

First Sub-Regional Workshop: Budgetary Operations Under New Resource Realities for Palau and the RMI: Lessons Learned, Fiscal Policy Implications, and Next Steps



Participants of the First Sub-Regional Workshop with heads of delegation: RMI Minister of Finance, Hon. David Paul, and Palau Minister of Finance, Hon. Kaleb Udoi, Jr.



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Background

The first Subregional Workshop under the Asian Development Bank Technical Assistance Program (ADB TA-10071-REG), *A Differentiated Approach to Building Economic Management Capacity in the North Pacific*, was held in Majuro, Republic of the Marshall Islands, from October 14-18, 2024. This workshop brought together representatives from the governments of the Republic of Palau and the Republic of the Marshall Islands under the workshop theme: *Budgetary Operations Under New Resource Realities for Palau and the RMI: Lessons Learned, Fiscal Policy Implications, and Next Steps*. The event focused on addressing emerging fiscal challenges in light of new resource constraints, emphasizing strategies to enhance budgetary operations and fiscal policies in both countries.

The workshop Agenda has been included as **Attachment 1**, and the complete list of workshop participants has been included as **Attachment 2**.

Major Workshop Themes

The Subregional workshop covered the following themes:

Tax Reform Initiatives: The workshop emphasized the importance of tax reform as a key driver of fiscal sustainability. PAL provided an update on its tax reform, which has been ongoing for the past several years. They shared their experiences, lessons learned, and challenges faced during implementation, focusing on the impacts of the reform on revenue generation and inflation. Meanwhile, the Republic of the Marshall Islands is in the early stages of implementing tax reform. By learning from Palau's experience, the RMI gained valuable insights to guide its own approach, benefiting from the shared knowledge on best practices and potential pitfalls in reforming tax policy. Key discussions focused on the structure of their reformed tax regimes, the challenges encountered during implementation, and the fiscal and inflationary impacts observed post-reform.

Notably, the Palau Director of Tax delivered presentations to the RMI Chamber of Commerce and RMI Tax Reform Commission, highlighting the Palau implementation experience and addressing questions and concerns from both bodies.

Budgetary Operations and Fiscal Management: Central to the workshop was the discussion on budget cycle implementation for FY24 and FY25, with a specific focus on lessons learned and challenges faced. Separate country working groups explored anticipated modifications to their fiscal operations for FY26, including updates to critical planning documents such as the National Development Plans and National Infrastructure Investment Plans for both Palau and the RMI.

Fiscal Responsibility and Debt Management: Fiscal responsibility acts and debt management practices for both countries were reviewed in closed sessions. Discussions centered around improving fiscal policies to address current and future budget challenges, the need for updated Public Financial Management (PFM) roadmaps, and the resources required to implement these frameworks.

Best Practices in Budgeting: The workshop also explored best practices in budget cycle management, including the use of tools like the Medium-Term Expenditure Framework (MTEF) to better align fiscal policies with long-term economic goals. Participants were introduced to budget modeling tools to assess the impact of fiscal decisions and develop stronger budget statements reflecting fiscal responsibility.

Future Planning: A forward-looking session considered inter-generational fiscal policy implications, particularly in the early years of the 20-year agreements between the North Pacific countries and their partners. This included modeling potential fiscal scenarios and assessing the risk of fiscal cliffs under changing economic conditions.

Welcoming Remarks

Secretary of Finance for the Republic of the Marshall Islands (RMI), Ms. Ayako Yamaguchi-Eliou, delivered welcoming remarks on behalf of RMI Minister of Finance, Hon. David Paul, at the first sub-regional workshop on economic management issues for the North Pacific. The workshop, hosted under the ADB Capacity Building Project,

brought together participants from Palau, the Asian Development Bank, and the Graduate School USA. Secretary Yamaguchi-Eliou emphasized the workshop's significance for sharing experiences and best practices in areas such as tax reform, budget implementation, and fiscal management. She highlighted the substantial progress made in the Marshall Islands during the project's initial six months, including the passage of tax reform and minimum wage legislation, and the presentation of Agenda 2030. The Secretary expressed the RMI's particular appreciation for the opportunity to share recent budgetary experiences with, and learn from, Palau, especially in light of recent changes resulting from the amended Compact of Free Association. She conveyed optimism for future achievements and anticipated productive discussions, looking ahead to the next workshop to be held in Palau.

Secretary Yamaguchi-Eliou's remarks have been included as **Attachment 3** to these Proceedings.

Workshop Expectations

Mr. Kevin O'Keefe, the meeting facilitator, set expectations for the workshop with the following key points:

1. Workshop format and approach:

- Purposefully designed as a workshop, not lectures or seminars
- Emphasis on sharing experiences, best practices, challenges, and proposed solutions
- Informal sessions encouraging open dialogue and questions at any time
- Cross-organizational and cross-country focus

2. Topics and content:

- Focus on Compact-related issues due to both countries entering a new period of economic assistance
- Supporting improved fiscal policy and financial management
- Addressing skill gaps and personnel challenges
- Tax reform experiences and plans
- Budget cycle implementation and planning

3. Objectives and benefits:

- Create a safe space for frank discussions and sharing
- Overcome skill and personnel gaps through resource application
- Initiate relationships and networking across countries
- Encourage informal connections outside of structured sessions

4. Resources and opportunities:

- Awareness of resources available through the project
- Scholarships and direct working opportunities
- Encouragement for ministers and department leaders to identify potential beneficiaries

Mr. O'Keefe emphasized the unique timing of the workshop, with all three Freely Associated States aligned in their Compact timeframes for the first time. He expressed hope that the workshop would foster meaningful dialogue, create lasting professional connections, and provide valuable insights for both countries to apply in their respective contexts.

RMI: Tax Reform and Modernization Initiative

Mr. Niuatui Niuatui, the resident RMI Country Economist under the ADB Capacity Development Program, presented an overview of the Republic of the Marshall Islands (RMI) Tax Reform and Modernization Initiative, included as **Attachment 4** to these Proceedings. The presentation focused on the rationale and approach to tax reform in RMI, addressing the need to modernize the existing tax code inherited from the Trust Territory days. The timing is considered favorable, with strong political will and the presence of complementary initiatives such as Universal Basic Income and a minimum wage increase.

Key areas of reform highlighted included the outdated income tax system, inefficiencies in the Business Gross Revenue Tax (BGRT), and challenges with sales taxes and import duties. The reform proposal suggests replacing the BGRT with a consumption tax for large businesses, simplifying the tax system to encourage investment and improve compliance. Other proposed changes include upgrading income tax brackets, introducing a 10% consumption tax, and establishing a new Tax Authority separate from the Ministry of Finance. The presentation also outlined the role of the newly established Tax Reform and Modernization Commission and the use of the Tax Reform Impact Calculator (TRIC) to model the potential impact of these changes.

The overall goal of the initiative is to create a more efficient, equitable, and modern tax system in RMI that encourages economic growth and improves revenue collection.

RMI Tax Reform Impact Calculator

EconMAP team member Michael Barsabal demonstrated the Tax Reform Impact Calculator (TRIC). The TRIC is a policy modeling tool designed to help policymakers in the Republic of the Marshall Islands (RMI) assess the potential effects of various tax reform scenarios. Developed as part of a broader initiative to modernize the country's tax regime, the TRIC enables users to simulate changes to tax rates and structures, allowing them to see the fiscal and economic impact of different tax reform options. Policymakers can use the tool to evaluate how adjustments to specific taxes—such as business profits taxes, wages taxes, and a new consumption tax—would affect government revenues, inflation, household incomes, and the overall tax burden distribution.

The TRIC offers flexibility for decision-makers to experiment with different combinations of tax rates and structures, giving them a better understanding of how these changes might align with policy goals. By providing clear estimates on the consequences of various reform packages, the tool supports more informed policy discussions and public education efforts. Its ability to model the effects of reforms on inflation, consumer prices, and income distribution makes it a valuable resource for ensuring that the eventual tax reform package is both equitable and fiscally sound.

The TRIC cannot be attached to this report as it's a dynamic spreadsheet; however, it can be accessed online at <https://pubs.pitiviti.org/rmi-tric>.

Palau: Tax Reform Experience

Mr. Elway Ikeda, Director of Tax for the Republic of Palau, delivered a presentation on the country's comprehensive tax reform experience (**Attachment 5**). The presentation highlighted Palau's efforts to modernize its tax regime, focusing on the implementation of the Palau Goods and Services Tax Act (RPPL 11-11), signed into law in September 2021 and effective from January 1, 2023.

The key elements of the reform included the introduction of a 10% Goods and Services Tax (PGST) on most goods and services, a 12% Business Profits Tax (BPT) for larger entities, and modifications to the Gross Revenue Tax (GRT) for smaller businesses. Additional measures, such as a new business license fee for businesses grossing under \$50,000 and a revised Salary and Wage Tax, were also outlined. Import duties were largely eliminated, and a carbon tax and international transportation tax were introduced. The reform aimed to simplify the tax system while ensuring equity through provisions like the Wages and Salary Tax Refund for lower-income earners and the Child Raising Subsidy.

The implementation process, guided by a phased approach and extensive taxpayer education, was crucial to the reform's success. Palau focused on taxpayer-centric policies, communication, and continuous modernization, supported by partnerships with organizations such as the IMF and the Asian Development Bank.

The reform had a positive impact on tax revenue, with compliance rates averaging 93%, and significant reductions in the cost per tax collection. Despite initial inflationary pressures linked to external factors, such as post-pandemic recovery and geopolitical tensions, inflation is projected to ease.

Overall, Mr. Ikeda emphasized the importance of leadership, partnership, and collaboration in successfully implementing the reforms, ensuring stakeholder ownership and voluntary compliance.

Update from RMI Country Economist

Mr. Niuatui Niuatui, the RMI resident Country Economist, delivered a presentation that outlined progress against this Technical Assistance program ([Attachment 6](#)). The Economic Management Analysis and Policy Strengthening Program (eMAPS), is managed by the Graduate School USA (GSUSA) with funding support from the Asian Development Bank (ADB). Launched in March for the RMI and May for Palau, the program aims to strengthen national economic management, enhance subregional coordination, and support public financial management (PFM) reforms. One of the key objectives is to provide capacity supplementation to support ministries in improving fiscal management, tax reform, and broader economic policy development.

The presentation highlighted significant accomplishments, including the identification of a local counterpart and the training of tax officials, with a particular focus on the Income Tax Amendment Act of 2024. Capacity-building efforts extended to supporting a concept paper for Universal Basic Income and assisting with public hearings on minimum wage policies. Mr. Niuatui also emphasized the program's contributions to the FY24 and FY25 Annual Implementation Plans (AIPs) and the recent completion of a draft concept paper on the Credit Guarantee Mechanism.

In-country donor coordination was a crucial element of the initiative, with key milestones such as a donor roundtable meeting in September 2024 to align development assistance policies. This coordination aimed to ensure a harmonized approach to economic management and PFM reforms, particularly in supporting the Tax Reform and Modernization Commission (TRMC) as it reviewed tax reform options and drafted new legislation.

Despite the progress made, Mr. Niuatui acknowledged challenges, such as difficulties in finding local counterparts and securing sufficient funding for their roles. However, he also pointed out opportunities, including leveraging political support for reforms and providing access to international training. Moving forward, the program will focus on FY25 budget formulation, a national socio-economic and climate change summit, and continued efforts in tax reform.

Update from Palau Country Economist

Ms. Georgina Conway, the Palau resident Country Economist, delivered a presentation that provided an update on Palau's efforts under the Economic Management Analysis and Policy Strengthening Program (eMAPS), an initiative managed by the Graduate School USA (GSUSA) and funded by the ADB ([Attachment 7](#)). The program, launched in May, aims to strengthen economic management capacities in the Palau Ministry of Finance (MOF) and related agencies, with a focus on improving fiscal management and aligning with international best practices. The presentation highlighted efforts to build capacity within Palau's finance ministry and improve national economic management through practical collaboration with local counterparts.

Conway outlined several key accomplishments, including bilateral meetings with the United States and inputs into the 2023 Amended Compact. She also noted the presentation of Palau's initiatives, such as the Annual Implementation Plans (AIPs) for FY24 and FY25, and the Employee Compensation and Public Sector Wage Analysis. Efforts to strengthen debt management were also emphasized as part of Palau's broader economic reforms. National capacity-building activities were supported by identifying and training local counterparts, enabling them

to gain practical experience and build subject knowledge, with a focus on ensuring their long-term contribution to Palau's economic policy-making.

