainly for water acquisition and distribution in FY2016. The drought also led to closure of Jellyfish Lake, a major tourist attraction. Consequently, gross domestic product (GDP) growth is estimated to have decelerated to -3.7% in FY2017 as tourist arrivals declined.

3. **Financing disaster response.** Palau has no dedicated financing available for immediate disaster response, early recovery, and reconstruction, relying instead on reallocation of internal revenue and drawdowns from the permanent General Fund Reserve, which was set up in FY2014 following the experience of the two typhoons.³ Post-disaster financing needs following the

¹ Given the focus of the proposed program-based loan on disaster risk management (DRM), the sector assessment focuses on public sector management issues related to DRM.

² According to government officials, damages were exacerbated by insufficient community coordination, inadequate emergency shelters, and lack of disaster-resilient cropping techniques.

³ As part of the FY2014 budget, the government approved the establishment of a permanent GFR to create a buffer reserve fund to support government operations during shortfalls of resources and thus avoid deficit funding by running up short-term debt, as happened after the 2008–2009 financial crisis. The minimum annual allocation for the GFR is set at 2% of unrestricted local revenue collections from the preceding fiscal year. Unspent amounts from previous fiscal years accumulate as part of the GFR, and the Palau National Congress can also allocate additional amounts towards it. The available balance in the GFR as of June 2018 is just over \$14.4 million. The GFR may be tapped after a disaster in the absence of alternative financing but is not exclusively for post-disaster financing needs, and may be accessed for other purposes. In particular, the fund can be accessed if local revenues drop by more than 5% of projected revenues in the previous year.

typhoons was funded by emergency appropriations from internal revenue authorized through legislation approved by the President. The government authorized \$10 million but appropriated \$5 million under the Super Typhoon Bopha Emergency Funding Act in 2012.⁴ Almost \$1.5 million was appropriated under the Super Typhoon Haiyan Emergency Funding Act in 2013.⁵ The government appropriated \$2 million emergency funding for severe drought relief under the Extreme Drought Emergency Funding Act in 2016, of which about \$1.65 million was drawn from the GFR.⁶ In all three cases, government appropriations fell short of initial damage estimates (para. 2). Following the typhoons, Palau also received assistance from development partners for humanitarian relief and reconstruction.⁷

4. The National Emergency Management Office (NEMO) under the Office of the Vice-President of Palau is responsible for ensuring that initial damage assessments are conducted by trained personnel as soon as practicable after a disaster.⁸ In the immediate response phase, resources are prioritized for affected areas based on the initial damage assessments, aggregate resource availability, and access and transportation requirements, under the oversight of the National Emergency Committee chaired by the Vice-President. The Bureau of National Treasury within the Ministry of Finance (MOF) is responsible for managing financial resources mobilized both through internal and external sources for all disaster response, recovery, and reconstruction activities, and to maintain a record of expenditures. It releases agreed financial resources to the government agencies. The government, through the National Emergency Committee, assumes the lead role in mobilizing additional resources to complete recovery and reconstruction, and negotiates with potential development partners. All expenditures and income for recovery and reconstruction are audited following government procedures.

5. The government sees a further need to build resources for immediate disaster response, early recovery, and reconstruction, instead of relying on (i) budget reallocations from internal revenue, which can take time to secure, fall short of requirements, and redirect funds away from development priorities; and (ii) GFR reserves, which are not intended exclusively for immediate disaster response, early recovery, and reconstruction. The government plans to secure typhoon insurance cover through the Pacific Catastrophe Risk Insurance Company for the 2018–2019 typhoon season, but this is still under internal deliberation. It also envisions the establishment of a \$25 million disaster contingency fund to respond in times of emergency, and an \$11 million National Disaster Recovery Fund and Insurance Program, neither of which is in place. Moreover, while general public financial management systems in Palau are considered adequate for partner-financed operations,⁹ the government sees a need to further strengthen disaster response and recovery planning as well as post-disaster budget execution capabilities to ensure that available post-disaster financing can be used quickly and effectively.

