



Second Sub-Regional Workshop: Advancing Planning, Debt, Social Security, and Social Protection Policies in the North Pacific

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Cover photo captions:

Top: Ms. Georgina Conway, Palau’s Resident Economist presenting during the second sub-regional workshop.

Bottom left: Ms. Ayako Yamaguchi-Eliou, Ms. Stefania Pozzi, and Mr. Nicodemus Anuntak working together during a group breakout session.

Bottom right: RMI Minister of Finance, Hon. David Paul answering questions during the moderated discussion facilitated by Jung Ho Kim.

Back cover photo captions:

Top: Director, Chuuk Department of Administrative Services, Jonas Paul and Director, Budget and Statistics, Palau Ministry of Finance, Kaleb Udui, Jr.

Bottom: The President of Palau, H.E. Surangel Whipps, Jr. and Palau’s Resident Economist, Georgina Conway.

Background

The second Sub-regional 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 Koror, Republic of Palau, from December 8-12, 2025. This workshop brought together representatives from the governments of the Republic of Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia under the workshop theme: Advancing Debt, Pension, and Social Protection Policies in the North Pacific. The event focused on practical approaches to fiscal management and policy reform, including country economic updates from Palau and the RMI; tax reform implementation and private sector engagement; debt management institutions, sustainability assessments, and simulation exercises; and pension and social protection reforms, including actuarial modeling and policy options.

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

Welcoming Remarks

The President of the Republic of Palau, H.E. Surangel Whipps, Jr., welcomed participants to Palau and emphasized the value of subregional cooperation and peer learning. He noted that many Pacific Island governments face similar fiscal and governance challenges, and that subregional workshops like this provide an important forum for Palau, the FSM and the Marshall Islands to share experiences and practical solutions. He thanked the Asian Development Bank, the World Bank, Graduate School USA, and other partners for supporting the workshop and bringing together technical experts and government practitioners from across the North Pacific region.

President Whipps highlighted several common policy challenges, including tax reform, debt management, and the need to adopt approaches that are both effective and politically feasible. He stressed the importance of relying on independent technical advice and international best practices, rather than political pressures, when designing reforms. Drawing on Palau's own experience with tax and other ongoing reforms, he encouraged participants to learn from each other's innovations and to consider solutions that could be adapted across Pacific Island contexts.



The President of the Republic of Palau, H.E. Surangle Whipps Jr., welcomed workshop participants.

He also underscored the growing risks facing public retirement systems, particularly in small island economies with aging populations and high labor mobility. President Whipps noted that current systems were not designed to sustain long-term imbalances between contributions and benefits, and that delaying reforms shifts this financial burden to younger generations. He emphasized that technical officials play a critical role in clearly communicating these risks to policymakers, building shared understanding, and supporting decisions that strengthen long-term fiscal sustainability and institutional resilience.

President Whipps's remarks have been included as **Attachment 3** of these Proceedings.

Following President Whipps, Mr. Aziz Haydarov, Advisor, North Pacific, shared remarks on behalf of the Asian Development Bank (ADB), further emphasizing the value of the Subregional Workshop as a practical forum for North Pacific countries to share experiences and address common economic and policy challenges. He recognized the strong participation of counterparts from Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands, noting that their engagement reflects a shared commitment to improving economic management and advancing reforms across the subregion.

He outlined key steps the ADB is taking to strengthen its engagement in the North Pacific. These include establishing a dedicated team for North Pacific operations, planning for a subregional office, and introducing regular portfolio performance reviews of ADB-supported projects starting next year. These



Mr. Aziz Haydarov, Advisor, North Pacific, ADB, outlining the steps taken to strengthen engagement in the Pacific.

reviews will be conducted jointly with national finance ministries and coordinated with other development partners, with the goal of improving project implementation and enabling knowledge sharing among countries.