Donor coordination was another critical element of the program, with Conway underscoring the successful engagement of both bilateral and multilateral donors. This included the establishment of a centralized database for better resource management, improved GDP forecasting, and strengthened medium-term fiscal planning. The program's approach aligned with international best practices, promoting transparency and donor support for the use of partner government systems to enhance ownership of development initiatives.

Challenges were noted, including the lack of funds allocated for in-country workshops, lack of funds allocated to work shadowing or provision of cross-country support, limited travel funds for economists, and the restricted scope of scholarships for counterparts. Despite these issues, Conway identified opportunities for further capacity building, such as expanding the number of counterparts, leveraging synergies with financial literacy programs, and providing new learning opportunities through the Bureau of Economic Management. Looking forward, the program will focus on key areas like debt management, employee compensation, pensions, and economic outreach, including workshops and policy forums to engage a broader audience.

Budget Cycle Implementation for Palau and the RMI from FY24 Forward

The workshop provided an opportunity for both Palau and the Republic of the Marshall Islands (RMI) to reflect on recent budget cycles and share lessons learned. Discussions focused on key topics such as improving budget planning timelines, aligning budget processes with new Compact requirements, and addressing emerging needs like infrastructure and disaster response. Additionally, the dialogue covered the challenges in strategic budgeting, the need for improved monitoring and evaluation (M&E) systems, and better coordination with external partners, particularly the U.S.

Palau's Ministry of Finance highlighted several lessons learned from the FY24 and FY25 budget cycles (**Attachment 8**). In FY24, Palau's submission of its Annual Implementation Plan (AIP) before the U.S. bilateral meeting allowed for valuable feedback. However, delays in Compact approval resulted in rushed planning and missed opportunities to fully utilize funds, particularly for infrastructure. Moving forward, Palau recognized the importance of clearer Compact terms related to project eligibility.

For FY25, Palau improved fund allocation by applying lessons from FY24, strategically dividing funds across infrastructure and maintenance. However, delays in developing a project tracking system impacted the full utilization of infrastructure funds. The Ministry emphasized the need for budget alignment with the Palau Development Plan (PDP) and a comprehensive integration of grants, domestic revenue, and technical assistance into planning. Looking ahead to FY26, Palau intends to engage earlier with infrastructure units and improve donor fund tracking while also focusing on debt reduction strategies to manage the post-COVID debt-to-GDP ratio.

RMI's Ministry of Finance report focused on improving budget planning and overcoming challenges encountered during the FY24 and FY25 cycles. To enhance the budget process, RMI plans to move its budget planning activities to January, ahead of the previous March timeline. This change aims to streamline budget preparation and align more effectively with the U.S. AIP submission deadlines.

Key challenges identified included the lack of linkages between budget templates and strategic plans, confusion over the new Fiscal Procedures Agreement (FPA) with the U.S., and the absence of standardized processes in some ministries. To address these, RMI aims to standardize budget procedures through the formalization of Standard Operating Procedures (SOPs) and improve coordination with U.S. partners, particularly around infrastructure and budget consultations. Additionally, RMI highlighted the need to address large budget requests, such as those from state-owned enterprises and for minimum wage reforms, and emphasized that these emerging needs must be prioritized earlier in the budget process.

The RMI budget cycle presentation slides have been included as **Attachment 9**.

Palau's Planning Frameworks

A presentation from the Palau Ministry of Finance provided a comprehensive overview of Palau's overarching planning frameworks, primarily focusing on the Palau Development Plan (PDP) 2023-2026 and the National Infrastructure Investment Plan (NIIP) 2021-2030 ([Attachment 10](#)). The PDP, which was endorsed in February 2024, serves as a medium-term strategic document that outlines key development goals across 16 sectors, categorized under five pillars: social, culture, environment, economy, and governance. The plan emphasizes the need to align national budgetary planning with these sector strategies to ensure coherent and targeted development efforts. The Ministry has also highlighted the importance of implementing corporate strategies at the ministry level, starting with the Ministry of Finance, to bridge the gap between budget allocation and strategic goals.

The Ministry acknowledged several ongoing challenges in implementing these plans, particularly in the areas of aid coordination, policy planning, and aligning budgets with strategic priorities. Palau's ministries have historically operated in silos, leading to inefficient planning and misalignment with national priorities. To address this, the Ministry is in the process of establishing a National Development Coordination Office (NDCO) within the Ministry of Finance, which will centralize aid coordination and ensure that donor-funded projects align with the Palau Development Plan. Additionally, the Ministry is working to build capacity in policy analysis and project planning, with annual training programs aimed at fostering local expertise and reducing reliance on external consultants.

Another key focus of the presentation was the challenge of linking budget expenditures to measurable outcomes. While budget expenditures are tracked, there has been minimal performance reporting on ministry outputs, outcomes, and the overall national impact. To mitigate this, the Ministry has begun piloting corporate strategies, starting with the Ministry of Finance, to ensure that each ministry's objectives and outcomes are clearly defined and aligned with the PDP. These strategies will include a performance monitoring and evaluation framework that will be standardized across all ministries. The aim is to improve accountability and ensure that all financial resources, including donor funds, are effectively managed and contribute to Palau's broader development goals.

Best Practice Fiscal Policy & Budget Cycle Implementation

Mr. Kevin O'Keefe, GSUSA economist, presented best practices on fiscal responsibility and budget cycle management, focusing on currently enacted policies in both Palau and the Republic of the Marshall Islands (RMI) ([Attachment 11](#)). His presentation emphasized the importance of embedding sound fiscal policies into law to mitigate risks associated with persistent deficits, pro-cyclical fiscal tendencies, and imprudent government spending discretion.

Mr. O'Keefe outlined several key principles of responsible fiscal management that are increasingly being legislated across Pacific Island nations. These include managing debt prudently, keeping operating expenses within revenue levels over the medium term, and ensuring that fiscal risks are managed to provide stability for future economic growth. He noted that following these principles helps create a buffer against adverse economic impacts, such as those stemming from natural disasters or cyclical economic fluctuations.

In addition, he discussed the components of a best-practice budget cycle, which starts early in the year and includes economic and fiscal updates, clear budget preparation guidelines, and mid-year reviews to allow for necessary adjustments. For both Palau and RMI, implementing these best practices would involve the creation of budget frameworks, including economic policy statements, fiscal responsibility reports, and regular updates on tax policies. These frameworks would provide clarity on how budgets align with the government's long-term fiscal strategy.

The presentation highlighted the importance of aligning fiscal policies with the specific economic structures of each nation. In Palau, for example, the Fiscal Responsibility and Debt Management Act (FRDMA) requires the government to manage debt and other fiscal policies in line with long-term goals, while allowing for temporary deviations in times of crisis. Similarly, RMI's fiscal policies focus on reducing debt and managing fiscal risks to ensure long-term economic sustainability. Mr. O'Keefe concluded by emphasizing the need for continuous monitoring and updates throughout the budget cycle to maintain fiscal discipline and ensure alignment with national development goals.

Following Mr. O'Keefe's presentation, participants split into country-specific working groups to review the current FRDMA and discuss potential modifications.

The Ministry of Finance of the Republic of Palau provided an overview of the country's debt management strategy, achievements, and next steps under the Fiscal Responsibility and Debt Management Act (FRDMA) ([Attachment 12](#)). The main focus was on managing debt prudently to ensure government financing needs are met at the lowest possible cost while minimizing risks. Since the enactment of the Debt Management Act in November 2021, Palau has established a Debt Management Unit, comprising senior officials from various bureaus. A Debt Management Policy has also been put in place, setting borrowing caps and promoting sound debt management practices.

Despite these advancements, several challenges remain, such as human resource constraints, limited staff, and the need for improved debt monitoring and reporting beyond just stock and flows. The presentation highlighted the next steps, including the creation of a centralized Office of Debt Management and Investment, enhancing debt monitoring to cover contingent liabilities, and launching regular debt bulletin reports. Additional plans for the Palau Ministry of Finance include finalizing bond issuance regulations to introduce bonds as a new public debt instrument and acquiring a debt management system to streamline operations.

The RMI Ministry of Finance shared an action plan that resulted from country-specific discussions ([Attachment 13](#)). The report from the RMI Ministry of Finance on the Fiscal Responsibility and Debt Management Act (FRDMA) highlighted key fiscal processes and challenges. The Act, established in 2020 and working alongside the Public Financial Management (PFM) Act of 2023, set a structured timeline for fiscal management. This began with the formulation of revenue and expenditure forecasts in February, with revenue sources including tax collections, fishing license fees, and grants. Key expenditures included wages, medical programs, and infrastructure. The process involved budget consultations between line ministries and the Ministry of Finance, submission of budget requests, and final approval by the Cabinet before the fiscal year began in October. Milestones included an economic and fiscal update in July and the publication of the budget book by the end of September.

Several challenges were identified, including a misalignment between the budget cycle and the FRDMA timeline, which limited the time available for thorough budget scrutiny. Capacity limitations and the need for assistance with the Medium-Term Expenditure Framework (MTEF) model also posed obstacles, particularly concerning the tight timeline for submitting the AIP budget to the U.S. Office of Insular Affairs (OIA)

Future Workshop Topics

On the closing day, group discussions centered on potential future workshop themes, with several key points emerging:

- **Intergenerational Fiscal Policy Considerations:** A proposed workshop would focus on the fiscal policies of Palau and the Marshall Islands, particularly regarding their respective Compact resources and utilization of Compact trust funds. The discussion highlighted the importance of managing budgetary increases and trust fund withdrawals for both recurrent and capital purposes. Participants emphasized the need to model these scenarios to avoid future fiscal shocks and ensure intergenerational equity.
- **Migration and Economic Sustainability:** The issue of migration and its impact on fiscal policies was raised. It was suggested that economic and fiscal planning should strike a balance between saving for future generations and addressing current migration trends, particularly in terms of retaining and attracting local populations. This is vital for maintaining a sustainable workforce and economic base.
- **Tax Reform and Implementation:** Palau's progress in tax reform was discussed as a model for the Marshall Islands, especially in light of the successful presentations delivered during the workshop. Continuing to share best practices, lessons learned, and engaging stakeholders was emphasized to ensure buy-in and avoid resistance from local RMI government and private sector representatives. The potential for a delegation of RMI policymakers to visit Palau to observe tax reform initiatives firsthand was highlighted as a way to promote learning through experience.
- **Public Financial Management (PFM) and Performance Assessments:** A recurring theme was the focus on PFM reforms in both countries. The RMI has allocated more resources to its PFM roadmap, prioritizing implementation, monitoring of matrix components, and six-monthly reporting. RMI's Ministry of Finance has been working diligently to maintain awareness of progress against the matrix and reporting regularly to ensure accountability. Meanwhile, Palau is in the early stages of revisiting its recently established roadmap and focusing on building capacity for regularizing reporting and implementation efforts. A joint discussion of PFM and Public Expenditure and Financial Accountability (PEFA) assessments for both countries was proposed.

Participants noted that components of the PFM roadmap are outside the control of the RMI Ministry of Finance, making it essential for other agencies to take ownership and participate in the process.

- **Financial Sector Development:** The conversation also covered financial sector challenges, particularly around private sector lending. There was concern over the lack of bankable projects and the high-interest rates that hinder local business growth. Exploring credit guarantee schemes, potentially backed by Compact funds, was suggested as a way to mitigate risks and encourage more robust lending practices.
- **Technology and Systems:** Participants highlighted the critical need for robust technology systems, including Financial Management Information Systems (FMIS) and e-government platforms. These systems could enhance fiscal management, transparency, and efficiency. Technology and systems improvement could be a focal point for future workshops, especially as both countries work to integrate digital solutions into their financial and governance operations.
- **Fiscal Risk Management:** Recognizing the importance of managing fiscal risks, participants proposed a workshop on identifying and mitigating potential vulnerabilities in public finances. This would cover topics such as credit guarantee frameworks under development in the RMI and risk management for State-Owned Enterprises (SOEs) in Palau, with relevance to the RMI given the substantial number of its own SOEs. Such a workshop could address ways to assess and manage risks associated with government guarantees, contingent liabilities, and SOE performance to promote fiscal resilience and stability.
- **Sector-Specific Workshops:** Future workshops focusing on sector-specific themes such as Fisheries or Tourism were recommended, as both governments can benefit from shared experiences and learning from each other's approaches in these key economic sectors. Tailoring workshops to specific sectors would help both countries address unique challenges and opportunities in a more targeted manner.