2. Government's Sector Strategy

6. **Policies and institutions.** The government of Palau has long shown commitment to managing and mitigating disaster risks. The 2010 National Disaster and Risk Management

⁴ Republic of Palau Public Law No. 8-52. 2012. *Super Typhoon Bopha Emergency Funding Act*. Koror.

⁵ Republic of Palau Public Law No. 9-16. 2013. *Super Typhoon Haiyan Emergency Funding Act*. Koror.

⁶ Republic of Palau Public Law No. 9-59. 2016. *Extreme Drought Emergency Funding Act*. Koror.

⁷ Bilateral development partners providing support included Australia, Japan, Taipei, China, New Zealand, and the United States. Various United Nations agencies also provided assistance.

⁸ In preparing initial damage assessments for the typhoons (para. 2), NEMO worked closely with the United Nations Development Programme.

⁹ Palau's 2016 score in the Quality of Budgetary and Financial Management component of the country performance assessment of the Asian Development Bank (ADB) is 3.5, among the higher ones in the Pacific.

Framework (NDRMF)¹⁰ sets out a vision of “safe, resilient and prepared communities in Palau.” The key objectives of the NDRMF are to strengthen institutional arrangements for disaster risk management (DRM), promote integrated planning and collaboration for DRM across government, and integrate climate change adaptation and disaster management into national and sectoral planning and strategy. In 2015, the government adopted the overarching Palau Climate Change Policy for Climate and Disaster Resilient Low Emissions Development 2015 (PCCP) to lay out its vision for climate- and disaster-resilient low-emission development.¹¹ The PCCP’s objectives reiterate and expand on those in the NDRMF. The PCCP outlines a 5-year action plan (with timelines and responsibilities) covering multiple interventions across four strategic priorities (climate change adaptation, DRM, mitigation and low-emission development, and institutional strengthening for effective policy implementation) in nine sectors,¹² estimated to cost \$500 million. Both documents draw special attention to women in livelihood recovery measures and to stronger community-based DRM.

7. The implementation of the NDRMF is coordinated by NEMO, with six staff positions. The functions of NEMO include (i) assisting national and state agencies in the development of plans to support NDRMF implementation; (ii) coordinating the development of public education programs that incorporate disaster planning; (iii) periodically reviewing state and national legislation and regulations to ensure that all are in compliance with the NDRMF; (iv) activating response arrangements in the event of a disaster; and (v) acting as the liaison point in disaster-related activities with national agencies, nongovernment organizations, and community groups.

8. The implementation of the PCCP is coordinated by MOF’s Office of Climate Change, with three staff positions. Its mandate includes (i) establishing procedures and processes to mainstream climate change and disaster risk reduction into sector and state planning and budget processes; (ii) assisting government agencies in integrating climate change into their policies or programs and annual work plan; (iii) assisting state governments, the private sector, and civil society in identifying climate change and disaster risks, and activities to transition to a low-carbon economy; (iv) establishing databases and baseline information to monitor and report on the effectiveness of the PCCP implementation, and ensuring access for the public to climate change information and data; and (v) preparing proposals for submission to the Green Climate Fund and other development partners to implement the 5-year action plan.

9. The government has made good, but uneven, progress in implementing various PCCP interventions.¹³ The authorities recognize that building disaster and climate resilience has been limited by competing interests and ad hoc government and partner projects on climate change that have not been fully aligned. There is overlap in responsibilities and insufficient coordination between the various government agencies involved in this area. The absence of timely and predictable development partner support and funding availability has also constrained effective PCCP implementation. The experiences of the recent disasters (para. 2) have reinforced the need to step up Palau’s capacities for systematic DRM.

3. ADB’s Sector Experience and Assistance Program

10. The Asian Development Bank (ADB) has progressively broadened its support for disaster

¹⁰ Republic of Palau. 2010. *National Disaster Risk Management Framework 2010*. Koror.

¹¹ Government of Palau. 2015. *Palau Climate Change Policy for Climate and Disaster Resilient Low Emissions Development 2015*. Koror.