Mr. Haydarov also highlighted recent results of the Republic of the Marshall Islands' debt sustainability assessment (DSA), which means all three of the ADB's North Pacific Developing Member Countries (DMCs) now have access to concessional financing. He encouraged governments to begin strengthening public borrowing frameworks to ensure sustainable use of such financing, particularly given high development and climate adaptation needs. He concluded by reaffirming ADB's commitment to close, tailored cooperation with North Pacific countries and noted that insights from the workshop would help inform future country programs and ADB's regional strategy for the Pacific.

Mr. Haydarov's remarks have been included as **Attachment 4** of these Proceedings.

Country Economist Reports

Program Background, Mr. Kevin O'Keefe

Mr. Kevin O'Keefe, an economist for the Graduate School USA (GSUSA), provided background remarks on the origins of this technical assistance program, and placed the current country economist program in the context of earlier Compact-era advisory efforts. He noted that past projects were largely focused on short-term fiscal crisis management and narrow economic monitoring, with limited opportunities for

countries to share experiences or build sustained institutional capacity. He explained that during the second Compact period, economic support was spread thin and centered on producing statistics and reports, rather than strengthening policy and management functions. In contrast, the current ADB-supported program reflects recognition of a much larger capacity gap and the need for a more targeted, country-specific, or "differentiated," approach.

He emphasized that the current program was designed not only to produce economic analysis, but also to supplement local capacity while supporting learning, coordination, and peer exchange. Country economists are expected to spend time both developing technical work and working directly with counterparts to share knowledge, support policy development, and strengthen institutional processes. This approach allows each country to focus on its own priorities while also benefiting from lessons learned in neighboring jurisdictions, where progress and challenges differ by sector and reform area.

Mr. O'Keefe also emphasized the value of subregional collaboration, citing multiple examples where countries have learned from each other's reform experiences, including tax policy design and implementation. He observed that under the third Compact period, fiscal conditions are more stable, creating an opportunity to pursue reforms more gradually and strategically, rather than in crisis mode. He concluded by noting that each of the two country economist roles have been intentionally tailored to each government's national priorities, governance structures, and reform agendas, which explains differences in focus between Palau and the RMI, while reinforcing the overall goal of strengthening economic management and policy capacity.

Palau Country Economist Report, Ms. Georgina Conway

Ms. Georgina Conway, Palau's Resident Economist under the ADB-supported TA-10071-REG, A Differentiated Approach to Building Economic Management Capacity in the North Pacific, outlined how the program applies a differentiated approach across five objectives: capacity supplementation, national capacity building, subregional coordination, development-partner coordination, and public financial management (PFM) reform. She explained that the Palau work program is guided by a multi-agency steering committee that sets priorities and endorses quarterly work plans, ensuring that



Ms. Georgina Conway, Palau's Resident Economist, presenting the country economist report.

activities are aligned with national policy needs and institutional capacity. This structure allows the program to focus on practical reforms while remaining responsive to changing government priorities.

In the first year of program implementation, support focused on embedding the program within Palau's Ministry of Finance and strengthening core economic management functions. This included technical inputs to Compact-related bilateral consultations with the United States, preparation of annual implementation plans and reporting, analysis of public sector compensation, and support for establishing a debt management function. In the second year, activities expanded to include the development of a national fiscal strategy, inputs to the President's *State of the Republic Address*, establishment of a macroeconomic committee within the Ministry of Finance, and hands-on support for the FY2026 budget process and budget statement. These initiatives were intended to strengthen forward-looking fiscal planning and improve coordination across government units.

Ms. Conway emphasized that capacity building has been pursued primarily through direct collaboration and applied training, rather than stand-alone workshops. She has directly supported counterparts within the Ministry of Finance to lead presentations at development-partner roundtables, bilateral consultations, and PFM reform sessions, helping to build confidence and institutional ownership. Bureau-

level fiscal strategy sessions were used to review past performance, assess progress using practical monitoring tools, and to reinforce the role of fiscal strategy as a framework to guide annual budget decisions.

