



Second Annual Report of the Economic Advisory Group for Palau

May 2024

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Note: This is a corrected version of the report with changes to two paragraphs beginning at p. 15 and continuing to p. 16, to accurately reflect undertakings by the NDBP.



May 1, 2024

Dr. James Galbraith

Chairman

Nominated by Palau
Selected by the United States

Dr. Denise Konan

Member

Delegated by the United States

Dr. Peter Watson

Member

Delegated by the United States

Hon. Kaleb Udui, Jr.

Member

Delegated by Palau

Dr. Naoyuki Yoshino

Member

Delegated by Palau

The Honorable Antony J. Blinken

Secretary

U.S. Department of State

2201 C Street NW

Washington, DC 20520

The Honorable Deb Haaland

Secretary

U.S. Department of the Interior

1849 C Street NW


Washington, D.C., 20240


Dear Secretaries Blinken and Haaland:

I am pleased to share with you the 2nd Annual Report of the Economic Advisory Group for Palau. This Report details our activities during the period from May 2023 – April 2024. You may recall the “Advisory Group” was formed in the early summer of 2022.

The task of the Advisory Group has been extended through the recent entry-into-force of the 2023 Compact Review Agreement (CRA) with minor modifications. Each of us are now privileged to be working for a three-year period through March 15, 2027, to work with the government of Palau to help identify and overcome the challenges it presently faces, and to share our perspectives and recommendations with Palau, the United States, and with Palau’s other partners in economic management and development.

In our second year, we have worked within our mandate to lay the foundation for a sustained effort following the successful conclusion of negotiations for renewal of the Compact of Free Association between Palau and the United States. Under the terms of the 2023 CRA, Palau faces many early and important choices with respect to fiscal and economic policy. We intend to offer our best advice and recommendations and, when necessary, warnings. As our interactions with the government

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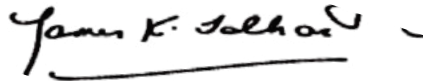
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and people of Palau increase in depth and breadth, the specificity and strength of our recommendations will also increase. Already we see our role has having been positive in opening new doors or windows of opportunity with US government agencies and with other donors, especially with respect to Japan. As we monitor and engage in efforts to support the sustainable evolution of Palau's economy, we will endeavour to promote the ongoing strengthening of bilateral and multilateral relations. As within the enclosed report, we will share our specific and constructive recommendations in a timely manner with both governments.

It is a privilege and a pleasure to serve as part of the Economic Advisory Group for Palau, and in this I speak for each of my four colleagues.

Signed on Behalf of the Economic Advisory Group for Palau,



James K. Galbraith, Chair

Enclosure: **2nd Annual Report of the Economic Advisory Group for Palau** (May 2024)

cc: **Hon. Carmen Cantor**
Assistant Secretary of the Interior for Insular and International Affairs

Hon. Daniel J. Kritenbrink
Assistant Secretary of State for East Asian and Pacific Affairs



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Delegated by Palau

Dr. Naoyuki Yoshino

Member

Delegated by Palau

His Excellency Surangel Whipps, Jr.

President

Republic of Palau

Post Office Box 6051


Palau, PW 96940


Dear President Whipps:

I am pleased to share with you the 2nd Annual Report of the Economic Advisory Group for Palau. This Report details our activities during the period from May 2023 – April 2024. You may recall the “Advisory Group” was formed in the early summer of 2022. Since then we have completed two successful visits to Palau—during which we were treated to the utmost of respect and kindness by you, Mr. President, by the leadership and government officials, and by the people. For that we are, indeed, profoundly thankful.

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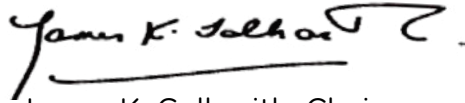
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James K. Galbraith, Chair

Enclosure: **2nd Annual Report of the Economic Advisory Group for Palau (May 2024)**

cc: **Hon. Sabino Anastacio**
Speaker of the House of Delegates
Olbiil Era Kelulau

Hon. Hokkons Baules
President of the Senate
Olbiil Era Kelulau



Second Annual Report of the Economic Advisory Group for Palau

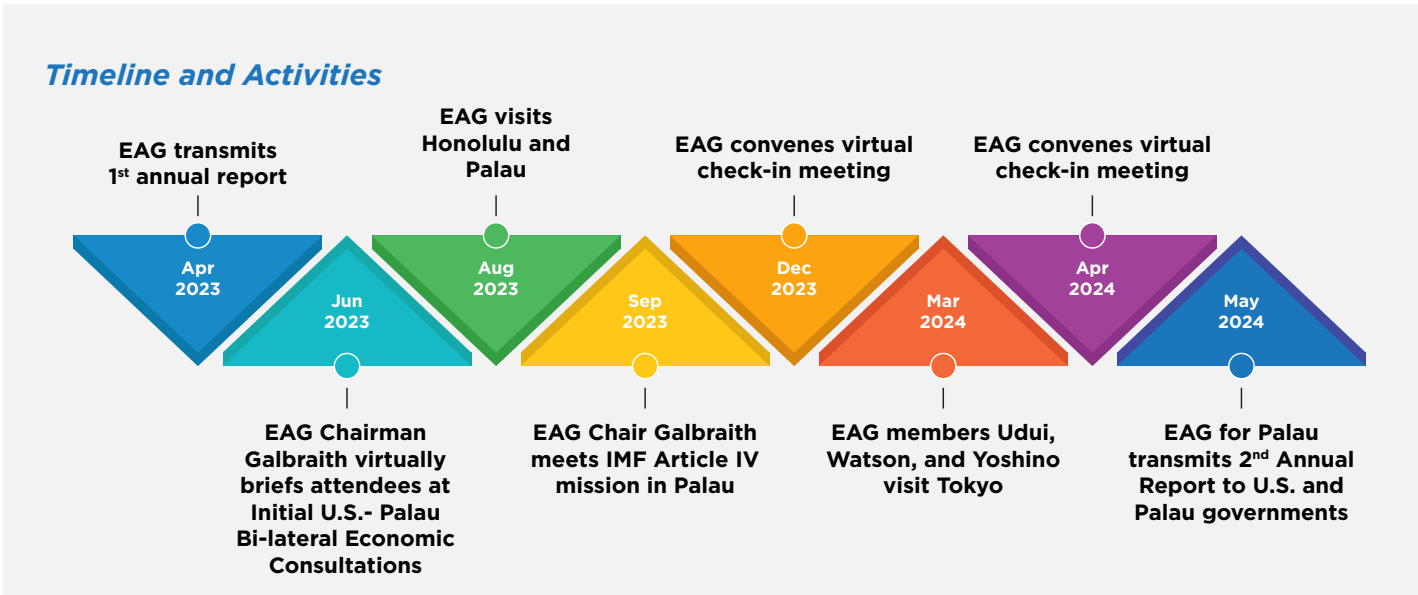
Background

The Economic Advisory Group for Palau (EAG) was formed during the spring and summer of 2022, pursuant to the terms of the 2010 Compact Review Agreement between the Republic of Palau and the United States. With the passage into law and entry-into-force of the 2023 Compact Review Agreement (2023 CRA), the EAG has been extended indefinitely and the members who initiated the effort have each been extended for three-year terms through March 15, 2027. The EAG consists of five members, two appointed by each government and a fifth nominated by Palau and selected by the United States. All members serve as volunteers. Secretariat assistance is provided by the Graduate School, USA, in Honolulu under funding from the U.S. Department of the Interior. Financial support for the operations of the EAG comes from the partner governments.

The five members are:

- Finance Minister Kaleb Udoi (Palau)
- Professor Naoyuki Yoshino (Palau)
- Dr. Peter Watson (US)
- Professor Denise Konan (US)
- Professor James Galbraith (Palau/US)

The 1st Annual Report of the EAG can be found at palaueag.org. This is the 2nd Annual Report which under the new terms of the 2023 CRA is due on May 1, of each year and is meant to inform the government of the United States and the government of Palau in advance of their annual bi-lateral economic consultations to be held no later than August 30, each year.



Year Two Highlights

The crucial achievement this year with respect to the relationship between the United States of America and the Republic of Palau was the successful conclusion comprehensive negotiations culminating in the entry-into-force of the 2023 CRA for the funding period FY2024-FY2043. Thus, mandatory funding to support Palau’s budget is guaranteed for twenty years with additional support for both infrastructure maintenance and new infrastructure is guaranteed for the same period. Further, the Palau Compact Trust Fund will be bolstered and will be available in amounts that are designed to combine the goals of access to support current needs while also remaining available to future generations. In summary—and in reaffirmation of Palau’s close association with the United States—the 2023 CRA provides Palau with a secure foundation for government operations and economic development going forward, while supporting the broader interests of the United States in this critical region of the Western Pacific. The EAG members warmly congratulate all parties to this successful negotiation, especially President Surangel Whipps, Jr, Finance Minister and Palau Chief Negotiator Kaleb Udui, and U.S. Special Presidential Envoy for Compact Negotiations Joseph Y. Yun. The EAG does note the extension of negotiations on one key supplement to agreements already in place—the Federal Programs and Services Agreement. The EAG notes the importance of concluding a new agreement, hopefully with the vital continuation of U.S. Postal Services among other matters under discussion.