¹² The nine sectors are agriculture and fisheries; health; biodiversity conservation and natural resources; society and culture; tourism; critical infrastructure; utilities; finance, commerce, and economic development; and education.

¹³ Report and recommendation of the President for the proposed policy-based loan (paras. 17–19, 21).

response in the Pacific from post-disaster assistance to proactive disaster risk reduction through multiple financing mechanisms.¹⁴ For the post-disaster humanitarian response phase, ADB's Asia Pacific Disaster Response Fund, a dedicated quick-disbursing instrument, can provide grants of up to \$3.0 million per event within a week of a disaster.¹⁵ Since 1987, ADB has offered an emergency assistance loan instrument with extended grace and repayment periods. However, emergency assistance loans can still take 3 months or more to process, and reconstruction loans processed under normal lending modalities can take even longer.

11. ADB has introduced contingent disaster financing in the Pacific as a mechanism to provide timely disaster-response support, through stand-alone, single-tranche, policy-based operations. This approach was piloted through an ordinary capital resources loan in the Cook Islands in 2016,¹⁶ and followed by a 2017 regional Asian Development Fund program covering Samoa, Tonga, and Tuvalu.¹⁷ These programs provide a predictable and quick-disbursing source of financing for early response, recovery, and reconstruction activities. They also support priority DRM policy reforms—providing an opportunity to elevate DRM issues to the MOF level and giving ADB a platform to engage in longer-term dialogue, and in DRM and climate change reforms, through a program monitoring framework. Following extensive damage caused by Cyclone Gita in Tonga in February 2018, ADB released \$6 million from the regional program within 24 hours of receiving Tonga's request, demonstrating the benefits of this approach.

12. The proposed program follows a similar approach, and will provide the Government of Palau rapid access to financing for immediate disaster response, early recovery, and reconstruction, contingent on a disaster caused by any type of natural hazard. To establish eligibility to access the contingent financing, the government has undertaken nine policy actions to (i) strengthen policies and institutions for disaster and climate resilience, (ii) improve capacity and planning for disaster and climate risk management, and (iii) expand financing for disaster and climate risk management. These actions reflect progress and commitment towards achieving the objectives of the PCCP. The actual withdrawal of proceeds will be deferred until the declaration of a state of emergency by the President of Palau due to the occurrence of a disaster caused by natural hazards. Program monitoring will ensure continued progress towards overall goals.

13. The proposed policy-based loan marks ADB's initial engagement on DRM and climate change reforms in Palau. A program monitoring framework will serve as the basis for ADB's continued engagement with Palau to support longer-term reforms.¹⁸ Based on the availability of resources, ADB—in consultation with the government and other partners—expects to provide technical assistance to (i) strengthen disaster recovery planning and post-disaster budget execution capabilities, ensuring that available post-disaster financing can be used quickly and effectively; (ii) undertake disaster and climate vulnerability and risk assessments of priority critical infrastructure; and (iii) continue the preparation and implementation of community disaster plans. Although parallel financing from development partners is not envisaged for the program, technical assistance support will take into account development partners' priorities.

¹⁴ ADB provides dedicated funding to its concessional-assistance-only countries through the Asian Development Fund 12 Disaster Response Facility. Palau is not eligible because it accesses ordinary capital resources.