By continuing these discussions, participants aim to build on current progress, enhance interagency coordination, and develop comprehensive strategies for long-term economic sustainability and governance improvement.

Closing Remarks

The closing remarks of the workshop, led primarily by the RMI and Palau Ministers of Finance, underscored the collaborative spirit and mutual learning that took place among participants. Delegates from both Palau and the Marshall Islands, as well as external partners such as the Asian Development Bank (ADB) and the Graduate School USA, expressed deep appreciation for the opportunity to exchange ideas, discuss critical policy issues, and strengthen relationships. A notable highlight was the dedicated time allocated for country-specific breakout groups, which allowed participants to engage in focused planning without the usual demands of work and responsibilities. This was particularly valued by the RMI participants, who, despite hosting the meeting, were able to take full advantage of this time for reflection and strategy.

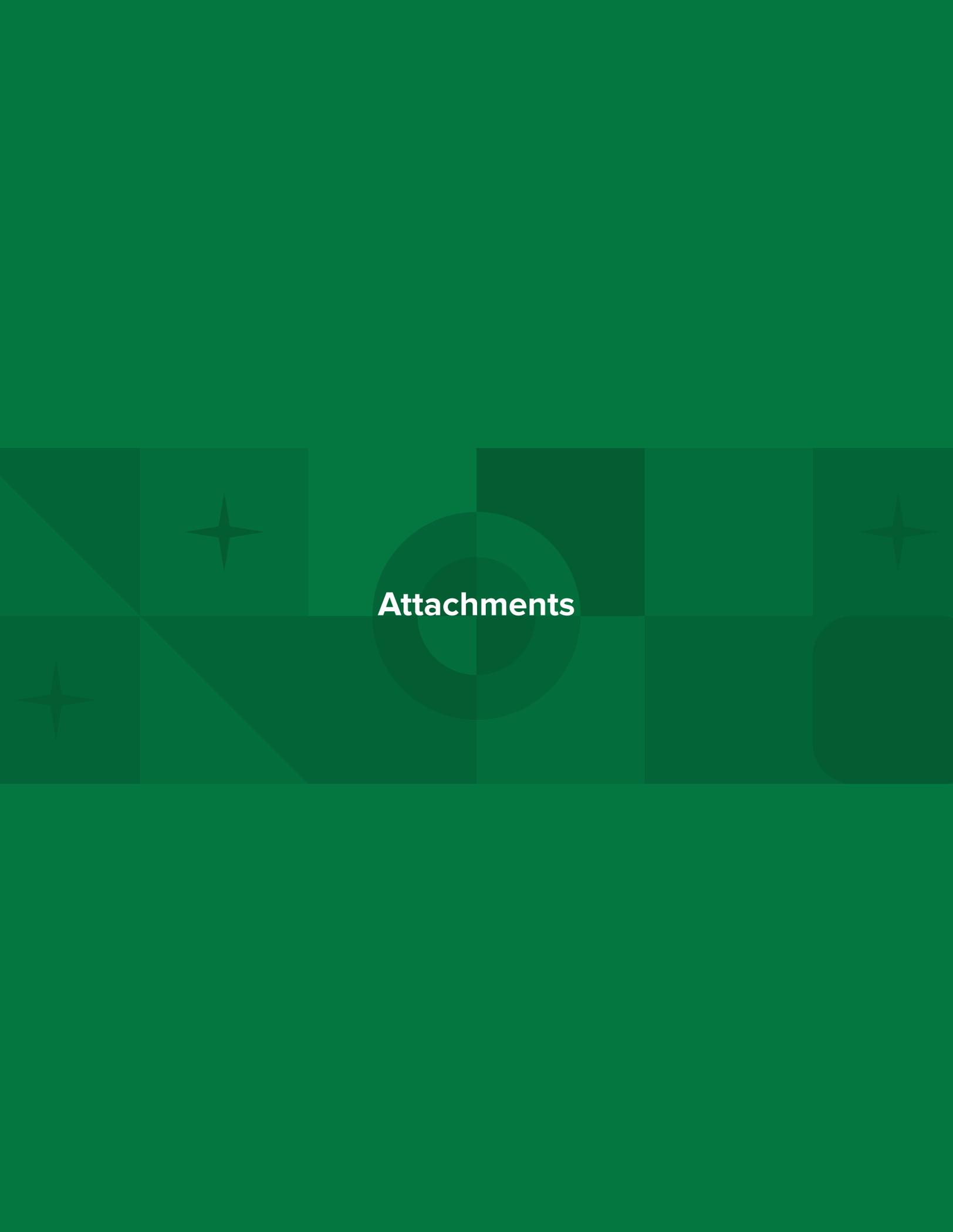
One participant noted how valuable it was to engage in discussions that not only addressed local fiscal and economic challenges but also drew from regional experiences and best practices. This cross-pollination of ideas helped participants leave with fresh insights and a sense of renewed purpose in their respective roles.

A key takeaway from the workshop was the importance of balancing long-term fiscal sustainability with immediate economic pressures. Participants from the Marshall Islands and Palau echoed that the management of Compact trust funds and economic planning must take into account both intergenerational equity and current fiscal needs. Many acknowledged that while long-term savings are essential for future generations, present economic realities, such as migration and workforce retention, must also be factored into fiscal policy. This holistic approach to fiscal planning was seen as vital for ensuring sustainable development in both countries.

Another significant point raised during the closing was the need for continued cooperation and information sharing. The representatives from Palau were particularly interested in leveraging their experience with tax reform to assist the Marshall Islands, which is at an earlier stage of implementation. Palau's offer to share best practices and support stakeholder engagement was well-received, highlighting the importance of peer learning and regional solidarity. Participants expressed optimism that such collaborative efforts would enhance the effectiveness of policy implementation, particularly in areas where local buy-in and understanding are critical.

The role of external partners, such as ADB, was also acknowledged in the closing remarks. Several participants emphasized how crucial it was for Palau, RMI, and other regional stakeholders to maintain strong relationships with international institutions that provide technical assistance and financial resources. There was a sense of gratitude for the support received throughout the workshop, and many were hopeful that continued engagement with ADB, the World Bank, and other entities would facilitate further progress on complex issues like financial sector development, trust fund management, and tax reform.

The closing statements reflected an overall sense of accomplishment, but also a recognition that much work remains. Participants left the workshop not only with greater clarity on immediate and long-term policy challenges but also with a shared commitment to addressing these issues in a coordinated and strategic manner. The emphasis on collaboration, both within and between countries, set a strong foundation for future discussions and workshops, where these complex challenges will continue to be explored.

The background is a solid teal color. A horizontal band of a darker teal shade runs across the middle. Within this band, there are several geometric elements: a large circle with a smaller concentric circle inside, a square, and a rounded rectangle. There are also four four-pointed star shapes scattered throughout the band. The word "Attachments" is centered in white text over the large circle.

Attachments

01

Attachment 1 Agenda

First Sub-Regional Workshop:

Budgetary Operations Under New Resource Realities for Palau and the RMI: Lessons Learned, Fiscal Policy Implications, and Next Steps

Majuro, RMI—October 14-18, 2024

DRAFT AGENDA ITEMS

Monday, October 14

9:00 am Workshop opening remarks—Minister David Paul (as host of 1st sub-regional workshop)

A. Tax Reform

1. The RMI tax reform initiative: lead Niuatui Niuatui.
 - a. Presentation of the RMI tax reform outline
 - b. The Tax Reform Modernization Committee
 - c. Presentation of the Tax Reform Impact Calculator Michael Barsabal

10:30 am Break

10:45 am

2. Progress with the Palau tax reform: Elway Ikeda
 - a. Outline of the reformed Palau tax regime.
 - b. Implementation, administrative experience, and IT needs
 - c. Impact of the tax reform on the revenue effort and inflation.

12:15 pm Hosted Lunch

1:30 pm

B. Country Economist Reports

1. RMI: major work effort and products: Niuatui Niuatui
2. Palau: major work effort and products: Georgina Conway
3. Dialogue on work program going forward
4. Developing counterpart relationships and paving the way for higher-level training and scholarships

4:30 pm Break for the day

¹ A Differentiated Approach to Building Economic Management Capacity in the North Pacific

Tuesday, October 15

9:00 am

C. Budget cycle implementation for Palau and the RMI from FY24 forward

1. Experience and lessons learned: FY24 and FY25
 - a. Country reports (2)—challenges, obstacles, and results

10:00 am Break

10:15 am

- b. (Closed Session)
Country working groups to identify/specify: —anticipated modifications for the FY26 budget cycle

12:00 Hosted Lunch

12:00 - 2:00 pm - Palau Tax Reform
Presentation to Chamber of Commerce

2:15 pm

- c. Country working groups report out on anticipated modifications for the FY26 budget cycle

2:30 pm

2. Status/Resource Needs/Preparation/Updates of Overarching Planning Documents
[due March 31, 2025, in time for impact on FY26]
 - a. (Closed Session)
Palau [in separate country sessions]
 - i. Palau National Development Plan (NDP)
 - ii. Palau Infrastructure Investment Plan (NIIP)
 - iii. Palau Infrastructure Maintenance Plan
 - b. (Closed Session)
RMI [in separate country sessions]
 - i. RMI Budget Investment Framework (BIF) —what is it and how does it relate to the (current) National Strategic Plan (NSP)?
 - ii. RMI Infrastructure Development Plan
 - iii. RMI Infrastructure Maintenance Plan

4:30 pm Break for the day

Wednesday, October 16

9:00 am

Country Report Out - Status/Resource Needs/Preparation/Updates of Overarching Planning Documents

9:45 am

D. Best Practice Fiscal Policy & Budget Cycle Implementation

1. Outline of potential fiscal responsibility principles
2. Outline of a prototype budget cycle;

**12:00 - 2:00 pm - Palau Tax Reform
Presentation to RMI Tax Reform and
Modernization Commission**

12:00 pm Lunch on Own

2:30 pm Meet at the RRE dock to take the ferry to Bokanbotin Island for afternoon session and dinner

3. Budget call;
 - a. Introduction to the MTEF-mod modeling tool and use;
4. The Economic and Fiscal Update and declaration of fiscal responsibility;
5. Preparation of departmental budgets;
6. Budget review;
7. Integration of the new budget into MTEF-mod and analysis of projected fiscal impact;
8. The budget statement – a statement of fiscal objectives and projected impact; and
9. Late cycle corrections (if any).
10. Late cycle corrections (especially projected impact of the “as passed” budget law).

5:00 pm Hosted Dinner

7:00 pm Depart Bokanbotin Island

Thursday, October 17

9:00 am

E. Fiscal Responsibility and Debt Management Acts (Palau and RMI)

1. In separate country groups:
 - a. (Closed Session)
Review Palau FRDMA and budget cycle elements with a focus on FY26 Next Steps; and
 - b. (Closed Session)
Review RMI FRDMA and budget cycle elements with a focus on FY26 Next Steps.

12:00 pm Hosted Lunch

1:30 pm

2. Country groups report out on fiscal policy and budget cycle
 - a. Current status, challenges, progress and next steps;
 - b. Role of PFM in each country with respect to fiscal policy and budget cycle (need for updated PEFA and/or PFM Road Map?)
 - c. What resources and additional institutional capacity are required to achieve best practice?

4:00 pm Break for the day

Friday, October 18

9:00 am

F. Close-out in Country Groups

1. (Closed Session)

Time for each country group to review workshop findings and confirm next steps.

(Closed Session)

11:00 am

2. Final brief report out of each country group
3. Workshop closing remarks—Minister Kaleb Udui (as host of 2nd planned workshop)

12:00 Hosted Lunch and free afternoon for all but the planning committee for future sub-regional workshop

1:30 pm

G. Planning for Future Sub-Regional Workshops

1. Inter-Generational Fiscal Policy Considerations for Palau and the RMI
 - a. Modeling potential and/or declared fiscal policy scenarios;
 - b. The role of “signaling” in the early years of 20-year Agreements; and
 - c. The (still non-zero) risk of fiscal cliffs.
2. Other topics to be nominated

Subregional workshops are facilitated by the Graduate School USA (GSUSA), with funding support from the Asian Development Bank under ADB TA-10071-REG, *A Differentiated Approach to Building Economic Management Capacity in the North Pacific*. Additional information on the GSUSA Economic Monitoring and Analysis Program (EconMAP) is available online at www.econmap.org.