The EAG acknowledges continued support for our efforts by both parties, which includes the Office of the President of Palau, and President Whipps, and the U.S. Department of State, including the Embassy in Palau, and the U.S. Department of the Interior, and Assistant Secretary Carmen Cantor. The EAG was statutorily reconstituted as of March 15, 2024, for a three-year term. The continued inclusion of the EAG within the new COFA, and the formalization of terms for members provides a stable framework for our efforts.

Further progress this year was made in engaging US development agencies – the U.S. Trade and Development Agency and the U.S. International Development Finance Corporation – in important Palauan infrastructure and environmental projects, notably with respect to healthcare projects, communications (PNCC) and utilities (PPUC). The EAG looks forward to full implementation of these initiatives, and to the engagement of other partners, notably the Japan Bank for International Cooperation, in complementary endeavors.

In furtherance of expanded engagement of the Government of Japan, Minister Udoi and EAG member Dr. Peter Watson flew to Tokyo in early April 2024 to join Yoshino-sensei for extensive discussions with Japanese officials and the representatives of key agencies. Details of these discussions are provided below and in Appendix 2. The EAG hopes that the Government of Japan will bring significant resources and expertise to bear on Palauan development in the years ahead. We look forward also to the deeper engagement of other partners, including Australia, India, Taiwan and New Zealand.

The Government of Palau plans to build on the achievements noted above. The Government has indicated in particular the importance of reviewing the trade and investment regulatory regime, of advancing digitalization on a secure environment, and of policies aimed at stabilizing and supporting the future of Palau's population. The Government of Palau shows every indication of looking forward to continuing to work with the assistance of the Economic Advisory Group for Palau.

Palau Visit

The EAG conducted its second annual mission to Palau August 23-28, 2023, with preliminary meetings in Honolulu August 21-22, 2023, and Washington, DC March 12-16, 2023. Chair Galbraith remained in Palau through September 3, 2023, and conducted several additional visits and meetings including with the visiting IMF Article IV mission.

The extended itinerary, along with some division of labor, permitted a very extensive program of meetings and consultations. A full summary of the visit list is given in appendix 2. The EAG met twice with President Whipples, with Ministry of Finance, Ministry of Public Infrastructure and Industries, Ministry of Education, Ministry of Human Resources, Culture, Tourism, and Development, Palau Public Utilities Corporation, with expatriates in Hawaii, with representatives from the IMF, with the US chargé d'affaires and embassy staff, and with on-scene technical experts and consultants. The EAG benefited from access to updated economic and fiscal information and to the draft Palau Development Plan.

Findings and Discussion

Overall, Palau's economy continues to face severe challenges, mostly external, including a slow recovery of tourism and significant cost inflation, driven by imported fuel and food. Internally, fiscal risks are presented by the Civil Service Pension Plan (CSPP) and also by the Social Security Administration (ROPSSA). Both institutions need reform. CSPP presents a more imminent threat of collapse, while ROPSSA presents a larger risk affecting a more vulnerable population. The EAG recommends an urgent return to consideration of reform of both CSPP and ROPSSA. Yet in important respects conditions are improving. Tourist arrivals in the most recent months have jumped, several successful conferences brought visitors, and there is progress toward restoring some of the broken airline links to Palau. Tourism is thus picking up, yet may remain below past peaks, owing to limits to transport, restrictions on arrivals from China, and perhaps to cultural shifts in major countries of origin, mostly in Asia, following the pandemic.

The EAG recommends an urgent return to consideration of reform of both CSPP and ROPSSA.

Tourism will continue to be a major driver of Palau's economy for the foreseeable future. As tourist arrivals have been increasing, there is a need for increased coordination between management of local sites and national (and Koror State) policies affecting tourism. Current visitors rely heavily on dive operations, which may be difficult to expand without impacts on fragile sites. The EAG commends recent efforts of the Ministry of Human Resources, Culture, Tourism and Development to diversify tourism, and we note an increase in activities related to meetings and conventions, military tourism, and resorts. Several private sector hotel projects are being discussed with Hotel Indigo Palau (IHG) on Malakal Island and with the Four Seasons group. Port redevelopment may also support tourism. The EAG recommends still greater efforts to

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develop destination management plans that incorporate environmental, cultural, and economic impacts of tourism. Ministry efforts to upgrade the quality of local jobs and expertise should be expanded, including the development of the National Tour Guide Certification Program, Alii Pass Program, and cultural tourism in places like Airai and Ngarchelong states. Going forward, the EAG expects to review the regulatory environment for foreign direct investment.

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On the fiscal front, the major development was the introduction in 2022 of the uniform 10% Palau Goods and Services Tax – a value-added tax – combined with the elimination of an ineffective gross receipts tax (“an invitation to cheat” according to one business owner) and an imports levy. The new tax structure has produced significant new revenue, above expectations, with an increasing share of the burden falling (as intended) on visitors as arrivals recover. At the same time, the tax has compounded pressures on the cost of living and threatens the viability of some small businesses. The EAG recommends that the Ministry of Finance stay the course with respect to the reformed tax regime. At the same time, it may be appropriate to consider extending the present wage tax rebate scheme, which, as of April 8, 2024, had returned \$1.9 million to low-income Palauans, to have some phased benefit above the present \$15,000/year income threshold, perhaps through reduced withholding. Equally, the Government of Palau should make effective early use of unexpected revenues, notably to support education and health care and to fund the reform of the pension systems. The EAG supports the two public sector wage increases implemented in FY2023 and FY2024. With tourism recovery evident, the EAG recommends a measured and incremental approach to increasing the minimum wage economy-wide to help relieve cost of living pressures on low-income Palauans and foreign workers.

The EAG recommends that the Ministry of Finance stay the course with respect to the reformed tax regime.

The EAG recommends a measured and incremental approach to increasing the minimum wage economy-wide

Infrastructure priorities involve key decisions affecting the entire future course of development in Palau. Here the decisions will rest with the Government of Palau, in consultation with the citizens of Palau. We suggest that the government of Palau make a concerted effort to create and develop a common vision, so that decisions can be taken and implemented in a consistent and transparent fashion. The Palau Development Plan (PDP) is an important step in this direction—though one that, as Professor Yoshino commented, “lacks a macroeconomic framework or discussion of resource mobilization over the period.” MOF efforts to improve linkages between sector plans and operating budgets is another important step. The Annual Development Symposium is another. The EAG seeks to help inform these decisions, and stands ready to play a supporting role as this process unfolds. The EAG ventures to offer a number of observations:

- The hospital. The Belau National Hospital is critical infrastructure now nearing the end of its service life, with issues including vulnerability to floods and an outdated internal design, unsuited to some modern technologies. A new hospital should be a very high priority for health-care reasons. But in

addition, decisions regarding this facility will have a powerful bearing on the economic and social future of Palau. By making certain treatments available on-island, it can reduce the costs and risks now associated with medical evacuations. Similarly, it will enhance the attractiveness of Palau to returnees, long-term visitors, and retirees. Of great importance, superior perinatal and neonatal care will reduce the present incentive for younger women to relocate to Guam or Hawaii as they contemplate family formation. The EAG wishes to emphasize these points, which have been heard from numerous sources among resident and expatriate Palauans, directly and indirectly. Further, the location of a new hospital will have profound effects on the pattern of land use going forward. It could become a key node in a reimagined Koror, or a hub of new development in Babeldaob. Finally, there is the possibility of creating a retirement village and assisted-living facility near a new hospital. In Palau, tradition dictates that families take care of their elderly, but not all old persons have family resident in Palau, and in some cases the cultural traditions have already eroded. The EAG recommends that if the hospital is located in Koror – as seems likely on balance – consideration should be given to the suitability of the site for ancillary retirement and assisted living facilities.

- The airport. The EAG heard extended discussion of the issue of airport runway extension, or possible relocation, with strong arguments on both sides. The basic argument in favor holds that a longer runway would permit the 737s now in use to fly out to more distant destinations (4/5 hours) with full loads. However, we were advised that newer mid-range aircraft, including 737s, may be able to make the longer trips without sacrificing loads. This is a question that needs further technical investigation. There is also a question of the potential use of a longer runway by wide-bodied, long-range aircraft. Here again there are two sides to the issue. Wide-bodies would greatly increase tourist volume. However, their arrival would risk a return to a predominantly low-end mass tourism, which is difficult to manage effectively and tends to crowd out the visitors that Palau would like to attract. Above all, there is a question of cost. Given the topography of the site, estimates for a runway extension run to \$300 million or more – a very expensive project. It seems that the main objectives for airline arrivals – full loads from high-value points of origin, such as Seoul and Singapore – can be achieved less expensively, in principle, by other means, namely agreements by the relevant airlines to put more capable mid-range aircraft on the route.