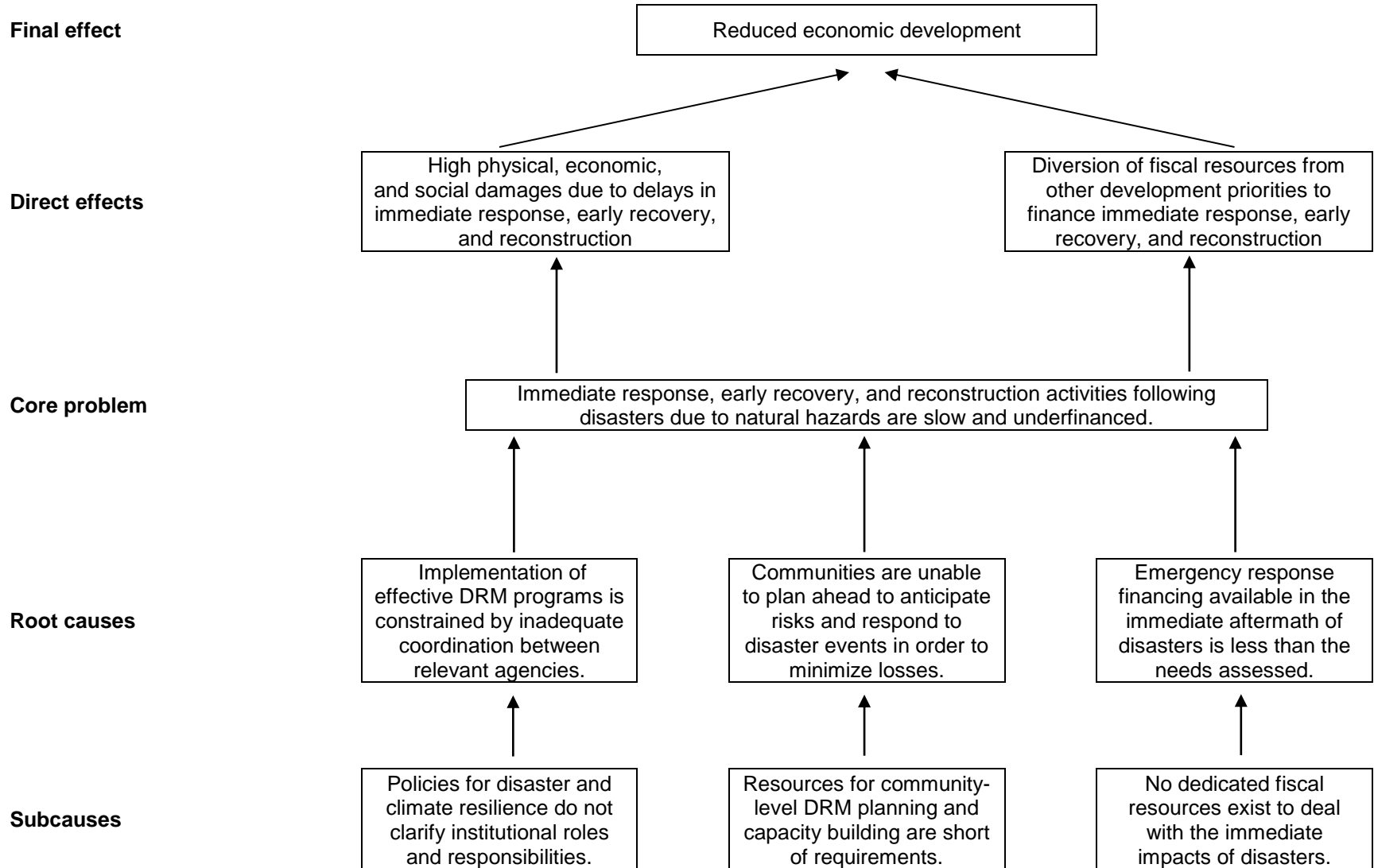
¹⁵ ADB provided Palau \$200,000 from the Asia Pacific Disaster Response Fund in 2013 after Typhoon Haiyan.

¹⁶ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to the Cook Islands for the Disaster Resilience Program*. Manila.

¹⁷ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans, Policy-Based Grants, and Technical Assistance Grant for the Pacific Disaster Resilience Program*. Manila

¹⁸ Under the program monitoring framework, which is in Appendix 4 of the report and recommendation of the President, ADB expects to provide targeted support from regional technical assistance funds. ADB. 2015. *Strengthening Climate and Disaster Resilience of Investments in the Pacific*. Manila. (TA 8961-REG).

PROBLEM TREE



DRM = disaster risk management.
Source: Asian Development Bank.