One notable feature of the Palau program has been its integration with financial literacy and outreach initiatives aimed at strengthening the future workforce. Ms. Conway described partnerships with local high schools and Palau Community College, outreach to students studying abroad, and internship opportunities within the Ministry of Finance designed to build a pipeline of junior economists and policy analysts. These efforts are intended to address long-standing recruitment and retention challenges in the public sector and to improve the sustainability of reform initiatives.

She also highlighted progress in development-partner coordination and transparency-focused PFM reforms. Support included improving donor coordination through standardized tracking of funding pipelines, follow-up engagement with key partners, and lessons-learned exchanges with other countries. On the PFM side, reforms emphasized implementation of existing roadmaps, strengthened monitoring of reform actions, and improved public communication through products such as a Citizens Budget and simplified economic and fiscal updates, as well as integration of climate considerations into the budget framework. Looking ahead, Ms. Conway identified government priorities to institutionalize new committees and

tools, strengthen in-house analytical capacity, and advance reforms related to pensions, social security, and debt management, while expanding peer learning and staff exchanges across countries.

Ms. Conway's presentation slides have been included as **Attachment 5** of these Proceedings.

Republic of the Marshall Islands Country Economist Report, Ms. Stefania Pozzi

Ms. Stefania Pozzi, the Republic of the Marshall Islands (RMI) Resident Economist under the ADB-supported TA-10071-REG, A Differentiated Approach to Building Economic Management Capacity in the North Pacific, presented an overview of her work supporting economic management and reform in RMI. Building on activities initiated by her predecessor, her initial focus was on establishing a shared workplan through a steering committee led by the Ministry of Finance, aligned with government priorities and existing reform frameworks. Early engagement included consultations across line ministries, state-owned enterprises, development partners, and participation in IMF Article IV discussions, helping ground the program's support in current macroeconomic and fiscal conditions.

A central focus of the program in the RMI has been capacity supplementation to support core government functions. Key contributions included support for Agenda 2030 and its monitoring framework, analytical and modeling assistance for tax reform through the Tax Reform and Modernization Commission, and inputs into national budget preparation, annual implementation plans, and the Budget Investment Framework required under the Compact. She also highlighted support for designing a credit guarantee mechanism to improve access to finance for small and medium-sized enterprises, reflecting the government's priority to strengthen private sector development.

Ms. Pozzi highlighted major policy initiatives undertaken during the second year of the program, particularly related to the rollout of the Universal Basic Income (UBI) and continued implementation of the Extraordinary Needs Distribution (END) program. For both initiatives, monitoring frameworks were developed to assess fiscal sustainability, macroeconomic impacts, and distributional effects. Strengthening economic statistics was another key area of work, including improving access to



Ms. Stefania Pozzi, RMI's Resident Economist, presenting the country economist report.

data, supporting publication of updated economic indicators, and proposing a statistical calendar to enhance the timeliness and coordination of economic information.

The presentation also underscored progress in development partner coordination, with newly institutionalized forums bringing together development partners, line ministries, and senior officials to better align external support with national strategies and reduce duplication. Looking ahead, Ms. Pozzi identified RMI government priorities, including strengthened fiscal policy and management, potential refinements to the Fiscal Responsibility and Debt Management framework, improved revenue forecasting, national strategic planning, and stronger in-house analytical capacity. She concluded by emphasizing that sustained capacity building, coordination, and evidence-based analysis will be essential to managing reform complexity and supporting sound economic decision-making in the Marshall Islands.

Ms. Pozzi's presentation slides have been included as **Attachment 6** of these Proceedings.

Moderated Discussion of Crosscutting Issues and Program Implementation, Mr. Jung Ho Kim, ADB (Facilitator)

Mr. Jung Ho Kim, Principal Operations Coordination Specialist, Pacific Department, for the Asian Development Bank, facilitated a panel discussion with Palau Director of Budget, Mr. Kaleb Udui, and the RMI Minister of Finance, Hon. David Paul, to reflect on this Technical Assistance program. Mr. Kim

opened by inviting reflections on which aspects of this TA had the greatest practical impact and what lessons emerged following the experience of the first two years of implementation. Mr. Kim emphasized his appreciation of candid dialogue to assess how support in areas such as fiscal strategy, budget formulation, tax reform, development-partner coordination, and public financial management (PFM) reform is working in practice and how it can be strengthened going forward.