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- The port. Palau's commercial port, operated by a private company, is small, run-down, and in the wrong place, insofar as it occupies a prime waterfront development site. Potential options include port expansion and renovation in situ, or relocation to another site, on the west coast of Babeldaob, along with the potential development of a fishing port a bit further north. The EAG believes that planning for port redevelopment should advance with both possibilities in mind, and that the ultimate decision should be taken in close conformity to a masterplan for the redevelopment of Koror and the government's objectives for better use of Babeldaob. A port authority should have responsibility for managing and maintaining the necessary facilities.
- Water and waste-water. Of all the general utility services required for modern life, including power, communications, and water, it appears that water and wastewater are key to planning the future development of Palau. Electricity and communications travel over wires and airwaves and can follow any developmental pattern. Water involves fixed facilities, sources, pipes, pumps and treatment plants. Presently, moreover, there are some 19 separate water districts in Palau, many in Babeldaob alone, given differences of topography and administration. Of these, a large majority rely on surface water. In Koror, a major waste-water project is incomplete; the EAG was advised that technical incompatibilities exist between new equipment and the previously existing system.

Taken as a whole, infrastructure decisions including especially the four discussed above will play a central role in determining Palau's development future. It is vital that they be considered as a whole and in a coordinated way, taking into account the synergies between them, the costs associated with alternative

The EAG recommends that foreign investment and development assistance should be integrated into Palau’s planning in a coordinated and comprehensive way.

strategies, and the ultimately limited financial and technical resources. The EAG recommends that foreign investment and development assistance should be integrated into Palau’s planning in a coordinated and comprehensive way. To the maximum extent possible foreign assistance should support a Palauan path to the future; the availability of foreign assistance (capital, labor, technical expertise) is an important consideration in many cases but should not be the determining factor in whether a particular path is chosen over a different one.

The EAG has become conscious of the special challenges of ambitious technical projects in Palau. On Peleliu, a solar project is not in use because the grid cannot handle the intermittency; this issue has to be addressed as well with the much larger solar project on Babeldaob. At the hospital, we have learned an MRI machine cannot be installed because it does not fit into the required special room. The waste-water project is another example; it is difficult to fix because of Palau’s limited leverage with distant contractors. On a larger scale, the Capital facility – while justified by Palau’s federal structure and required by the Constitution – remains under-utilized, is costly to maintain, and is isolated from the actual living places of Palauans. This adds a commuting burden to its use. These examples justify a general hesitancy concerning grand departures.

The EAG believes there are two major alternative paths for Palau’s physical development. One is to relocate key facilities – the hospital, the high school, and perhaps the airport, to new sites further north, notably near the capital. These could take advantage of presently unused or under-utilized land and encourage the relocation of Palauan nationals to the surrounding regions, while permitting Koror to be redeveloped as, principally, a center for visitors and for business and commerce. The EAG acknowledges the appeal of this vision. However, as one considers the scale of the technical issues, especially water, and matters relating to landownership (including potential remaining ordnance hazards, about which we have only heard rumors and concerns), we draw the conclusion that the relocation of major facilities is likely to place heavy demands on Palau’s limited engineering, design, and implementation capacities. It is likely to run into bottlenecks, and to create, even if successful, a costly traffic corridor as most of the population continues to live and work in Koror. It is also likely to leave Koror with even more abandoned facilities than exist there at the present time.

For this reason, the EAG recommends development of a land-use plan taking account, as appropriate, of the “revealed preference” of many Palauans for life – at least, a part-time residence – in or near Koror. The advantages include an emphasis on a consolidated water system with scale and network economies, synergies between health, education and other services, proximity to jobs, commerce and private services, and the potential for redevelopment of numerous run-down and decrepit facilities in Koror presently. Such a strategy would entail the relocation of purely industrial facilities – notably the present port area – if possible, and the use of such areas to enhance the grace and dignity of Koror as both a destination and a place to live.

The EAG wishes to note here two relevant points. The first is the existence in present-day Koror of numerous decaying eyesores, on sites that already possess access to key infrastructure and tourist potential. Priority may be given to redesign and rebuilding at these locations. The relevant jurisdiction (Federal or State) should consider the use of eminent domain (as available) or of a “leased land-value tax” (working within Constitutional constraints), perhaps limited to unused urban land, to spur reuse and reconstruction. The tax could be offset by expenditure on construction and improvement – a “play or pay” scheme. Second, the EAG recommends the development of areas for primary or secondary family homes

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on Babeldaob may be encouraged, especially through clearance, road and water/sewer infrastructure, and settlement of land disputes in selected areas. We note the presence of at least one such community, in the far north of the island. It is perfectly plausible for many Palauans to maintain one home in such communities and a second, perhaps rented, for other purposes in Koror.

The EAG recommends the development of areas for primary or secondary family homes on Babeldaob may be encouraged, especially through clearance, road and water/sewer infrastructure, and settlement of land disputes in selected areas.

Strategic decisions on education will affect Palau's ability to retain young people within the republic. Palau needs a certain number of trained public administrators and capable business people; however, the skills associated with these careers are transferable and inevitably a fair fraction of those who take these routes will seek the higher incomes available in the United States. A complementary path is to provide career training for fields where jobs in Palau are and will be available. These include diving instructors, tour guides, fisheries management, ocean researchers, land reclamation and conservation, hotel management, culinary arts, and the technical trades required to build and maintain Palau's infrastructure. Palauans also need language skills adapted to the visitors who predominate: English, Japanese, Chinese, Koreans. Educational programs integrated with the protected sectors of Palau's economy can help provide sustainable career paths for Palauans who wish to remain in Palau, while not foreclosing the possibility of taking advantage of opportunities elsewhere. What may well, however, be a magnet for expatriates, as well as a significant incentive for others to remain on-island, will be the completion of affordable planned upgrades to the telecommunications network, and where there is no available service, the implementation of greater satellite access, especially in the outer islands.

The EAG notes that the Palau Ministry of Education has designated instruction in engineering & industry (includes auto, surveying, electrician); business & information systems; and health & human services; liberal arts & humanities (crafts, police officer, teachers, public service); natural resources (agriculture/forestry, marine science) as key areas for strengthening the contribution of education to Palau's economic development. The EAG commends efforts to develop online educational programs in areas of employment need, and recognizes existing and expanding relationships with University of Guam, San Diego State University and University of Hawai'i at Mānoa and University of Hawai'i at Hilo. The EAG further notes and commends a notable improvement in the quality of education as captured in significant improvement in Iowa Test Scores, which progressed from the 20th percentile in 2018 to the 40th percentile in 2022. This was accomplished in part by moving 31 educational specialists back into the classroom. Other efforts include providing fiber optics in every school and individualized reading support.

The EAG continues to recommend attention to the Palauan expatriate community, with a view to fostering a larger role for this community in the economic life of the republic. Presently Palauans have several open paths away from Palau, notably through higher education, mainly in Guam or Hawaii, and enlistment in the US armed forces. However, the pathway back faces important obstacles. These include uncertain access to specialized health care, no access to US veterans' benefits, and a lack of US tax treatment for charitable contributions, except for the Palau Community College. Each of these could be mitigated by specific measures, including:

- Extension of VA benefits, including perhaps the creation of a veterans' clinic in Palau;
- Incorporation of the hospital into the Medicare reimbursement system for Medicare-eligible Palauans and visitors;

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EAG member Konan meets with Palau Community College President Patrick Tellei; Dean of Student Services, Ms. Hilda Reklai; and Dean of Continuing Education, Mr. Hedrick Kual.

- Incorporation of the hospital into a state Medicaid system, most plausibly Hawaii's.
- Creation of additional non-profit 501(c)3 umbrellas for health, primary and secondary education, cultural facilities and infrastructure, or perhaps better, creation of a single umbrella non-profit "Palau Foundation" covering all these areas and able to receive both earmarked and non-earmarked contributions.
- As noted above, the creation of a small retirement community, oriented toward returning expatriates and convenient to improved medical services from a relocated hospital.

In addition, Palau's expatriates would benefit from improved air access, involving multiple carriers and points of origin, potentially reducing the cost of travel, and eventually from the creation of a retirement community that might attract a number of long-term returnees. Such a community would foster continuity of connection between Palauans of different generations and life trajectories, and make a significant contribution to the stable prosperity of the islands.

The EAG calls attention to the important role of the National Development Bank of Palau as a source of funds for housing and small business. The NDBP appears to be engaged in a search for new resources,

The EAG recommends protecting the role of the NDBP for housing loans as restrictions on the alienability of land have made commercial banks reluctant to fund conventional mortgage loans.

which at present involves applying for a banking license from Palau's Financial Institutions Commission to enable NDBP to accept deposits from domestic and international investors. It is hoped that any such expansion of the bank's funding sources would either strengthen or at least not diminish NDBP's important role in support of the housing and small business sectors. Specifically, the EAG recommends protecting the role of the NDBP for housing loans as restrictions on the alienability of land have made commercial banks reluctant to fund conventional mortgage loans. While Palauans naturally aspire to larger and more modern homes as their incomes improve, it is important to balance this against the limits to space (especially in Koror), to the safe water supply (especially outside Koror) and the need to preserve the visual splendor of the islands. Overdevelopment is not an immediate risk, but it could become one; an uncontrolled real estate "boom" should be avoided, as it would produce inevitable side effects, including displacement and homelessness, not presently evident.