02

Attachment 2 Participant List

List of Participants

Republic of the Marshall Islands

Anne Marie S. Muller, *Assistant Secretary*, Ministry of Finance

Ayako Yamaguchi-Eliou, *Secretary*, Ministry of Finance

Carl Hacker, *Compact Office*, Ministry of Foreign Affairs and Trade

Catalino Kijiner, *Deputy Chief Secretary*, Office of the Chief Secretary

Charita Rilometo, *Finance Management Specialist*, Republic of the Marshall Islands Public School System

Chris Yanchello, *Reform Coordination Unit Project Manager*, Ministry of Finance

Dante Dela Vega, *PMU Compact Delivery Manager*, Ministry of Works, Infrastructure & Utilities; Project Management Unit

David Paul, *Minister*, Ministry of Finance

Francyne Wase-Jacklick, *Deputy Secretary*, Ministry of Health

Harden Lelet, Kwajalein Local Government

Herbert Sibok, *Assistant Secretary*, Ministry of Works, Infrastructure & Utilities; Project Management Unit

Ilaisa Daucakacaka, *Budget Analyst*, Ministry of Health

Jefferson Barton, *Secretary of Public Works*, Ministry of Works, Infrastructure & Utilities; Project Management Unit

Junior Peter, *Economist Statistician*, Statistics Office

Katt Chong-Gum, *Economic Analyst*, Ministry of Finance

Kino Kabua, *Chief Secretary*, Office of the Chief Secretary

Lincoln Mea, *Chief of Tax Administration*, Ministry of Finance

Neri Wase, *Deputy Secretary for Core Financial Services*, Ministry of Finance

Niuatui Niuatui, *Country Economist for RMI*, GSUSA

Sana Anien, *Assistant Secretary*, Ministry of Finance

Ywao Elanzo, Jr., *Deputy Secretary*, Ministry of Finance

Republic of Palau

Elway Ikeda, *Director of Tax Reform*, Ministry of Finance

Georgina Conway, *Country Economist for Palau*, GSUSA

Kaleb Udui, Jr., *Minister*, Ministry of Finance

Klumch Tanglebad, *Planning Specialist*, Financial and Economic Intelligence Services, Ministry of Finance

Rison Nakamura, *Finance Specialist*, Ministry of Finance

Roleen Ronny, *Microeconomist*, Ministry of Finance

 **Graduate School USA**

Ciara Santiago, *Program Specialist*, GSUSA

Jason Aubuchon, *Senior Director*, GSUSA

Kevin O'Keefe, *Economist*, GSUSA

Michael Barsabal, *Statistician*, GSUSA

Richard Mark Sturton, *Economist*, GSUSA

 **Asian Development Bank**

Denise T. Jack, *Senior Operations Assistant*, Pacific Department, Asian Development Bank

Ellen E. Paul, *Senior Country Officer*, Pacific Department, Asian Development Bank

Jung Ho Kim, *Country Team Leader*, Pacific Department, Asian Development Bank

Miel A. De Villa, *Operations Coordination Officer*, Pacific Department, Asian Development Bank

03

Attachment 3 Welcoming Remarks

ADB TA: A Differentiated Approach to Building Economic Management Capacity in the North Pacific.

First Sub-Regional Workshop Subregional Workshop on Economic Management Issues

Opening Remarks

Hon. David Paul

Minister of Finance, Banking and Postal Services

Good morning and lakowe everyone,

- My colleague and friend, Honourable Kaleb Udui, Jr, Minister of Finance from Palau
- Director Elway Ikeda and all Senior Staff from the Ministry of Finance of Palau,
- Jung Ho Kim, Country Team Leader and relevant staff from the Asian Development Bank who is joining us on virtually from the ADB Headquarter,
- Our colleagues and friends from the Graduate School USA – Jason, Mark, Kevin, Ciara and the rest of the Team including our Resident Economists and their local counterparts,
- Senior Officials from the Ministry of Finance and across the Government.

Welcome to the Republic of the Marshall Islands!

Introduction

As the host, let me thank you all for joining this first sub-regional workshop under the ADB Capacity Building Project to build economic management capacity in the Northern Pacific. Special welcome to my counterpart and friend, Hon. Kaleb Udui, Jr for taking his time and visiting our shores. I also wish to express my gratitude to the Graduate School USA for organizing this workshop.

Special thanks to the Asian Development Bank for the funding and technical support through the Graduate School USA. This workshop provides an opportunity for both countries to share our experiences and best practices from tax reforms, budget cycle implementation to fiscal responsibility and debt management for which each of our country, we can enhance our internal process and capacity.

This workshop also provides that opportunity to stock take what we have achieved in the first six months of the project. As for the Republic of the Marshall Islands, we have witness good progress on the ground in the first six months of this project, through technical support on various reforms the Government is undertaking. Our Parliament (Nitijela) in the last two weeks passed the first phase of our tax reform initiative and the minimum wage. The Agenda 2030 which delineates new Government priorities towards the year 2030 was also table at Nitijela. These initiatives were all supported through directly and indirectly through this project and the Graduate School USA. A lot of achievements in the first six months and there is a lot that we intend to achieve for the remaining period of the project. I am sure this is the same experience in Palau as you will learn from this workshop.

Please take some time out of this workshop and tour the island. I do hope that all of you will enjoy your stay in the Marshall Islands and I look forward to the next sub-regional workshop in Palau.

I look forward to the discussions.

Thank you and Kommol tata,

04

Attachment 4 RMI Tax Reform

RMI: Tax Reform and Modernization Initiative

Monday 14 October 2024

First Sub-Regional Workshop

1



Outline

- Outline of the RMI Tax Reform Proposal
 - Background
 - Rationale
 - Proposed tax reforms
- Tax Reform and Modernization Commission (TRMC)
 - Membership
- Tax Reform Impact Calculator (TRIC)



Background

- RMI current tax code was inherited during the Trust Territorial days.
- There is an appetite from Government to modernize RMI tax regime.
- Good timing:
 - Universal Basic Income (social cash transfer program)
 - Minimum Wage
 - Strong political will for to modernize RMI tax code
- GSUSA Tax Reform Options Paper (May 2024 and Rev. June 2024)
- Tax Reform and Modernization Commission established in June 2024



Rationale

- **Current taxes:**
 1. Salaries & Wages taxes
 2. Business Gross Revenue Tax (BGRT)
 3. Sales Tax
 4. Import Duties
 5. Non-Resident taxes
 6. Hotel and Resort Taxes
 7. Immovable property taxes

Rationale

- **Salaries and Wage taxes**

- Existence of an anomaly
- Outdated income tax brackets
- Less progressive
- Not all employers comply

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Rationale

- **BGRT:**

- pay tax even if not making profit
- Discourage capital investment
- Not attractive to foreign investors
- Tax cascading effect

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Rationale

• **Sales tax and import duties**

- Encourages the under-valuing of imports to pay lower import taxes & sales taxes
- once goods clear customs it is difficult to trace the goods to ensure GRT and local sales taxes are correctly paid at retail level
- taxing imports differently to locally produced goods is not allowed under international trade agreements.

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Rationale

• **Weakness in tax administration**

- tax and customs officers spend most of their time manually processing paperwork
- little time for compliance checking
- tax laws were written many years ago and are outdated and difficult to understand
- little prosecution of tax offenders

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Recommendations

1. Upgrade income brackets & revise income tax rates.
2. Replace BGRT with a Consumption Tax for large businesses.
3. Consumption Tax & Excise Tax to Replace Import Duties & Local Sales Taxes
4. New Tax Authority

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Current

Import Duties

8% most imports
5% food (some food exemptions)

Local Govt sales taxes 4%-10%

Special Import Duties

on fuel, liquor, tobacco plus others

Income Taxes

Wages & Salaries - 8% or 12%
GRT - 3%

Immovable property tax - 3%
Non-resident tax - 10%
Hotel & Resort tax - 8%

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Current and Future

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Import Duties

8% most imports
5% food (some food exemptions)

Local Govt sales taxes 4% - 10%

Special Import Duties

on fuel, liquor, tobacco plus others

Income Taxes

Wages & Salaries - 8% or 12%
GRT - 3% (turn-over between \$10K and \$100K)
Presumptive tax of \$80 per year (<\$10K turnover)
Immovable property tax - 3%
Non-resident tax - 10%
Hotel & Resort tax - 8%

Consumption tax (business income > \$100k)
10% tax on most imports, services and manufactured goods - few exceptions

Local Govt sales taxes abolished

Excise Taxes

Unchanged tax rates on "sin" products

Income Taxes

Wages & Salaries - 8%, 12% or 16% **Net Profit Tax - 20%** (MICT or income >= \$100k)
GRT - 3% (turnover between \$10K & \$100k)
Presumptive Tax of \$80 per quarter (turnover less than \$10K)
Immovable property tax - 3%
Non-resident tax - 10%
Hotel & Resort tax abolished
Dividend and Interest withholding tax 3%

Changes in Wages & Salaries Taxes

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Current

If income is \$5,200 pa or below

\$0 - \$ 1,560 **Nil tax**
\$1,561 - \$ 5,200 **8%***
**the first \$1,520 is exempted from tax if income is \$5,200 or below*

If income is above \$5,200 pa

\$0 - \$10,400 **8%**
> \$10,400 **12%**

Future (Phase 1 & Phase 2)

\$0 - \$ 8,320 **Nil tax***
\$ 8,321 - \$15,600 **8%**
\$15,601 - \$26,000 **12%**
> \$26,000 **16%**

**tax free threshold applies to all taxpayers*



Business Income Tax Changes

- **Net Profit Tax** applies to medium / large businesses (gross annual revenue \geq \$100,000)
 - 16% tax on net profit
- **BGRT** applies to small businesses ($<$ \$100,000 and \$10,000 gross annual rev.)
 - 3% tax rate
- Less than \$10,000 gross annual rev.: \$80/qtr.



Marshall Islands Consumption Tax (MICT)

- MICT replaces:
 - standard rate import duties
 - local sales taxes
 - hotel and resort tax
- MICT rate is 10%
- Revenue sharing agreement between national and local governments



Tax Authority

- Tax Authority
- Separate from the Ministry of Finance
- Board of Directors & CEO
- Focus on taxpayer service & education
- Efficiencies in tax administration
 - Improved IT systems and business processes
 - Improved debt collection
 - Improved compliance & enforcement



Tax Reform and Modernization Commission

- Established in July 2024
- Members (9 members): 3 x Chamber of Commerce; 3 x Nitijela; 2 x local Gov.; 1 x Government
- Responsibilities:
 - Review GSUSA tax reform option paper and modelling results from the TRIC.
 - Review other options that can be appropriate for the RMI.
 - Provide recommendations to Cabinet.
 - To oversee and participate in any public consultations on the proposed tax revenue reforms.
- Consensus to modernize RMI Tax Code.

Tax Reform Impact Calculator (TRIC)

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ADB

THANK YOU!