Mr. Udui (Palau) emphasized that the most important contribution of this TA program has been helping the Ministry of Finance maintain momentum on reforms, despite heavy day-to-day workloads and periodic political pressures. He noted that the in-country support provided under this TA has helped align multiple workstreams, keep priorities visible, and sustain follow-through when initiatives might otherwise stall. He also highlighted the value of learning from neighboring countries' experiences, including in tax reform implementation and revenue administration, and said that comparative learning has helped refine Palau's own approach. Mr. Udui stressed that capacity building is fundamentally about long-term institutional change, and that sustained engagement over many years is essential for reforms to take hold.

Minister Paul (RMI) focused on the role of the TA program informing policy choices in responding to economic realities, including high inflation, rising living costs, and continued out-migration. He explained that reforms underway in the Marshall Islands, including tax reform and new programs such as Universal Basic Income, are being pursued in response to measurable affordability and food-security challenges. While acknowledging that external institutions may hold different views, he emphasized that national leaders must base decisions on local conditions and evidence. He also pointed to Palau's experience implementing a consumption tax as a useful reference for RMI and highlighted practical regional synergies emerging under this TA, including selection of common tax administration software, which can reduce costs and improve implementation capacity.

Regarding development-partner coordination, Mr. Udui described limited absorptive capacity as a key constraint, noting that managing multiple donor initiatives places a heavy administrative burden on small governments. He said this TA program has helped by aligning donor support more closely with government operations and priorities, and

he emphasized the importance of flexibility and responsiveness from development partners. Minister Paul agreed that development partner coordination has improved over time and credited development partners for increased alignment with national development goals. He also noted that as access to concessional financing expands, governments must carefully prioritize between grant-financed and debt-financed projects to manage long-term fiscal risks.

Looking ahead, Minister Paul encouraged future priorities under this TA to include stronger attention to private-sector development and access to finance. He noted that while liquidity exists in domestic banking systems, lending to local businesses remains limited, and he described the need for risk-sharing mechanisms and guarantees to unlock credit and enable broader economic growth. Mr. Udui added that in Palau, closer coordination with state governments is essential for effective implementation, particularly where land ownership and community-level planning shape what can be delivered. He also emphasized that improving access to climate finance at the local level is a growing priority and requires planning and implementation support that reaches communities.

In closing, both panelists underscored the importance of sustained, long-term partnerships focused on institutional strengthening and practical implementation under this TA. Mr. Udui highlighted regional cooperation, shared technical resources, and financial literacy initiatives as part of a broader approach to strengthening capacity over time, while Minister Paul offered an example of how analysis supported by Graduate School USA helped enact RMI's minimum wage legislation.

Mr. Kim concluded by reaffirming ADB's commitment to continued support under ADB TA-10071-REG, emphasizing the importance of regional cooperation and exploring more flexible approaches to capacity supplementation, including on-the-job training and peer exchange modalities.

Tax Reform

RMI Tax Reform Status and Progress, Mr. Lincoln Mea

Mr. Lincoln Mea, Chief of Revenues and Taxation for the Republic of the Marshall Islands (RMI) Ministry of Finance, presented an update on the status of RMI's tax reform initiative. He explained that the reform



Mr. Lincoln Mea, Chief of Revenues and Taxation, presenting the RMI tax reform status and progress.

is designed to address long-standing weaknesses in the RMI tax system, including outdated legislation, manual administration, limited identification systems, and widespread noncompliance in gross revenue and wages and salaries taxes. These challenges have resulted in revenue leakage, economic distortions, and an uneven tax burden, with households contributing a disproportionately large share of total tax revenue.