Separately the government of Palau is pursuing potential new financial technologies (FinTech), such as a version of block-chain driven crypto-currency in the form of a "Palau Stable Coin", which has been pilot-tested for use within Palau. The EAG recommends a cautious approach to financial endeavors that may be difficult to monitor and control, especially with the limited regulatory capacity within Palau.

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Japan Visit

As noted above and detailed in Appendix 2, and thanks to the work of EAG member Professor Naoki Yoshino, a subgroup of the EAG consisting of Minister Udui, Dr. Watson and Yoshino-sensei convened in Tokyo March 28 - April 1, 2024, for extensive consultations with agencies and officers of the Government of Japan. These included elements of the Ministry of Finance, specifically the Financial Services Agency (FSA), the Debt Management Bureau, the office of Environmental Finance, the Japan Finance Corporation,



EAG Tokyo visit delegation meets with Japan Ministry of Finance Vice Minister Masato Kanda

and such related organizations as the Credit Risk Database (CRD) Association as well as non MOF entities, including JBIC, JICA and METI, all of which have made significant commitment to a wide range of support for economic development in Palau. The JICA meeting had particular resonance, given they have a dedicated representative in Koror, with a broad range of new and expanded programs for Palau being described to the EAG. An almost constant reference in all meetings was that 2024 is the thirtieth anniversary of bi-lateral diplomatic relations -- a reflection of the centrality of Palau to Japan of its Pacific Island policy and relationships. The ties are deep and enduring - thus making Japan a key partner with the United States in supporting sustained prosperity along with social and environmental sustainability in the Republic of Palau.

Conclusion

The Economic Advisory Group for Palau once again expresses its sincere and cordial thanks to the Government of Palau, to Palauan citizens, and to the technical advisers who are helping to inform our work. We hope that our work will continue to be useful to our partners in Palau and to Palau's international partners, in the service of continued progress toward implementation of agreements under the Compact of Free Association, and concurrently toward effective planning for the future sustainable development of Palau.

Respectfully submitted.

James K. Galbraith

James K. Galbraith, Chair
On behalf of the Palau Economic Advisory Group.

Professor Denise Konan
Minister Kaleb Udui
Dr. Peter Watson
Professor Naoki Yoshino

**2023 CRA signing in Port Moresby, PNG;
Palau President Whipps, Chief Negotiators
Minister Udui, SPECN Yun, and Secretary of
State Blinken**



Appendix 1:

2nd Annual Palau EAG Performance Monitoring Dashboard

Background

Pursuant to the 2023 Compact Review Agreement (2023 CRA) with entry-into-force on March 15, 2024, the Economic Advisory Group for Palau is described in Article 7, as follows:

(a) The Advisory Group on Economic Reform established by the 2010 Compact Review Agreement, as amended, shall continue to exist until otherwise agreed by the Signatory Governments but shall be renamed “The Economic Advisory Group for Palau” (the “Advisory Group”). Its purpose shall continue to be to contribute to the economic growth and sustainability of Palau by recommending economic, financial, and fiscal management measures.

(b) Upon entry into force of this Agreement, the members of the Advisory Group as of April 1, 2023, shall be redesignated for a three-year term, after which the Signatory Governments shall designate members in accordance with this paragraph and giving favorable consideration to current members. The Advisory Group shall be comprised of five (5) members, two (2) of whom shall be designated by the President of Palau, two (2) of whom shall be designated by the Secretary of the Interior of the United States or their designee, and the fifth of whom shall be chosen by the Secretary of the Interior of the United States or their designee from a list of not fewer than three (3) persons not residents of Palau submitted by the President of Palau. In the event that the Secretary of the Interior of the United States or their designee rejects the persons enumerated in the list submitted by the President of Palau, then the fifth member shall be chosen by the President of Palau from a list of not fewer than three (3) persons submitted by the Secretary of the Interior of the United States or their designee. In making these designations, due consideration shall be given to the mix of expertise that would be most beneficial to the work of the Advisory Group. The Advisory Group shall continue to be chaired by a member chosen by its members from among their number.

(c) The Advisory Group shall meet at least twice a year. Each Signatory Government shall provide the necessary support for its designated members on the Advisory Group. Support for the fifth member shall be borne equally by the Signatory Governments.

(d) The Advisory Group shall report and make recommendations to the Signatory Governments on these matters and otherwise as it deems advisable by May 1 of each year.

(e) Subject to the availability of appropriated funds, the Government of the United States shall provide for technical and administrative assistance for the Advisory Group and support necessary for it to accomplish its purpose.

Article 4 of the 2023 CRA further specified matters related to “Fiscal Management” in Palau and these provisions will be taken up, in part, by the Advisory Group. Specifically Article 4 includes:

In order to increase the long-term economic stability of Palau and to maximize the benefits of the economic assistance provided by the Government of the United States, the Government of Palau shall continue to undertake economic, legislative, financial, and management improvements, and shall give due consideration to recommendations from the International Monetary Fund (IMF), the Asian Development Bank (ADB), the Pacific Financial Technical Assistance Centre (PFTAC), and the Government of the United States. The Government of Palau shall adhere to sound fiscal principles as outlined in its Fiscal Responsibility and Debt Management Act (FRDMA) of 2021...

In response to the Advisory Group’s 2023 CRA, Article 7 mandate that, “its purpose shall continue to be to contribute to the economic growth and sustainability of Palau by recommending economic,

financial, and fiscal management measures, annual reports will continue to include an Appendix providing a dashboard approach to performance monitoring.

This dashboard approach is proposed to be maintained as background tracking and to be expanded as economic, financial and fiscal management. ROP leadership and officials have been exceedingly helpful in enabling the gathering of key data over the specified time periods and it is expected that continued cooperation will be necessary to ensure successful monitoring and to inform the recommendation-making process that the EAG will undertake as it achieves increasing levels of understanding of the opportunities and challenges facing Palau.

The Palau EAG Performance Monitoring Dashboard

As an initial effort to report on economic, financial and fiscal management the EAG presented an initial Dashboard in four sections in its 1st Annual Report (April 2023):

1. Government Employment

- a. National government number of employees
- b. National government employees as % of total employees
- c. National government wage bill, nominal and real (\$ millions)
- d. National government wage bill as % of GDP

2. Fiscal Performance

- a. Tax revenues as % of GDP
- b. Expenditures as % of GDP
- c. Fiscal balance as % of GDP
- d. Unreserved general fund cash balance (\$ millions)
- e. External debt as % of GDP

3. Financial/Banking Performance

- a. Total depository bank deposits as % of GDP
- b. Total depository bank loans as % of deposits

4. Economic Performance

- a. Real GDP (2015 prices, \$ millions)
- b. Real GDP per capita (2015 prices)
- c. Economic transformation—traded goods as % of GDP

2nd Annual Assessment of Palau's Performance—Based on Audit Figures and estimates for post-Covid Fiscal Years

Each of the fourteen (14) charts includes a brief commentary on the progress (or lack of progress) indicated for Palau over the noted period. 3-year averages over five (5) time periods are utilized to smooth some of the volatility suffered by Palau in almost all economic, financial and fiscal matters.

Data for each of the charts was available FY24 by April of 2024.

It should be noted that US officials persistently highlighted the size and cost of the national government during the period from FY2007-FY2009 (and perhaps before). Importantly, the same US officials expressed concern as to the ability of Palau to adjust to reduced resource transfers if the mandated Compact section 432 Review (in 2010) led to a result of zero new funding commitments were agreed after FY2009. In such an event the International Monetary Fund (IMF) presented its standard fiscal/financial assessment of Palau in quite dire terms, recommending a strong focus on fiscal adjustment (expenditure cuts and/or revenue enhancements).

It should be noted with interest that the dire outcome of a failure to secure additional funding through the CRA negotiations did not occur; however, an 8-year delay in funding the CRA was virtually tantamount to a zero funding availability outcome for Palau’s access to operational budget support, and equated to an 8-year delay in capital funding support. So the IMF recommendations prove useful in assessing Palau’s performance during the period from FY2010-FY2018. The time periods chosen for the dashboard align well with the CRA-specified IMF and ADB recommendations. In future it will be the policy of the EAG to include contemporary assessments of Palau’s opportunities and challenges in our performance monitoring and in our making of recommendations and timelines associated with our policy recommendations.

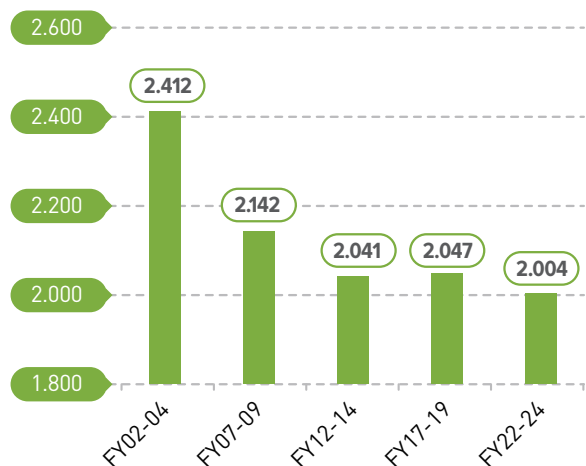
At a high level, we can see that the then prevailing IMF modeling exercise predicted a need to improve the fiscal position by some 0.9 percent annually for the period from FY2009 – FY2021 even with Compact renewal in place. [see the IMF paper referenced in the 2010 CRA, pp 7-10].