Time for Discussion & Questions

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05

Attachment 5 RMI Tax Reform Experience



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Comprehensive Tax Reform: Palau's Experience

16 OCT 2024

Progress with the Palau Tax Reform



- a. Outline of the reformed Palau Tax Regime
- b. Implementation, administrative experience, and IT needs
- c. Impact of the tax reform on the revenue effort and inflation



President Whipp signs RPPL 11-11 into law, Sep 2021

Palau Comprehensive Tax Reform



- **RPPL 11-11: Palau Goods and Services Tax Act, September 2021**
- Effective on **January 1, 2023**



President Whipps signs RPPL 11-11 into law, Sep 2021

RPPL 11-11: Palau Goods and Services Tax Act



Tax Type	Change	Rate
Palau Goods and Services Tax (PGST)	NEW	10% On import and supply of most goods and services
Business Profits Tax (BPT)	NEW	12% on net income (For PGST persons, and banks)
Additional Business License Fee	NEW	\$100/yr For business entities grossing less than \$50k
Gross Revenue Tax (GRT)	MODIFIED	4% of business gross receipts (For businesses grossing \$50k-\$300k)
Salary and Wage Tax	REDUCED	0-8,000; 6% 8,001-40,000; 12% 10% 40,001+; 12%
Hotel Room/Vessel Occupancy Tax	REDUCED	12% 10%; or \$12 \$10 per night
Import Tax	Zero-rated	3% on most goods Now zero-rated

RPPL 11-11: Palau Goods and Services Tax Act



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Tax Type	Change	Rate
Carbon Tax	MODIFIED	5¢ 2¢ per gallon
International Transportation Tax	NEW	4% on revenues derived from transport of persons, goods, and cargo to outside of Palau
Nonresident Tax (withholding)	NEW	Insurance premiums; 5% Interest, royalties, technical fees, etc.; 10%
Land Transaction Proceeds Fee	NEW	4% on proceeds of lease or transfer of land

RPPL 11-11: Palau Goods and Services Tax Act



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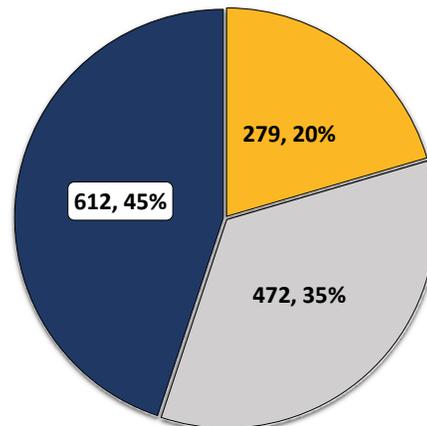
Balancing: Mitigating the Impacts

Wages and Salary Tax Refund – Lowest Income Earners	NEW	<ul style="list-style-type: none"> 100% refund for Palauan Citizens earning \$15k and below \$480 for citizens earning between \$15k and \$30k
Social Assistance Payments	NEW	4% of informal-market revenue Palauan citizens engaged in sector, making \$15k or less
Child Raising Subsidy	NEW	\$200 per Palauan child annually

Taxpayer Entities Affected



Compulsory PGST/BPT	<ul style="list-style-type: none"> • More than \$300k in annual taxable supplies • FIAC-Companies
Gross Revenue Tax	Annual gross revenue from 50,001-300,000
Additional Business License Fee (Small Business)	\$50k and Below in Annual Gross



■ PGST-Registered ■ GRT ■ Add'l License Fee (Micro)

Implementation Process



- Steering committee appointed by MOF as provided by law

Guiding Principles:

- **Taxpayer Centric** – Focusing in Education, Consultation, Empowerment, easing penalties/compliance activity
- **Phased-Approach** based on key dates, most affected
- **Change Management** - making changes the exception
- **Continuous Reform and Modernization**



Implementation Process



Focus Areas	Objectives
Regulations	MOF promulgation to define process, requirements, etc.
Forms and Processes	Develop new forms and processes; Update forms on existing Taxes (with consultations)
Tax Information System*	Interim Solutions - Modifications, Long-term Solutions (NEW RMS)
BRT and Taxpayer Training	Capacity Building for Tax Employees and Taxpayers
Communications and Outreach	Public Education and Raising Awareness of New Tax Law

The image shows a sample of the 'PALAU GOODS & SERVICES MONTHLY TAX RETURN' form (TAX-500). The form includes sections for 'BUSINESS OUTPUTS' (A-D), 'BUSINESS INPUTS' (E-H), 'IMPORTED SERVICES' (I-K), and 'CALCULATE NET PGST PAYABLE/CREDITABLE' (N-P). It also features a declaration section and a signature area.

Palau Goods and Services Tax (PGST)



BUSINESS OUTPUTS (e.g. Supplies sold or provided)		
A	Supplies on which 10% PGST collected	1,000.00 100.00
B	Supplies on which Zero Rate (0%) PGST collected	
C	Supplies not subject to PGST (Exempt Supplies)	
D	Total Business Outputs <i>A + B + C (column 1)</i>	1,000.00

BUSINESS INPUTS (e.g. Supplies purchased or received)		
E	Domestic Supplies on which 10% PGST paid	500.00 50.00
F	Domestic Supplies on which Zero Rate (0%) PGST paid	
G	Imported Goods on which on which 10% PGST paid	200.00 20.00
H	Supplies not subject to PGST (Exempt Supplies)	
I	Total Business Inputs <i>E + F + G + H (column 1)</i>	1,500.00

CALCULATE NET PGST PAYABLE/CREDITABLE		
N	PGST collected plus PGST reversed charged on Imported Services	<i>A + J (column 2)</i> 100.00
O	PGST Input Tax Credit claimable	<i>E + G + K (column 2)</i> 70.00
P	Net PGST payable/creditable	<i>N - O (column 2)</i> 30.00

Palau Goods and Services Tax (PGST)



BUSINESS OUTPUTS (e.g. Supplies sold or provided)			
A	Supplies on which 10% PGST collected	1,000.00	100.00
B	Supplies on which Zero Rate (0%) PGST collected		
C	Supplies not subject to PGST (Exempt Supplies)		
D	Total Business Outputs <i>A + B + C (column 1)</i>	1,000.00	

BUSINESS INPUTS (e.g. Supplies purchased or received)			
E	Domestic Supplies on which 10% PGST paid	500.00	50.00
F	Domestic Supplies on which Zero Rate (0%) PGST paid		
G	Imported Goods on which on which 10% PGST paid	1,000.00	100.00
H	Supplies not subject to PGST (Exempt Supplies)		
I	Total Business Inputs <i>E + F + G + H (column 1)</i>	1,500.00	

CALCULATE NET PGST PAYABLE/CREDITABLE			
N	PGST collected plus PGST reversed charged on Imported Services	<i>A + J (column 2)</i>	100.00
O	PGST Input Tax Credit claimable	<i>E + G + K (column 2)</i>	150.00
P	Net PGST payable/creditable	<i>N - O (column 2)</i>	-50.00

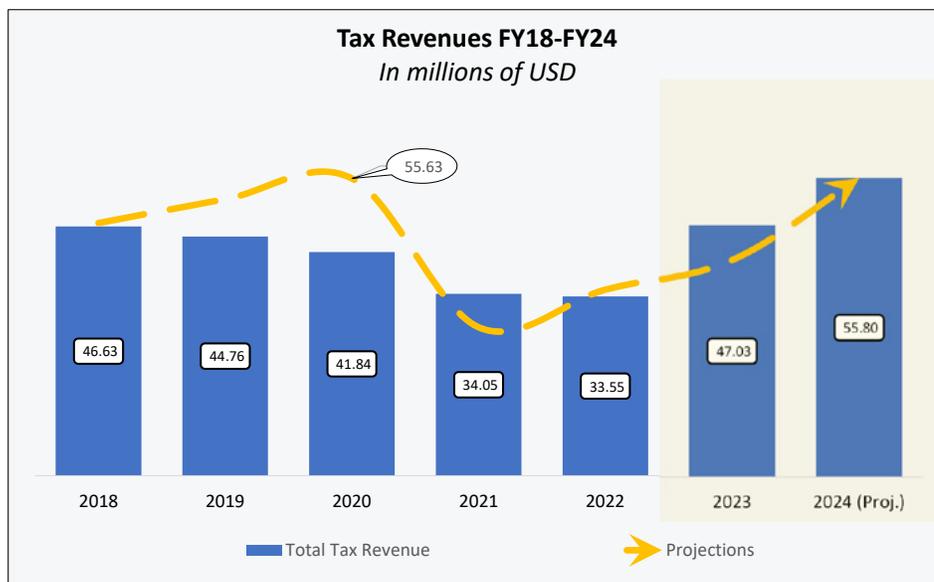
Revenue Impacts



93% average compliance rate on PGST

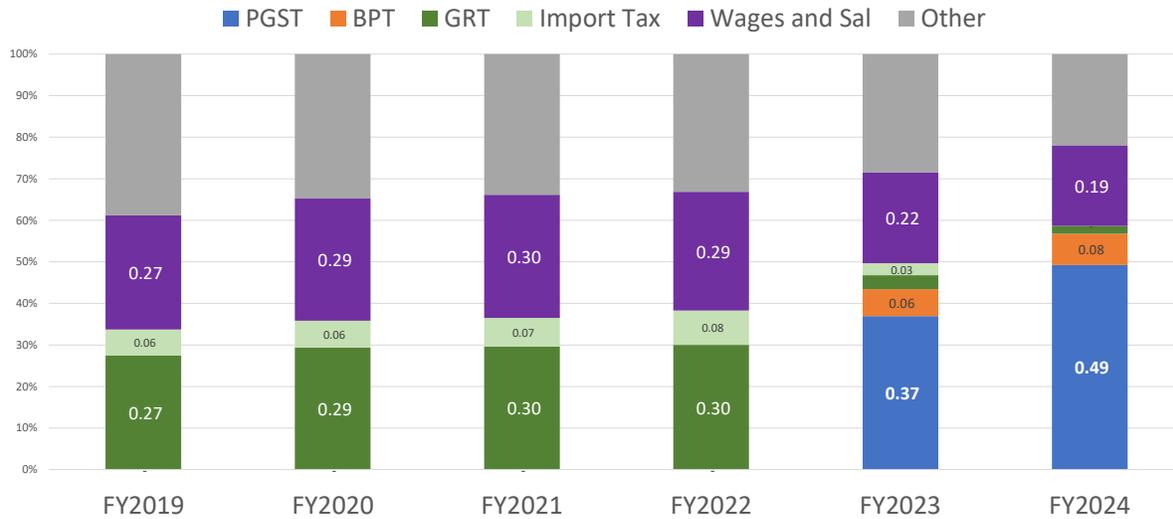


FY2023 Cost per collection ratio went down to 1.9 from 3.2 in 2022

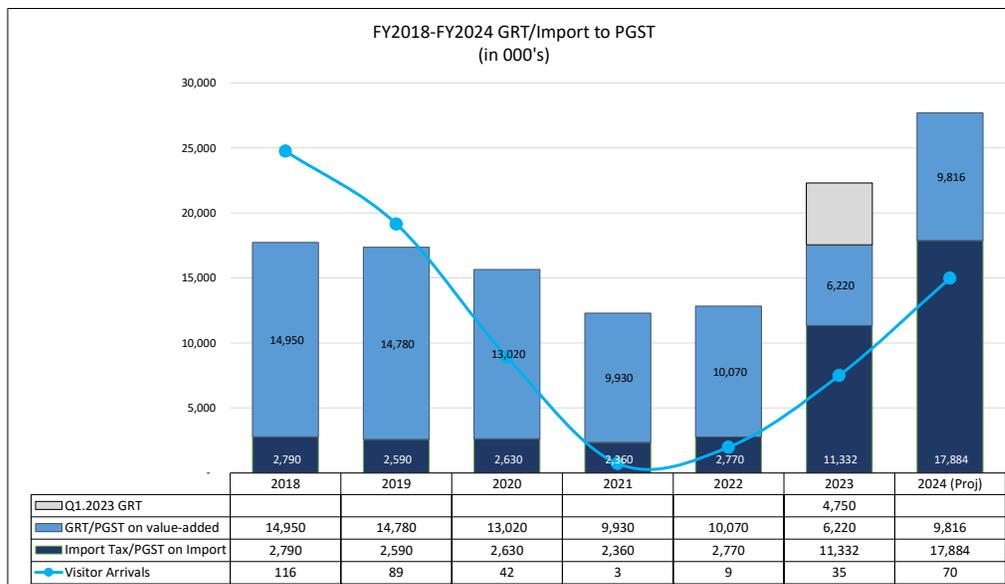




Tax Revenue Composition (%)



Revenue Efficiency

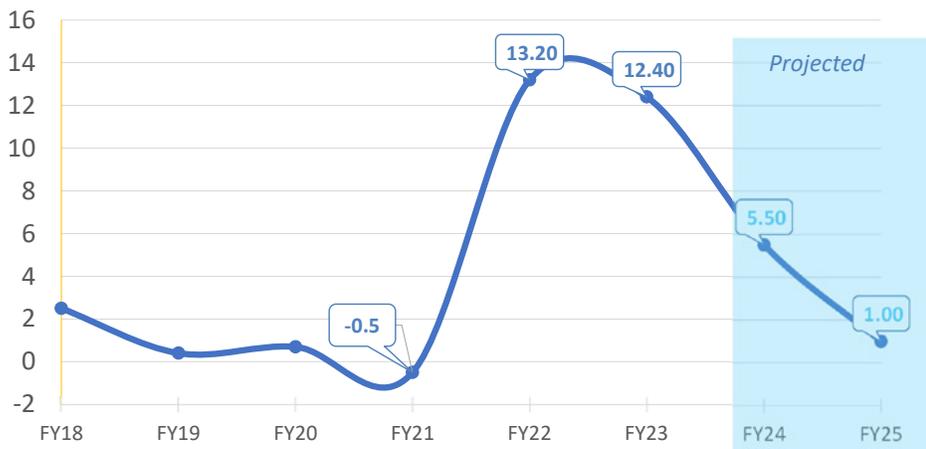


Inflation Easing Up



Consumer Price Index

- High inflation in 2022 related to external price shocks (post-pandemic, geopolitical tensions, etc.)
- Fuel Volatility
- Projected to ease up based on ADB estimates



Source: Bureau of Budget and Planning Asian Development Bank for 24-25 Estimates (APR 2024).