Mr. Mea outlined the reform process led by the Tax Reform and Modernization Commission (TRAM), established in 2024 and comprising representatives from the RMI parliament, the private sector, local governments, and the Ministry of Finance. The reform is being implemented in two phases, beginning with wage and salary tax adjustments in 2025 and followed by full system modernization in October 2026. Four new tax laws—the Net Profit Tax, Consumption Tax, Excise Tax, and Tax Administration Act—were passed by Parliament in August 2025, providing the legal foundation for a more efficient and equitable tax system.

The presentation highlighted key design and implementation features of the new framework, including segmentation of businesses to reduce compliance burdens on small enterprises. Larger businesses will transition to the Net Profit Tax and Consumption Tax, while smaller businesses may remain under simplified arrangements or opt into the new system. Import duties and multiple sales taxes will be replaced by streamlined excise and consumption taxes, supported by a new integrated IT system to improve registration, filing, and enforcement.

Mr. Mea emphasized the importance of public awareness and communication to support successful implementation. A comprehensive outreach and training program will be rolled out throughout 2026 using digital platforms, media, and direct engagement with businesses and communities. He acknowledged public concerns about price impacts and compliance costs, stressing the need for clear, accessible communication to address misconceptions and build confidence. He concluded by underscoring the importance of continued institutional strengthening and development partner support as RMI moves toward full implementation of the reformed tax system.

Mr. Mea's full presentation has been included as **Attachment 7** of these Proceedings.

Palau Tax Reform Progress and Lessons Learned, Ms. Turang Rengiil and Mr. Elway Ikeda

Ms. Turang Rengiil, Chief of Revenue and Taxation for Palau presented Palau's experience implementing comprehensive tax reform following the passage of the Palau Goods and Services Tax (PGST) Act in September 2021. The reform took effect on 1 January 2023 after a year-long preparation period and introduced a new PGST, a Business Profits Tax, and several additional taxes, while modifying or reducing existing taxes and eliminating the import tax. The reform was designed to modernize the tax system, broaden the revenue base, reduce reliance on gross revenue and import taxes, and improve fairness and efficiency in revenue collection.



Ms. Turang Rengiil, Chief of Revenue and Taxation, presenting on Palau's tax reform.



Mr. Elway Ikeda, Director of Revenue and Taxation, emphasizing Palau's approach to tax reform.

The presentation outlined the structure of the reformed tax system, including segmentation of taxpayers by size to manage compliance burdens. Large businesses transitioned to PGST and the Business Profits Tax, while smaller businesses remained under simplified arrangements or paid an annual license fee, with voluntary registration options available. Wage and salary taxes were reduced and restructured, and hotel occupancy, carbon, and other sector-specific taxes were adjusted. New taxes were also introduced on international transportation, nonresident services, and land transactions. Together, these changes shifted the tax burden away from cascading and distortionary taxes toward a broader consumption-based system with limited exemptions.

A key theme of the presentation was the importance of mitigation measures to address distributional impacts. Palau paired the introduction of PGST with targeted wage and salary tax refunds, social assistance payments, and an expanded child-raising subsidy. These measures fully refunded income tax paid by the lowest-income earners and provided partial relief to middle-income households. As a result, while wages and employment recovered in recent years, the amount of wage and salary tax paid by Palauan citizens declined. Mr. Elway Ikeda, Director of Revenue and Taxation for Palau, emphasized that this approach preserved the integrity of the consumption tax while achieving equity through the income tax and transfer system, effectively shifting part of the tax burden from lower-income households to higher-income earners and profitable businesses.

Ms. Rengiil and Mr. Ikeda also highlighted implementation lessons and results. A steering

committee guided the reform using taxpayer-centric principles, phased implementation, and a strong focus on communication, training, and change management. Now fully implemented, PGST has become Palau's largest source of tax revenue, accounting for a growing share of collections, with high compliance rates and improved cost efficiency. Looking ahead, Palau is pursuing digital transformation through the procurement of a new revenue management system. The presenters concluded that sustained leadership, strong partnerships with development partners, and ongoing collaboration with taxpayers were critical to the success of the reform and will remain essential as Palau continues to modernize its tax administration.