In fact, Palau, despite a delayed Compact renewal achieved an improvement in its overall fiscal balance from a deficit of 3.6% at the end of FY2009 to a surplus of 6.2% in FY2018. An adjustment averaging 1.1% annually. FY19 resulted in a small deficit (0.4% of GDP) as a result of active retribution by the government of PRC drastically reducing tourism arrivals. The key takeaway is that Palau did manage its fiscal situation responsibly and out-performed the stark modeling projections for austerity shared by the IMF in 2008. Notably, Palau achieved progress on revenue enhancements—achieving an increase of 6.5% of GDP from FY2009 through FY2018. A key lesson, of course, is that fiscal austerity is easier during periods of economic recovery and growth... a lesson worth applying as the Palau economy is projected to recover from its COVID-19-affected depths in the coming years and to be bolstered by the favorable financial results of the 2023 CRA.

The 2nd Annual Palau EAG Performance Dashboard follows.

Government Employment

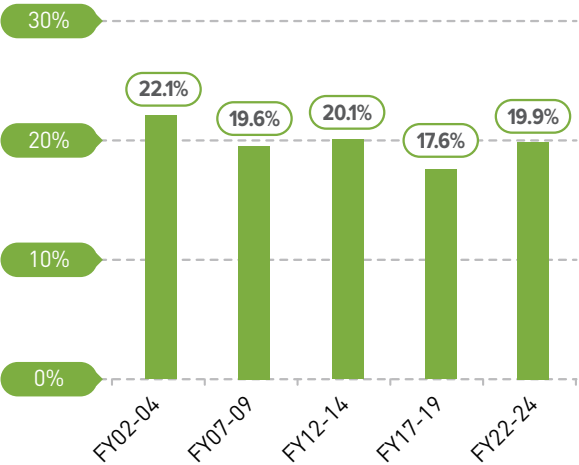
1.a. Nat'l Gov't Employees



A common critique by observers of the Palauan economy during the initial Compact period was that the government workforce was “too big” and absorbed “too many” resources. Whether this was (or perhaps is even true to this date), the size of the government has been reduced to the point where in health, education and financial management vacancies remain unfilled and service levels clearly suffer.

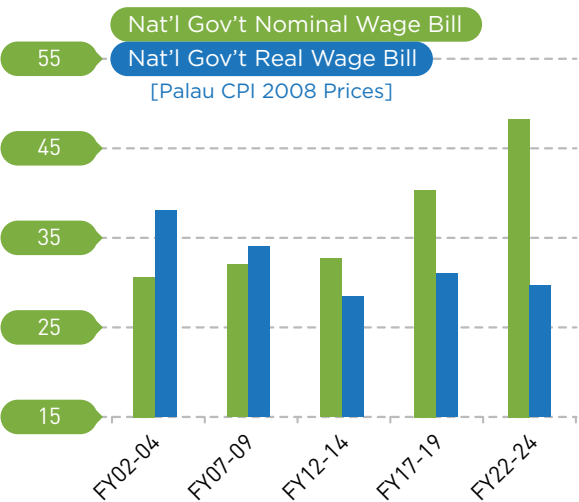
The 17% decline in total national government employees (from 2,412 in FY02-04 to 2,004 in FY22-24) represents the results of persistent and prudent efforts by Palau’s leadership to rely more on the private sector in its economic growth strategy. It is expected that the next period (FY23-25) will show a small increase in the size of the national government as the resources available under the 2023 CRA are deployed—presumably to meet priority needs.

1.b. Nat'l Gov't Employees [as % of Total Employees]



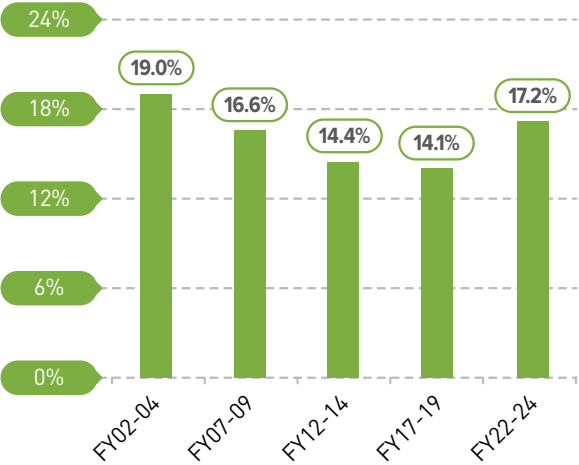
The 10% decline in the share of national government employees as a share of total employees (from 22.1% in FY02-04 to 19.9% in FY22-24) is consistent with a strengthening private sector and is expected to continue as a trend—with even greater declines as the private sector recovers from the deep impact of the COVID-19 pandemic.

1.c. Nominal & Real National Government Wage Bill (\$millions)



The 22% decline in the total real wage bill of the national government (from \$38.1 million in FY02-04 to \$29.7 million in FY22-24) also demonstrates a persistent and prudent approach to fiscal management and to reduce the prior imbalance between government wages and private sector wages (in part). The government of Palau has instituted pay increases for public sector workers and continues to consider a broader economy-wide minimum wage increase. The EAG members will closely monitor this metric as minimum wage policy has been applied to government workers (about a 12.5% nominal increase in FY23 and a further 11.1% increase in FY24—both in the face of high inflation). This policy represents an attempt to make wages more attractive, especially as senior Palauan workers age and the stated policy of consecutive administrations is to bring more Palauan workers and their families back home. The EAG is aware that increases contemplated to-date are at a level justified based on an approach measuring basic needs poverty line over time.

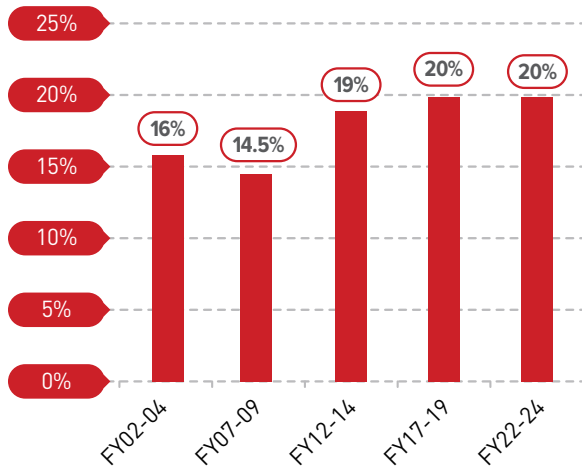
1.d. Nat'l Gov't Wage Bill as % GDP



The 9% decline in the national government wage bill as a share of GDP (from 19% in FY02-04 to 17.2% in FY22-24) is the expected result of declining real wages at a time when the economy was growing at a modest rate. Of note is the fact that the IMF analysis referred to in the original CRA mandate for the EAG assumed this metric would remain stable and the fiscal deficit then present and threatening to deteriorate would, indeed, have created a dire need for the sharp adjustments prescribed by the IMF. Palau, instead, chose an incremental path to fiscal adjustment over the long-term and exceeded the total adjustment through FY17-19. The reversal in trend is the result of the national government wages being fully protected during the COVID-19 pandemic while nominal GDP declined markedly. A return to a lower ratio is expected over the medium-term; albeit there is some risk that the 2023 CRA resource increase may be insufficiently allocated to meet infrastructure bottlenecks that threaten a return to more robust economic growth.