Balancing the Impact through Transfers

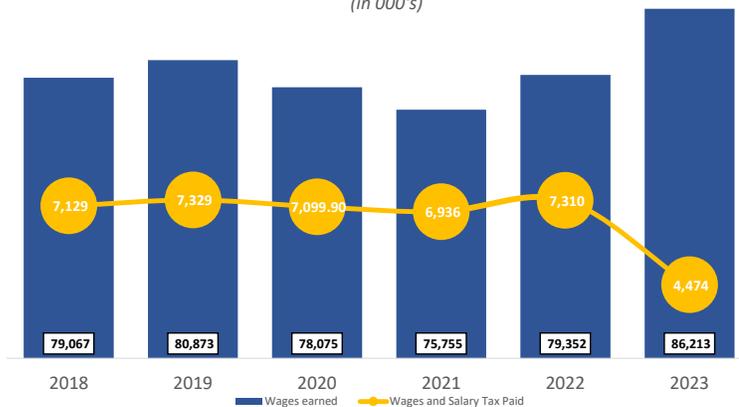


More than \$5M with Mitigation Measures:

- ✓ Wages and Salary Tax Refunds
- ✓ Social Assistance to Retirees / Informal Sector
- ✓ Child Raising Subsidy to ALL Palauan children



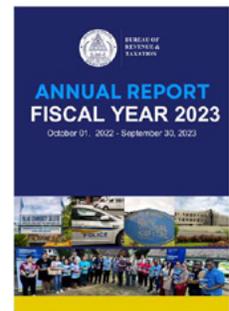
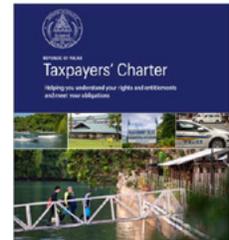
Wages and Salary Reported v. Tax Paid for PALAUAN CITIZENS
Calendar Years 2018-2023
(in 000's)



Success in Reform takes Leadership, Partnership, and Collaboration



- **Leadership** enabled Palau to stay the course
- **Partnerships** elevated capacity to implement, especially those with:
 - PFTAC/IMF
 - Australian Taxation Office
 - ROC Taiwan Ministry of Finance
 - Bureau of Internal Revenue, Philippines
 - Asian Development Bank
- **Collaboration** with Taxpayers and other stakeholders ensured ownership of new tax regime and voluntary compliance.



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Thank You Very Much

For More information, visit www.palau.gov.pw/taxreform

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Attachment 6 RMI Regional Workshop Country Economists



Program Background

- **TA-10071 REG**: A Differentiated Approach to Building Economic Management Capacity in the North Pacific
- ADB has engaged GSUSA to **enhance capacity** in long-term economic management within the finance ministries/ departments in the RMI and PAL.
- GSUSA implement the TA under the name **eMAPS**: Economic Management, Analysis, and Policy Strengthening Program
- RMI launched in **late March**; Palau launched **May**.



Program Objectives

1. Provide **Capacity Supplementation** to Improve Economic Management
2. Improve **National Capacity** for Economic Management
3. Improve Subregional Economic Management Coordination (**Subregional Workshops**)
4. Support Enhanced **Donor Coordination**
5. Support Public Financial Management Initiatives (**PFM Reform**)



Settling In

- Introduce to key counterparts.
- Attend Core Heads of Department meeting.
- Steering Committee & Local Counterpart ToR.
- Finding a Local Counterpart
- Discuss key priorities going forward.
 - Agenda 2030
 - Tax reform
 - Establishment of instruments to underwrite financing risks
 - AIP 2024 & 2025



1. Capacity Supplementation Highlights

- Agenda 2030
- Credit Guarantee Mechanism Concept Paper
- Provided inputs:
 - AIP FY24 & FY25
 - Universal Basic Income Taskforce Report
- Support:
 - Minimum-wage public hearing.



Republic of the Marshall Islands
Annual Implementation Plan
FY2025



The Republic of the Marshall Islands

Agenda 2030: A Pathway for a Resilient and Prosperous Future

August 2024



2. National Capacity-Building Highlights

- Identifying **national counterparts**
- Local counterpart recruited on 30 Sept 2024.
- Training of tax administration officials: income tax amendment act 2024.

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4. In-Country Donor Coordination Highlights

- Donor Round-Table Meeting 26 September 2024
- Provide inputs: Development Assistance Policy



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5. PFM Reform

- Tax Reform and Modernization Initiative

- ToR for the Tax Reform and Modernization Commission (TRMC)
- Provide technical support to the TRMC to review options for Phase 1.
- Drafting of the Income Tax Amendment Bill 2024.



- FY25 National Budget

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Objectives of the eMAPS Program	Effort in Days	%
0. Project Administration	12.85	11%
1. Provide capacity supplementation to improve economic management	49.15	44%
2. Improve national capacity for economic management	0	0%
3. Improve sub-regional economic management coordination (workshops)	0.5	0%
4. Support enhanced donor coordination	6.95	6%
5. Support implementation of PFM Reforms	42.75	38%
TOTAL	112.2	89%



Challenges/ Potential Issues

- Difficult to find local counterparts.
- Limited funding for local counterpart.
- Limited flexibility in the project budget.
- Reserving positions for local counterparts while they are on scholarship.



Opportunities

- Political will to support reforms (& new ideas)
- Free on-line courses at the IMF on budget management & financial programming for local counterpart (LC).
- LC to attend with the Minister of Finance international and regional economic forums.





Outlook For Work Program

- FY25 Budget Book
- FY24 Budget Outturn
- Fiscal Update for the FY26 National Budget
- Budget formulation workshop / MTF
- Budget Investment Framework
- Private Sector Dialogue
- National Socio-Economic and Climate Change Summit
- Tax Reform and Modernization Initiative
- Implementation of the Credit Guarantee Mechanism
- Development Partners Meeting
- Identifying potential scholarship recipient.

THANK YOU!



Time for Discussion & Questions

07

Attachment 7 RoP Regional Workshop Country Economists



Program Background

- **TA-10071 REG:** A Differentiated Approach to Building Economic Management Capacity in the North Pacific
- ADB has engaged GSUSA to **enhance capacity** in long-term economic management within the finance ministries/ departments and related of RMI and PAL.
- GSUSA implement the TA under the name **eMAPS:** Economic Management, Analysis, and Policy Strengthening Program
- Align qualified counterparts with suitable advanced degree programs
- RMI launched in **late March**; Palau launched **May**.



Program Objectives

1. Provide **Capacity Supplementation** to Improve Economic Management
2. Improve **National Capacity** for Economic Management
3. Improve Subregional Economic Management Coordination (**Subregional Workshops**)
4. Support Enhanced **Donor Coordination**
5. Support Public Financial Management Initiatives (**PFM Reform**)

Settling In

- Established quarterly workplan and priorities elaborating from initial tasks and taking account of appetite & capacity
- Steering committee mid-May
- Identified counterparts
- Introduction with relevant bureaus within MOF & external stakeholders



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1. Capacity Supplementation

- Bilateral Meetings with USA & associated 2023 Amended Compact inputs:
 - Presentation on Palau's Initiatives
 - AIP FY24 & FY25
 - 231b) report
- Employee Compensation/ Public Sector Wage Analysis
- Debt Management



26-27 JUNE 2024

KOROR, PALAU



ANNUAL IMPLEMENTATION PLAN (AIP)
Fiscal Year 2024

Prepared in the
Agreement Between the Government of the Republic of Palau
and the Government of the United States of America
Resulting from the
2023 Compact of Free Association Revision (CFR) Review

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2. National Capacity-Building

- Identified national counterparts-economist & FEIS team
 - Ensure counterparts gain practical experience through direct collaboration
 - Providing frameworks for them to excel
- Building subject knowledge and confidence by getting counterparts to present themselves: DDP, Bilat, PFM
- Working with Financial Leadership lead to develop pipeline of junior economist/policy makers



4. In-Country Donor Coordination

- Support biannual DDP Roundtable (bilateral & multilateral)
- Management of economic resources for funding and financing government priorities and national development goals.
- New standardized approach for capturing the pipeline & creating a centralized database
- International Best Practice



5. PFM Reform

- Support the implementation of PFM roadmaps
 - Refresher training workshops held with all bureaus
 - Present to Directors at Management Meeting
 - Revamp governance process: traffic light monitoring system
 - Reprioritization and recalibration of timelines for activities
- Supporting specific PFM components
 - Strengthening transparency
 - Debt management



Challenges/ Potential Issues

- No funds allocated for:
 - delivering workshops/ trainings in-country
 - attachments/ work shadowing
 - CE travel to support government
- Limited scoop for impact if counterparts/ scholarships limited to "purely Economics" undergraduate degree
- Election Nov 5th



Opportunities

- More counterparts
- New Economics Intern
- Synergies with Financial Literacy Program
- Bureau of Economic Management: macro, micro & research units
- Following success of PFM & PEFA 101s-> Econ 101



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Outlook For Work Program

- Debt Management Unit
- SOEs & Fiscal Risks
- Employee Compensation
- Economics Graduate
- Pensions & Social Security
- Supporting Transparency: Citizen's Budget
- Economics for Non-Economists, Using Data Workshops, Economic Policy Forums (MOF)
- Economics outreach (external)
 - Development Symposium Simulation
 - PCC Policy Institute Seminar Series



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THANK YOU!



Time for Discussion & Questions

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Attachment 8 Palau's Budgetary Operations: Lessons Learnt & Next Steps



PALAU'S BUDGETARY OPERATIONS: LESSONS LEARNT & NEXT STEPS

MINISTRY OF FINANCE
REPUBLIC OF PALAU

OCTOBER 2024



Tuesday 15th October

Experiences and lessons learned: FY25



<i>CRA 2023 Section</i>	<i>FY 2025 Allocation</i>
Annual Grant Assistance	20,400,000
Section 211(f) Fund	15,000,000
Infrastructure Projects	5,100,000
Infrastructure Maintenance Fund	5,100,000
Fiscal Consolidation Assistance	10,000,000
	Total
	\$55,600,000

Experiences and lessons learned: FY24



Positives:

- Submitted AIP before the Bilateral meeting with the US, enabling immediate feedback
- Valuable learning experiences that informed future AIP processes

Issues:

- Delays in Compact approval resulted in rushed planning
- Missed the opportunity to fully maximize certain funds (e.g., infrastructure)

Lesson Learned:

- Clarify terms of Compact, particularly for allowable projects (e.g., infrastructure)

Experiences and lessons learned: FY25



Positives:

- Applied lessons from AIP 24, leading to more strategic decisions
- Structured allocation of funds across key ministries
- Split funds strategically for infrastructure and maintenance, ensuring that all projects received the necessary resources

Issues:

- Development of a tracking system to monitor infrastructure projects is still ongoing, delaying full infrastructure utilization

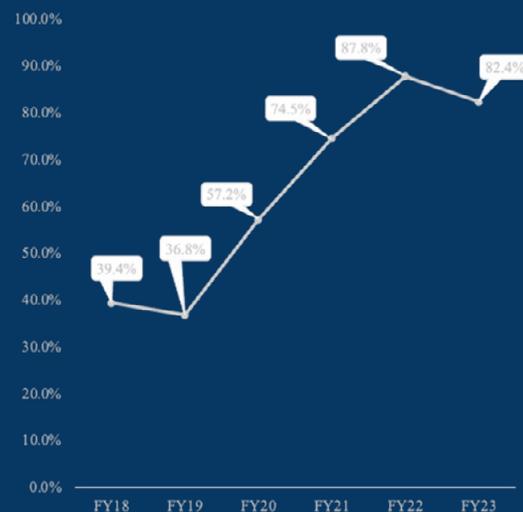
Lessons Learned:

- Ensure that all funded projects align with the Palau Development Plan (PDP)
- Maintain a clear view of the bigger picture by integrating all financial resources, including grants, domestic revenue, and technical assistance, into the planning process
- Phased fund allocation allowed for better management of multiple projects

Palau Post-Covid Debt-GDP ratio: Fiscal Consolidation Fund



- Impact of Covid on Tourism sector-> government revenues & GDP
- Classification as high income-> loans over grants
- Debt-GDP ratio c. 80%
- Fiscal Consolidation Fund \$10m p.a to bring down to pre-Covid level
- Pay down strategy & Debt Management



Anticipated modifications for the FY26 budget cycle



Budget Preparation

- Annual Policy Planning Training

Infrastructure

- Engagement with Capital Infrastructure Projects unit earlier in the budget cycle (Q12025) in order to fully utilise funds available

Aid Coordination - Bigger Picture

- Template to better capturing forward looking pipeline of donor funds and integrate into budget process

Debt Servicing

- Dedicated resources for centralised debt management to avoid discrepancies in the numbers

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Attachment 9 RoP Regional Workshop Country Economists

RMI Budget Cycle Implementation – Challenges, Obstacles and Results

Budget Cycle

- **Jan:** Budget Formulation Workshop (e.g. budget formulation process, submission template, link to the NSP, annual plans, budget submission requirement, etc.)
- **Feb/March:** OCS and FBPS prepare draft CP establishing the BCC and submit to Cabinet through the Minister of Finance for approval.
- **April:** Cabinet reviews and approves initial budget ceilings in principle.
- **May:** Deadline for all ministry and agency budget submissions. Budget Consultations with all ministries and agencies.
- **July 15:** AIP submitted to the US
- **August:** Cabinet reviews and approves final draft Budget and transmits through Minister of Finance to Nitijela.
- **Sept:** Nitijela discusses and approves budget with Economic Policy Statement
- **All year:** monitoring of the performance of the implementation of the budget

Challenges/Obstacles

- Commence of the budget formulation usually start late one or two months late in the process.
- AIP need to submit in **July**, before the final budget is approved by Cabinet.
- There is a substantial increase in funding for some sector from compact funding under amended 2023 compact agreement. These sectors still prefer to have the same level of funding from the general fund.
- AIP need to submit in July, before the final budget is approved by Cabinet.
- Economic Policy Statement usually completed toward the end of the budget process. The NSP and the Budget (weak linkage).
- The absence of comprehensive analysis of the budget in each stage of the budget process (e.g. by economic classifications)

Results

- FY24 and FY25 AIP were submitted on time.
- A draft AIP for FY24 was shared off-line with the US for comments.
- JEMFAC: there were no major issues with the FY24 and FY25 AIP.
- *An issue with the Infrastructure Maintenance Fund allocation for FY25.*

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Attachment 10 Palau Overarching Planning Documents



Wednesday 16th October



Palau Overarching Planning Documents

Palau Development Plan (PDP) 2023 - 2026

<https://www.palau.gov.pw/wp-content/uploads/Palau-Development-Plan-PDP-2023-2026.pdf>

National Infrastructure Investment Plan (NIIP) 2021 - 2030

<https://www.palau.gov.pw/wp-content/uploads/National-Infrastructure-Investment-Plan-2021-2030.pdf>



Palau Overarching Planning Documents

Palau Development Plan (PDP) 2023-2026

- a) Sector Strategies (pg. 55 - 137)
 - i) Corporate Strategy (Pilot - MOF)
- b) National Infrastructure Investment Plan (NIIP) 2021-2030
 - i) Annual Maintenance Plan (High-priority)



Overview of Palau Development Plan (PDP) 2023-2026

- A. **National and State Situational Analysis (the Country Context)**
 - Status, Trends, and Plan Directions at the Country Level
 - 5 Development Pillars:
 - 1) Social
 - 2) Culture
 - 3) Environment
 - 4) Economy
 - 5) Governance
- B. **Sector Strategies**
 - Status, Trends, and Plan Directions at the Sector Level
 - 16 Sectors



16 Sector Strategies

- | | |
|---------------------------------------|--|
| 1. AGRICULTURE | 9. INFO & COMMUNICATIONS TECHNOLOGIES (ICT) |
| 2. EDUCATION | 10. JUSTICE & PUBLIC SAFETY |
| 3. ENERGY | 11. SOLID WASTE MANAGEMENT |
| 4. ENVIRONMENT | 12. TOURISM |
| 5. FINANCIAL SERVICES | 13. TRANSPORT – AIR |
| 6. FISHERIES & AQUACULTURE | 14. TRANSPORT – LAND |
| 7. HEALTH & HUMAN SERVICES | 15. TRANSPORT – MARINE |
| 8. HOUSING | 16. WATER & SANITATION |

Sector M&E Framework: Priority Financing, Results Monitoring, Coordination



	Performance Indicators, Baselines, and Targets	Data Sources and Reporting Mechanisms	Assumptions and Risks
National Impact			
Sector Outcome			
Ministry Outputs			

Ministry Inputs and Activities (\$) Item as reported in the annual budget	FY 24	FY 25	FY 26	FY 27	Assumptions and Risks
I. Recurrent Budget					
I.1 Annual Ministry recurrent budget - local	\$	\$	\$	\$	
I.2 Annual Ministry recurrent budget – aid	\$	\$	\$	\$	
II. PDP Priority Recurrent Programs					
II.1	\$	\$	\$	\$	
III. PDP Priority Capital Programs					
III.1	\$	\$	\$	\$	
Total:	\$	\$	\$	\$	

Implementation of PDP: Current Issues/Challenges



- 1) Poor coordination of aid and misalignment with national priorities.
- 1) Lack of understanding of Policy Analysis, Strategy Formulation, Project Planning and Management
- 1) Challenge of linking budget to overarching planning/strategic documents

Centralized Institutionalized Coordination



Issue/Challenge No.1: Poor coordination of aid and misalignment with national priorities.

Palau's ministries have traditionally operated in "silos", leading to:

- inefficient and incomplete budget and development planning
- lack of alignment with national priorities
- duplication of efforts

Planned Mitigation:	Actions to Date:
<p>Establish a strong National Development Coordination Office (NDCO) within MOF to:</p> <ul style="list-style-type: none"> • Coordinate and support the implementation & monitoring of overarching planning documents • Coordinate the alignment of all DDP programs with national priorities of Palau (Aid Coordination) 	<ul style="list-style-type: none"> • Drafted NDCO Executive Order - awaiting approval, contingent on outcome of election • Successful 1st and 2nd Donor Roundtable • 3rd Donor Roundtable - Early December 2024 • Template developed for DDP project data (ongoing and pipeline)



Role of Aid Coordination

- Function in MOF to have oversight of Donor Funds & link to planning
- Management of funds available to government and make sure align with Palau Development Plan
- Centralized database: introduction of new template to collect information on pipeline
- Liaising with Sasakawa Foundation on historic analysis, stakeholder mapping tool & alignment of template



Performance Indicators and Targets

Issue/Challenge No. 2: Lack of understanding of Policy Analysis, Strategy Formulation, Project Planning and Management

Most senior gov't staff lack understanding in policy analysis, strategy formulation, project planning and management, often relying on expatriate consultants, which has resulted in limited local ownership of these processes (as noted in the 2013 PIFS Forum Compact Peer Review Report).

Planned Mitigation:	Actions to Date:
<ul style="list-style-type: none"> ● Annual training program in policy planning focused on the needs of each Ministry/Office and the methodologies introduced in the PDP. ● Gov't to consider placing policy discussion in the public domain with the establishment of a Public Policy Institute (PPI). 	<ul style="list-style-type: none"> ● 1st Annual Policy Planning Training Course (March 18 - 29, 2024) <ul style="list-style-type: none"> ○ Output: Manual on Project Planning and Policy Analysis (draft to be approved) ● 2nd Annual Policy Planning Training Course (planned for January 2025) ● PPI established within Palau Community College (PCC)

1st Annual Policy Planning Training Course



Annual Progress Reviews - Linking Budget to PDP



Issue/Challenge No. 3: Challenge of linking budget to overarching planning/strategic documents

While budget expenditures are tracked, there is minimal performance reporting on:

- ministry outputs,
- outcomes, and
- overall national impact.

Planned Mitigation:

- All Ministry Directors and Chiefs will prepare corporate strategies that will include the same MEL performance reporting framework introduced in the PDP.

Actions to Date:

- The performance monitoring framework was a key focus in the 1st Policy Planning Training Course.
- Pilot Corporate Strategy with MOF, followed with Education, Justice, and Health.

Palau Approach to Monitor and Assess Progress with Overarching Planning Docs Summarized



- 1) Centralized Institutional Coordination - Establish NDCO
- 2) Performance Indicators and Targets - Pilot MOF Corporate Strategy
- 3) Annual Progress Reviews - PDP Update due March 2025
- 4) Donor and Development Partner (DDP) Reporting - Aid Report
- 5) Data Collection and Analysis - Aid Database
- 6) Integrational Reporting Obligations - FEIS Calendar



Attachment 11
Best Practice:
Fiscal Policy & Budget Cycle Implementation

Best Practice: Fiscal Policy & Budget Cycle Implementation

Wednesday 16 October 2024

First Sub-Regional Workshop

1



Fiscal Responsibility 101

- Why it makes sense to entrench “sound fiscal policies” into law (... and regulations)
 - Avoid persistent fiscal deficits;
 - Avoid pro-cyclical tendencies in fiscal operations; and ...
 - ... more generally, moderate government’s use of fiscal discretion

Source: IMF Fiscal Affairs Department, 2017, *How to Notes: Fiscal Policy: How to Select Fiscal Rules; A Primer*, 2017, Washington D.C.



Fiscal Responsibility 101

- What common behaviors are “moderated” in practice?
 - Revenue expansion often leads to matching expenditure expansion... often without full priorities being expressed and with a bias toward recurrent expenditures
 - Revenue compression even more often leads to disproportionate cuts in capital investment
 - Failure to timely differentiate between **structural** and **cyclical** shocks



Fiscal Responsibility 101

- Fiscal Responsibility at a minimum requires:
 1. Adherence to **“Principles of Responsible Fiscal Management”**
 - Debt, spending and taxation maintained at prudent levels;
 - Deviations from principles explained by Minister of Finance with a “how and when” explanation of government’s return to adherence to principles.
 2. Preparation of an annually mandated **“Budget Policy Statement”**
 - Fiscal intentions of the government explained
 - Fiscal impact of the budget projected
 - Adherence to (or return to) principles explained

Source: World Bank, *Public Expenditure Management Handbook*, Washington, DC, 1998.



Fiscal Responsibility 101

- Looking at Pacific Island nations, five principles of fiscal responsibility have been legislated:
 1. Managing debt at prudent levels;
 2. Keeping operating expenses within operating revenues over the medium-term;
 3. Maintaining levels of net worth to provide a buffer against factors that may adversely impact net worth in the future;
 4. Managing fiscal risks prudently; and
 5. Pursuing policies that are consistent with a reasonable level and stability of tax rates for future years.



Fiscal Responsibility 101

- Again, looking at Pacific Island nations, four elements of a budget and reporting cycle are common:
 1. A budget call;
 2. An economic and fiscal update, including:
 - economic and fiscal forecasts
 - statement of tax policy changes
 - Assumptions upon which the budget is to be formulated;
 3. An annual budget statement; and
 4. Half-yearly economic and fiscal updates.

Fiscal Responsibility and Debt Management Act

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FRDMA for Palau

§ 103a The Government [of Palau] shall pursue its policy objectives in accordance with the following principles of responsible fiscal management:

1. Manage operating expenditures over the medium-term within operating revenues and in relation to the rate of growth of the economy;
2. Manage net capital and financial assets, including the COFA Trust Fund, to achieve rising real national net worth over time;
3. Manage debt prudently;
4. Manage the revenue regime to best fit the structure of the economy, to provide for an equitable allocation of tax burdens, and to allow for predictability over time;
5. Manage reserves and insurance coverage to offset cyclical volatility, the costs of natural disasters, and the impact of climate change;
6. Manage the non-primary government public sector prudently including ensuring State Owned Enterprises and Public Financial Institutions are managed to deliver services on an effective and financially sustainable basis; and
7. Manage fiscal risks and contingent liabilities prudently.