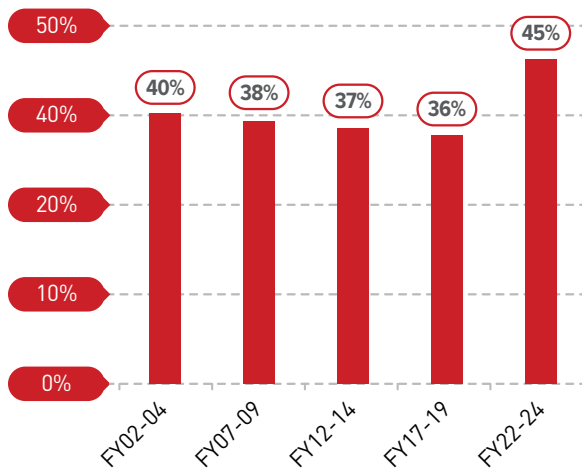
Fiscal Performance

2.a. Tax Revenues as % GDP



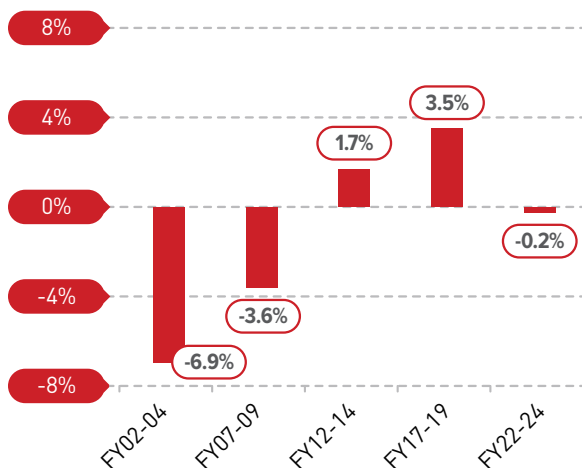
The 25% increase in taxes as a share of GDP (from 16% in FY02-04 to 20% in FY22-24) is the result of incremental tax policy changes to the long-standing Trust Territory-vintage tax system in Palau. Ultimately, Palau has adopted a tax policy consistent with the advice of the IMF and other observers as far back as 2002. This was an important achievement of Palau's fiscal policy, to replace a tax regime that came with increased tax distortions and with diminishing returns in terms of tax collections in proportion to GDP growth. The EAG will be closely monitoring the macro- and micro-impacts of the comprehensive tax reform passed in FY2022 and implemented as of January 1, 2023. It is already evident that tax collections, especially from the Palau Goods and Services tax (PGST—a value-added consumption tax) are far exceeding initial projections and total tax effort will rise again when the impacts of the COVID-19 pandemic long gone.

2.b. Expenditures as % GDP



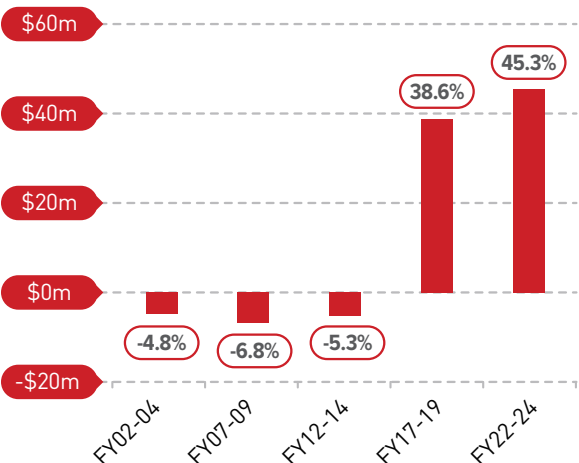
The 18% increase in expenditures as a share of GDP (from 38% in FY02-04 to 45% in FY22-24) is an anomaly due to the impact of the COVID-19 pandemic. The previous trend of declines in this ratio has been temporarily reversed. The IMF macro-modeling used for the report and recommendations called out in the original 2010 CRA mandate for the EAG implied expenditures remaining steady as a share of GDP, resulting in extensive implied borrowing in the absence of substantial fiscal compression. This outcome was avoided until the pandemic. The EAG expects to monitor this metric closely in the post-COVID period and, in particular, expects a needed increase in capital investments as a share of GDP and as a share of total spending.

2.c. Fiscal Balance as % GDP



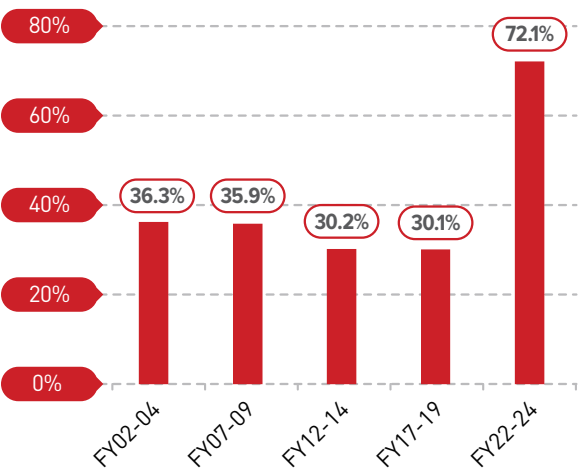
The fiscal adjustment of 10.4% of GDP (from -6.9% in FY02-04 to +3.5% in FY17-19) is, perhaps, the most impressive metric within the whole dashboard; that was a greater magnitude of adjustment than the IMF had called for and it is proof of an improved and prudent fiscal stance over an extended period. Alas, the impact of the COVID-19 pandemic was a setback, but fiscal prudence is still evident with the near balance over the period FY22-24 (-0.2% of GDP). Palau is still facing the need to “reset” its economic strategy—a clear recommendation of the EAG that will, over time, include more specific focus on elements of that strategy by the EAG. Of note is the EAG-explicitly articulated need—to execute a more sustainable approach to tourism recovery/growth coupled with restoration of Palau's infrastructure stock and, perhaps with the greatest difficulty and uncertainty... a needed diversification of Palau's economic base.

2.d. Unreserved general fund cash balance (\$millions)



The \$50.1 million increase in Palau’s available fund balance (from -\$4.8 million in FY02-04 to +\$45.3 million in FY22-24) is indicative of a major turnaround in its core management of government finances and an achievement, albeit temporary and in the end not fully sufficient, of its long-stated goal to have an adequate “rainy day” fund in the face of climate resilience threats and vulnerability to regional and global economic shocks. The EAG will closely monitor this metric as any return to persistent government deficits would be debilitating with respect to private sector growth and a threat to maintaining long-term stability through each economic cycle.

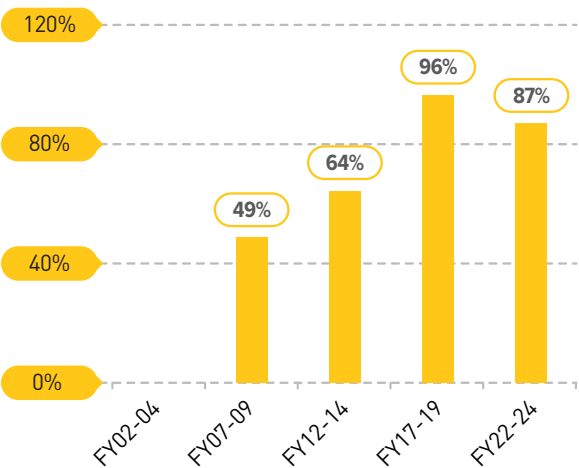
2.e. External Debt as % GDP



The near doubling of Palau’s external debt as a share of GDP (from 36.3% in FY02-04 to 72.1% in FY22-24) is a near immediate impact of the COVID-19 pandemic. Unfortunately, the impacts of the pandemic led to an increase in borrowing on the reasonable assumption that the crisis was a cyclical shock. With 20:20 vision it appears that the fiscal shock, due to the level of borrowing and the time delay in economic recovery will leave a small structural deficit for Palau to manage. The EAG will closely monitor Palau external debt stance which has now been crucially assisted with a six-year, \$60 million allocation of debt relief funding under the now in force terms of the 2023 CRA. It would be best if the fiscal space provided by that provision be largely dedicated to increased infrastructure investment instead of purely operational and recurrent spending.

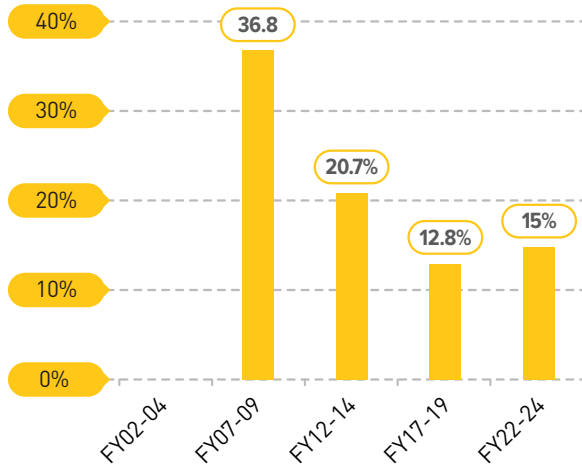
Financial/Banking Performance

3.a. Total depository bank deposits [as % GDP]



The 78% increase in Palau’s domestic banking deposits (from 49% in FY02-04 to 87% in FY22-24) highlights the relatively high and growing penetration of formal banking in the Palauan economy. The banking sector received minimal attention from the IMF and other observers at the time of the 2010 CRA-referenced report. The EAG has a stated objective of trying to find ways for Palau’s economy to increase the mobilization of domestic resources. This would preferably be through means that maintained the relatively high and growing level of deposits as a share of GDP while also increasing total lending, especially for commercial lending. Alternatively, the government or a public sector entity may be called upon to intermediate. EAG member, Professor Yoshino, is assisting in the potential introduction of Palau savings bonds to further mobilize resources with the idea of funding needed infrastructure. The EAG will closely monitor banking and domestic finance as the economy faces the need for substantial investment.

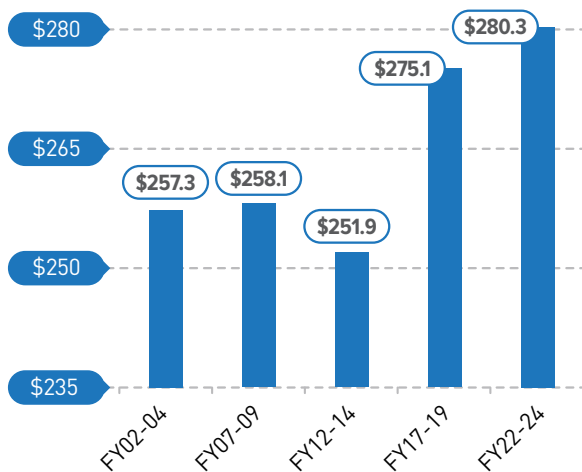
3.b. Total depository bank loans [as % Deposits]



The 59% decline in bank loans as a share of total deposits (from 37% in FY02-04 to 15% in FY22-24) results from a further decline in loans at the time of growing deposits. As noted above, the EAG will closely monitor this metric. If creative means to mobilize bank lending are unsuccessful, then other means to mobilize ample domestic resources to meet the economy's need for infrastructure, improved tourism plant, and diversified production will be considered for recommendation by the EAG.

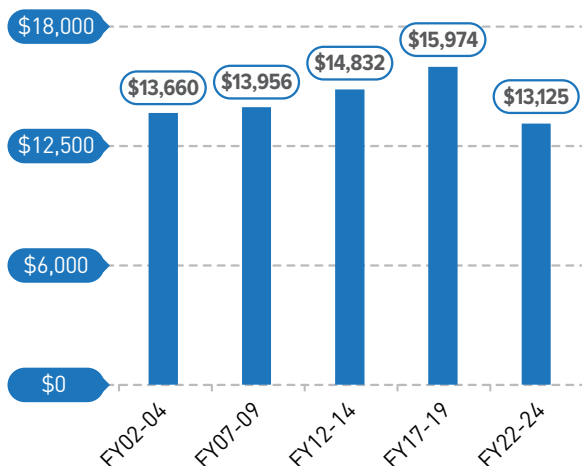
Economic Performance

4.a. Real GDP (2015 prices)



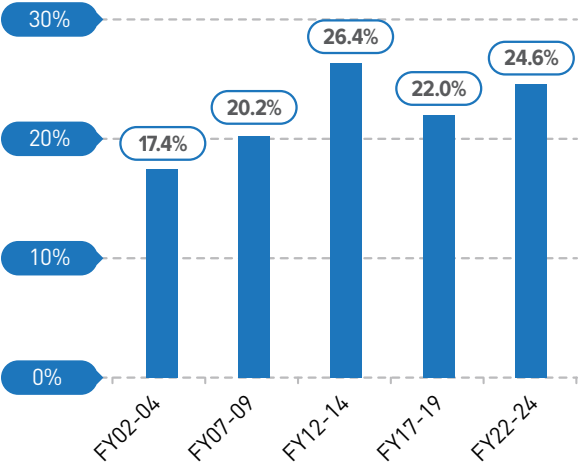
The 9% increase in real GDP (from \$257 million in FY02-04 to \$280.3 million in FY22-24) is a disappointing result over a two-decade period. Nearly one-third of the years over the period resulted in negative real economic growth. The fact is the economy suffers from external shocks that are well beyond Palau's control. The COVID-19 pandemic effect on the economy post FY19 was a decline of a further 25% increasing the need for a sustainable recovery that does not simply retrace the path to boom-bust economic outcomes. The EAG will closely monitor Palau's economic and fiscal management with an eye toward finding ways to reduce Palau's reliance on a narrow and volatile economic base. This is, indeed, the crux of the problem and the challenge the EAG will partner with Palau to try to overcome.

4.b. Real GDP/capita (2015 prices)



The 4% decline in real GDP per capita (from \$13,186 in FY02-04 to \$13,125 in FY22-24) represents a disappointingly modest growth in the economy (the numerator) and a minor increase in the population (the denominator). The lack of a modestly growing Palauan population—as opposed to foreign workers—indicates the challenge to the Palau leadership that has led them to focus on bringing Palauans home. This metric, too, will show a large impact post-COVID-19 pandemic. The EAG notes the challenge represented by the fact that, prior to the anticipated onset of renewed and increased terms under the 2023 CRA, Palau will have suffered a two-decade long period of zero net gains in income per capita.

4.c. Economic Transformation [Traded Goods as % GDP]



The 41% increase in the share of traded goods in the Palau economy (from 17.4% in FY02-04 to 24.6% in FY22-24) demonstrates that the Palauan economy has experienced a measure of “economic transformation” in which its capacity to produce tradeable goods has expanded, but this has been driven almost exclusively by the tourism sector with its well-known boom-and-bust cyclical nature. The EAG will monitor this lagging and relatively slow-moving metric as a measure of how effectively Palau’s private sector and outward-oriented economic strategy is implemented.



EAG members meet with University of Hawaii at Manoa faculty with interests in the Freely Associated States.

Palau EAG Monitoring Dashboard Data

1 Government Employment						
		FY02-04	FY07-09	FY12-14	FY17-19	FY22-24
a	Nat'l Gov't Employees	2,412	2,142	2,041	2,047	2,004
b	"Nat'l Gov't Employees [as % of Total Employees]"	22.1%	19.6%	20.1%	17.6%	19.9%
c	Nat'l Gov't Nominal Wage Bill	30.7	32.0	32.7	40.4	48.3
c	"Nat'l Gov't Real Wage Bill [Palau CPI 2008 Prices]"	38.1	34.0	28.5	31.1	29.7
d	Nat'l Gov't Wage Bill as % GDP	19.0%	16.6%	14.4%	14.1%	17.2%
2 Fiscal Performance						
a	Tax Revenues as % GDP	16%	14.5%	19%	20%	20%
b	Expenditures as % GDP	38%	37%	36%	35%	45%
c	Fiscal Balance as % GDP	-6.9%	-3.6%	1.7%	3.5%	-0.2%
d	"Unreserved general fund cash balance (\$millions)"	\$(4.8)	\$(6.8)	\$(5.3)	\$38.6	\$45.3
e	External Debt as % GDP	36.3%	35.9%	30.2%	30.1%	72.1%
3 Financial/Banking Performance						
	(Bank deposits)		94.3	145.7	276.7	243.5
a	"Total depository bank deposits [as % GDP]"		49%	64%	96%	87%
b	"Total depository bank loans [as % Deposits]"		36.8%	20.7%	12.8%	15%
4 Economic Performance						
a	Real GDP (2015 prices)	\$257.3	\$258.1	\$251.9	\$275.1	\$280.3
b	Real GDP/capita (2015 prices)	\$13,660	\$13,956	\$14,832	\$15,974	\$13,125
c	"Economic Transformation [Traded Goods as % GDP]"	17.4%	20.2%	26.4%	22.0%	24.6%
>	Nominal GDP	161,042	192,941	227,116	287,157	
>	CPI deflator (2008q2=100)	80.5	94.0	114.9	130.0	

Appendix 2: Meeting Briefs for Year Two (2023/2024) of the EAG for Palau

Meetings in Palau and Honolulu

The Palau EAG held their second visit to Palau from **August 23-28, 2023**. All five EAG members joined the visit, with the four traveling members also attending meetings in Honolulu, Hawaii from **August 20-21, 2023**. The schedule allowed for the following:

- Orientation meeting with Palauan citizens resident in Hawaii
- Briefings with University of Hawaii, Manoa, program managers with interests in Palau
- Welcoming discussions with the President of Palau, H.E. Surangel Whipps, Jr., and his Cabinet
- Dialogue session with Ministers and discussion on the Palau National Development Plan (NDP)
- Breakout meetings of the members with:
 - » National Development Bank of Palau, Acting CEO, Karla West and board members
 - » Visiting Parliamentarians from Japan
 - » Ministry of Public Infrastructure and Industries, Minister, Charles I. Obichang and staff
 - » Ministry of Human Resources, Culture, Tourism and Development, Minister, Ngirai Tmetuchl
 - » Palau Visitors Authority, Director, Kadoi Ruluked
 - » Palau National Communications Corporation
 - » Palau Community College (President, Dr. Patrick Tellei and staff)
 - » Palau Public Utility Corporation (CEO Frank Kyota and staff)
 - » Ministry of Education (Minister, Dr. Dale Jenkins)
 - » Palau Shipping Company (private sector)
- A weekend day excursion to major Palauan visitor industry attractions (Rock Islands, Jellyfish Lake, Shark City, etc.)
- A de-briefing/close-out session Palau's executive leadership and members of Palau's bicameral National Congress (Olbiil Era Kelulau, OEK), House of Delegates and Senate.

Winter Virtual Check-in Meeting

The Palau EAG held a virtual "check-in" meeting on **December 21, 2023**. All five EAG members joined the meeting, which included updates on the following:

- Compact negotiations status and expected timeline;
- DC-based efforts with committed partner agencies (TDA, DFC, and JBIC all targeted toward promoting private investment and infrastructure development);
- University of Hawaii-based efforts (training, research, and completed articulation agreement with Palau Community College);
- Japan-based efforts (focus on infrastructure, finance mobilization, fiscal stabilization, and environmental sustainability); and
- Palau-based efforts (training needs, policy initiatives and overall Economic & Fiscal Update).