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Palau FRDMA, cont'd

§ 103b ... the Government may depart from the principles of responsibility provided:

1. The departure is temporary;
2. The President states the reason for the departure;
3. The President indicates the period of time required to return to adherence to the principles; and
4. Should any such circumstances arise which force departure from these principles during the fiscal year, these must be timely disclosed in accordance with the provisions of this Act.



Palau FRDMA, cont'd

§ 104 Guiding Fiscal Strategy.

(a) The President shall present to the Olbiil Era Kelulau (and publish for public awareness) at the outset of each new administration's 4-year term, or more often as circumstances may dictate, a Fiscal Strategy indicating Palau's fiscal goals and policies clearly demonstrating adherence to the principles of fiscal responsibility as set forth in Section 106.

(b) The Fiscal Strategy, until amended or replaced, shall guide the annual operation of fiscal policy through the elements of the Palau budget cycle as indicated in Sections 105 through 110 below and consistent with the provisions of Chapter 3 of this Title.

Fiscal Responsibility and Debt Management Act

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FRDMA for RMI

§ 1003 The Government [of RMI] shall pursue its policy objectives in accordance with the following principles of responsible fiscal management:

1. reducing total debt to levels that will provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year;
2. once levels of total debt have been reduced to provide a buffer, maintaining those levels by ensuring that, on average, over a reasonable period of time in the circumstances, total operating expenses do not exceed total operating revenues;
3. achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future;
4. managing the fiscal risks facing the Government;
5. pursuing policies that, in the circumstances, are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years; and
6. ensuring compliance by establishing monitoring and reporting mechanisms.

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RMI FRDMA, cont'd

§ 1003(2) ... the Government may depart from the principles of responsible fiscal management if the departure from those principles is temporary in the circumstances and meets the criteria prescribed.

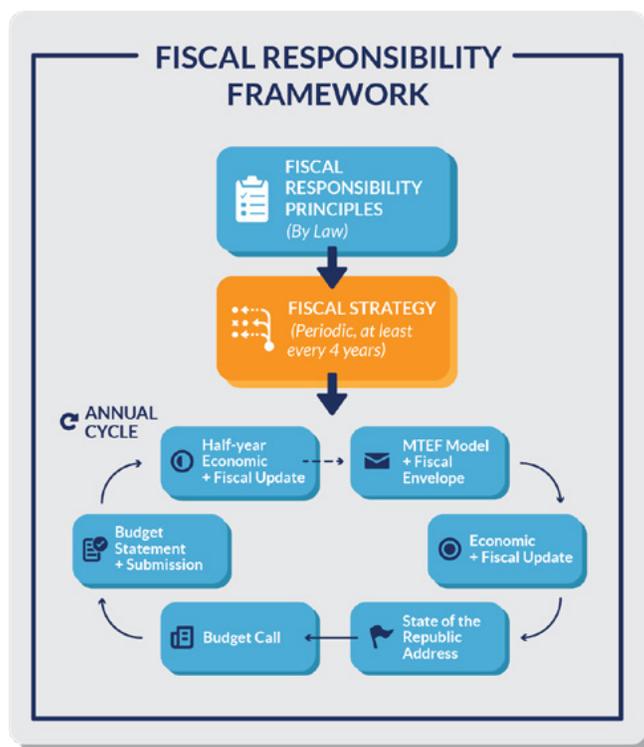


Elements of a best practice budget cycle

- With a focus on Palau and the RMI, the budget cycle would start in January/February of each year for the subsequent fiscal year budget... and carry through into the fiscal year to allow for supplemental budget(s):
 1. Adoption of a “fiscal envelope” based on a technocratic application of modeling (MTEF-mod), or in the future, perhaps a “revenue commission” or “task force”
 2. An economic and fiscal update, including:
 - economic and fiscal forecasts
 - statement of tax policy changes
 - assumptions upon which the budget is to be formulated
 3. Budget call
 - Ceiling within the fiscal envelope
 - Instructions to Ministries/Agencies for budget preparation

Elements of a best practice budget cycle, cont'd

4. Budget preparation and submissions by Ministries/Agencies
5. Budget Review
6. An annual budget statement;
 - consistent with the prevailing fiscal strategy—or updating that strategy at the margin
 - including reference to fiscal status relative to the fiscal responsibility principles (and return path to adherence, if necessary)
 - Presented at time of budget delivery
7. Half-yearly economic and fiscal update.
 - integrates budget “as passed” and the projected impact of changes
 - late in fiscal year to allow for budget adjustments (supplementals)



THANK YOU!

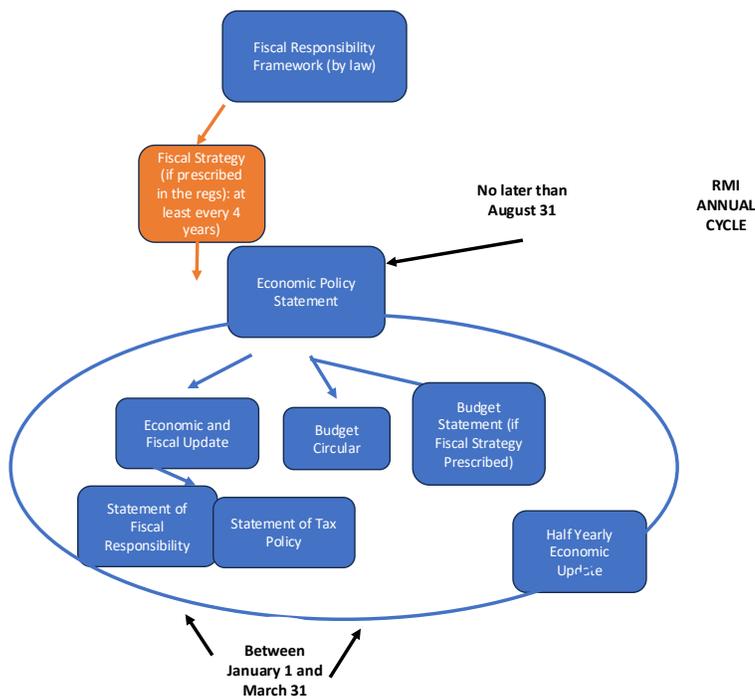


Time for Discussion & Questions

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Attachment 12 **Palau Budgetary Operations:** **Lessons Learnt & Next Steps**



Review of Palau’s FRDMA, PFM, and Budget Cycle Elements



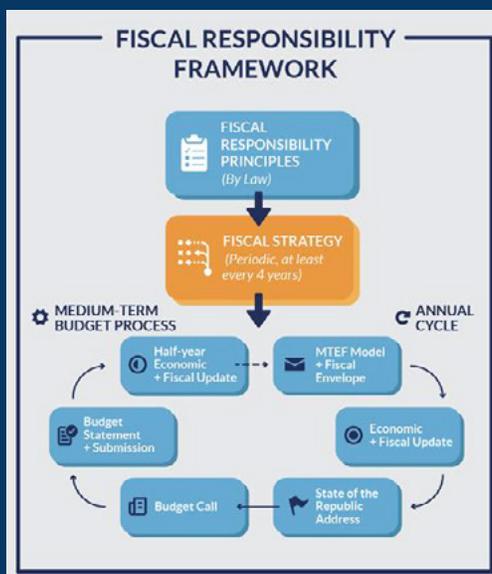
<i>FRDMA Element</i>	<i>Current status, Challenges, Progress, Next Steps FY26</i>
<i>Operating exp < operating revenues</i>	<ul style="list-style-type: none"> • Post Covid departure- rely on loans • Tax reform • New Compact funding
<i>Assets</i>	<ul style="list-style-type: none"> • Raymond James c.6% growth • New rules with possibility to reduce withdrawals as revenue potential increases • PFM Roadmap No.5
<i>Debt Management</i>	<ul style="list-style-type: none"> • Some highly concessional loans • Utilising Fiscal Consolidation Fund to get to pre-covid levels
<i>Revenue regime</i>	<ul style="list-style-type: none"> • Tax reform • Challenge being Politicization • Refunds to lowest earners and child subsidy

Review of Palau’s FRDMA, PFM, and Budget Cycle Elements



<i>FRDMA Element</i>	<i>Current status, Challenges, Progress, Next Steps FY26</i>
Reserves & Insurance	<ul style="list-style-type: none"> • Cyclical Reserve Fund & Resilience Fund • WB Natural Disaster & Climate Risk Mission- potential costs • ADB Pacific Disaster Line of Credit
SOEs	<ul style="list-style-type: none"> • SOE Unit • New System • PFM Roadmap No.11
Fiscal Risks	<ul style="list-style-type: none"> • WB Natural Disaster, ADB Climate Finance & Climate Action Plan • Next steps: Contingent Liabilities, Pensions & Social Security, On-lending • PFM Roadmap No.12

Review of Palau’s FRDMA, PFM, and Budget Cycle Elements





Purpose of the Debt Management Act:

1. Main FR principle: Manage debt prudently
2. Debt purpose:
 - a. Promote sound debt management practices
 - b. Ensure government's financing needs are met at the lowest possible costs
 - c. Minimize risks in the short, medium and long term

Achievements under the Debt Management Act:

- Debt Management Act, November 2021
- Established Debt Management Unit
 - 7 members - senior officials from MOF bureaus
- Debt Management Policy (2022)
 - Set caps for public borrowing





Challenges in Debt Management

- **Human resource constraint:** Limited staff
- **Debt monitoring and reporting:** Expand from stock and flows to interest rates, maturity, etc.
- **Capacity Building:** Ongoing need to train staff

Next Steps for Debt Management:

- **Establish the Office of Debt Management and Investment:** Centralize debt operations
- **Strengthen Debt Monitoring:** To include contingent liabilities and risks
- **Launch Debt Bulletin Reporting:** Begin regular reporting to keep stakeholders informed
- **Approval of Bond Issuance Regulations:** Regulations soon to be in effect, enabling bonds as a new public debt instrument
- **Acquire Debt Management System:** To aid debt management efforts



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Attachment 13 **RMI: Fiscal Responsibility and Debt Management Act**

RMI: Fiscal Responsibility and Debt Management Act

- Public Financial Management Act 2023
 - Section 119.
- Fiscal Responsibility and Debt Management Act 2020

	Due Date
Fiscal Envelope (MTEF-Model) <ul style="list-style-type: none"> Major Revenue: Tax Revenues, fishing license revenues, Grants (ROC, Compact, Federal Grant) Main expenditures: Wage bill, medical referral program, infrastructure, etc. 	Feb
Economic and Fiscal Update <ul style="list-style-type: none"> economic and fiscal forecasts statement of tax policy changes assumptions upon which the budget is to be formulated 	March
Discussion with US OIA on the Compact AIP	March/April
Dissemination of budget circular by Ministry of Finance. <ul style="list-style-type: none"> BCC convenes and begins subsequent FY responsibilities according the PFM Act. PFM Act Section 112(5). Budget Ceilings adopted. Budget Circular (incl. ceiling) circulated upon Cabinet approval. 	April
Submission of line ministry budget requests to Ministry of Finance (including all sources)	May

	Due Date
BCC budget consultations with line ministries	May/June
BCC along with the Ministry of Finance prepare and submit to Cabinet draft budget documents (incl. all funding sources)	15 June
AIP Budget Submission Due date to the US OIA	15 July
Economic and Fiscal Update (1/2 Year Report) <ul style="list-style-type: none"> Inform current year budget adjustments if any. 	Aug
Cabinet approves budget and appropriation bill for submission to Nitijela <i>Economic Policy Statement also approve by Cabinet and submit to Nitijela before 30 Aug.</i>	Aug
Appropriation Committee Hearing	Aug/Sept.
Approval of Appropriation Bill by Nitijela	by 30th of September;
Budget Book published together with citizen-centric report/video.	
Beginning of fiscal year on 1st of October.	

Assistance required

- MTEF-Model (GSUSA & PFTAC).

Challenges

- Mis-match between the budget cycle and the FRDMA
- Compress timetable for comprehensive scrutiny of budget submissions
- Limited capacity and the submission timeline of the AIP to the US OIA.



Minister David Paul presents a gift to Minister Kaleb Udui Jr. on behalf of the Republic of the Marshall Islands Ministry of Finance.