- Update on the Palau Economy and Summary of the signed 2023 Compact Review Agreement (CRA) then awaiting U.S. Congressional action
- Review of EAG mandate in the 2024 CRA
- Preliminary discussion of a Spring in-person meeting in Tokyo or Washington, DC.

EAG Sub-Committee Meeting in Tokyo, Japan

The Palau EAG held their second Spring in-person meeting with just 3 members in Tokyo from **March 28 - April 1, 2024**. During that visit, EAG members Udui, Watson, and Yoshino were able to meet with:

- Officials of the Financial Services Agency (FSA), including, Mr. Inui, Specialist in System Engineering and FSA Vice Minister Mr. Ariizumi; and Special Advisor to NISSEI Life Insurance Company, Mr. Kobayashi (expert in housing finance)
- Mr. Tominaga, Ministry of Finance (MOF), Debt Management Bureau
- Mr. Masato Kanda, Vice Minister of Finance, MOF
- Mr. Hideki Takada, FSA Chief Director, Environmental Finance
- Mr. Ichiro Ohishi, Japan Bank for International Cooperation (JBIC)
- Officials at Nikko Securities (sales of savings bonds in Japan)
- Mr. Hakubun Shimomura, Chairman and member of House of Representatives, Japan-Palau Friendship Association
- Mr. Kazuho Tanaka, President, and Mr. Tusnekasa, Japan Finance Corporation (JFC)
- Mr. Kuwahara, President, Credit Risk Database (CRD) Association
- Mr. Shinya Tamio, Japan International Cooperation Agency (JICA)
- Mr. Yamada, Ministry of Economy, Trade and Industry (METI)

Additional Comments on the EAG Tokyo Mission

The inclusion of Professor Naoki Yoshino as a Palau delegate to the EAG, together with his complementary role as an independent economic advisor to the government of Palau, has collectively facilitated a most productive engagement by the government of Japan, both in the work and mission of the EAG, and more broadly to the benefit the people of Palau.

In this regard, the EAG determined that it would be most appropriate for it to convene in Japan, at a time Yoshino-sensei determined most advantageous. He accordingly proposed that the EAG convene in Tokyo on and between March 28th - April 1st, 2024, for a broad range of substantive meetings that he would arrange during that period.

Accordingly, the EAG, operating through a sub-group consisting of Prof Yoshino, Finance Minister Kaleb Udui, and Dr. Peter S. Watson, participated in that comprehensive program, fully described above. The Final Schedule articulates a remarkable range of meetings with very senior Government of Japan (GOJ) officials in those government agencies of direct relevance to Palau, to include various elements of the Ministry of Finance (MOF), for example: the Financial Services Agency (FSA), the Debt Management Bureau, the office of Environmental Finance, the Japan Finance Corporation, and such related organizations as the Credit Risk Database (CRD) Association.

In this context, the EAG was privileged to be received by such distinguished GOJ officials as and Mr. Shigeru Ariizumi, Vice Minister FSA , and Mr. Masato Kanda, Vice Minister of Finance, whose meeting with EAG members, led by Minister Udui, is captured here:

https://www.mof.go.jp/english/policy/international_policy/convention/bilateral_meetings_between_finance_ministers/20240328_2.html

Many of these meetings significantly canvassed the merits of the introduction of savings bonds in Palau as a means of retaining monetary circulation within Palau’s domestic economy. In this context, the EAG was received by Nikko Securities, an issuer of savings bonds to the public, with Minister Udui having an extensive exchange in their offices with all major Japanese media outlets, resulting in significant related press coverage.

Beyond MOF-related agencies, the EAG had very useful meetings with such other relevant GOJ entities as JBIC, JICA and METI, all of which have made significant commitments to support for economic development in Palau. The JICA meeting had particular resonance, given they have a dedicated representative in Koror, with a broad range of new and expanded programs.

Also appreciated by the EAG was being separately received by Mr. Ikeda of the Cabinet Secretariat of Japan, and a large group of House of Representatives members who make up the Japan-Palau Friendship Association, with extensive travel to and engagement with Palau.

Likewise, sincerely appreciated by the EAG was being hosted to a very special -- only twice-yearly – formal tea ceremony, courtesy Mrs. Yoshino, who teaches this most revered practice. This outing was most special.

Tokyo Trip Conclusion

A most significant take-away from the EAG’s Tokyo trip was the remarkable depth and quality of the relationship between Japan and Palau. An almost constant reference in all meetings was 2024 being the thirtieth anniversary of bi-lateral diplomatic relations, this not a simple factual recitation, but a reflection of the centrality of Palau to Japan of its overall Pacific Island policy and relationships. The ties are real, deep and enduring – thus making Japan a key partner with the United States in supporting sustained social, political and economic growth there, together with other friendly nations such as Australia.

In close, all thanks to Yoshino-sensei for structuring a very comprehensive and meaningful set of meetings in Tokyo, very relevant to the role and mission of the EAG. Palau is most fortunate to have him in support of its national objectives and priorities.

EAG April 2024 Virtual Check-In Meeting

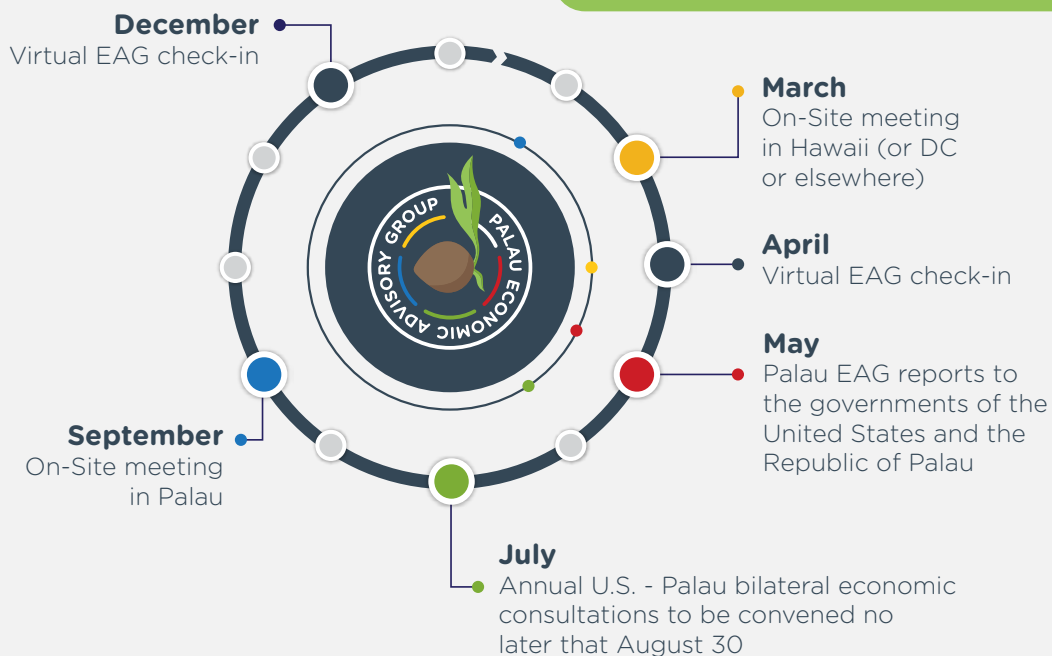
The Palau EAG held an additional virtual “check-in” meeting on **April 18, 2024**. All five EAG members joined the meeting, which included updates on the following:

- De-briefing on the 3-member visit to Tokyo, Japan
- Update on draft report—to finalize in time for May 1, 2024, transmittal to the two governments
- Recognition that the 2023 CRA was passed into law on March 9, 2024; and entry-into-force occurred on March 15, 2024 with an exchange of diplomatic notes.
- Setting of date for 3rd visit to Palau for the week of September 9, 2024.

Planned EAG Meeting Cycle in Future Years

In future years, the EAG plans to follow a similar—albeit still flexible—annual cycle of meetings that should work well with the academic year constraints of several EAG members while also ensuring conformance

The annual cycle of meetings and reports for the Palau Economic Advisory Group

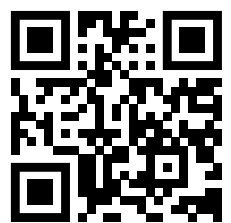


with the 2023 CRA mandate for annual reporting to the government of Palau and the government of the United States by May 1st of each year. The infographic shown below depicts the planned cycle of in-person meetings to be held in Palau each late Summer (August/September) and each Spring (March/April). The second meeting will be in Honolulu, Hawaii, unless the members designate an alternative site. Notably during the first year the Spring meeting was held in Washington, DC, while during the second year the Spring in-person meeting was held in Tokyo, Japan (with 3 of the 5 members attending).

The current EAG members also propose to have 1-2 virtual meetings to maintain momentum on initiatives and to keep themselves timely informed of developments within Palau and with respect to the overall US-Palau relationship in its many dimensions.



EAG members visit in Tokyo with leadership of Japanese International Cooperation Agency (JICA)



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