Ms. Rengiil's full presentation slides have been included as **Attachment 8** of these Proceedings.

New Tax Regimes: Risk Identification and Mitigation Strategies, Dr. Mark Sturton

Dr. Mark Sturton, an economist for GSUSA, reviewed Palau's recent tax reform experience and highlighted key lessons on revenue performance, price impacts, and the distribution of the tax burden. He emphasized that the reform led to a substantial and rapid increase in tax revenues. Collections from the taxes affected by the reform more than doubled between FY2022 and FY2025, and the tax-to-GDP ratio rose sharply after remaining flat for many years. This outcome reflected a combination of post-COVID economic recovery, a broader tax base, modestly revenue-positive design choices, and improved efficiency in tax collection. Overall, the reform demonstrated that comprehensive tax changes can generate significantly stronger revenues than initially projected.

Dr. Sturton also examined the inflationary effects associated with the introduction of the Palau Goods and Services Tax (PGST), as part of the Palau experience. While prices had already risen considerably due to global inflation following COVID-19, the implementation of the PGST was followed by a noticeable, one-time increase in consumer prices. This occurred largely because many businesses added the full PGST rate on top of existing prices without accounting for the removal of prior taxes, such as the gross receipts and import taxes. As a result, part of the price increase experienced by Palau consumers reflected higher business margins rather than the tax change alone. Importantly, he

noted that this inflationary impact was temporary and did not lead to sustained price increases.

A detailed breakdown of price changes showed that most inflation over the period was driven by global cost pressures, particularly for food, fuel, and electricity. Only a small portion of the overall increase was directly attributable to the tax reform itself, while a larger share at the time of implementation was linked to changes in pricing behavior. Following the initial adjustment, inflation in Palau stabilized at relatively low levels, suggesting that competitive pressures eventually limited further price increases.

Finally, Dr. Sturton discussed who ultimately bears the tax burden under the reformed system. His analysis indicated that the share paid by Palauan households and foreign workers declined, while the share paid by tourists increased as tourism recovered post-COVID. This shift supported one of the central objectives of the reform: spreading the tax burden more broadly and capturing a greater contribution from visitors. The share paid by businesses remained relatively low and largely unchanged, reflecting intentional, and successful policy choices. Overall, the presentation concluded that Palau's tax reform strengthened revenue performance and improved burden sharing, while underscoring the importance of managing short-term price effects through clear communication and market oversight.

Dr. Sturton's full presentation slides have been included as **Attachment 9** of these Proceedings.

Country Working Group Sessions

The workshop next moved into country working group sessions designed to translate the day's discussions into practical next steps. Participants were divided into three country groups—FSM, Palau, and RMI—reflecting the fact that each country is at a different stage in its tax reform process, ranging from early analytical work to active implementation and completion. The working sessions were intended to build directly on the presentations and discussions held earlier in the day.

Each country group was asked to focus on three core tasks: identifying key risks going forward, developing practical mitigation strategies, and outlining a small number of priority next steps. Given the limited time available, participants were encouraged to concentrate on a few high-impact issues rather than attempting a comprehensive assessment.

Palau's working group identified key risks to the tax reform, including the reintroduction of complexity through exemptions or rate changes, the loss of institutional knowledge due to staff turnover, and delays in implementing supporting information systems. To mitigate these risks, the group emphasized continued taxpayer education and outreach, strengthened recruitment and leadership programs—including engagement with the Palauan diaspora—and ongoing support from development partners for capacity building and training. Priority next steps focused on further improving tax administration processes and simplifying tax filing to make compliance easier for taxpayers and businesses.

RMI's working group identified several risks to implementing the tax reform, particularly ensuring that the business community understands and is prepared for the new VAT and excise tax system. Despite the passage of legislation, businesses have raised concerns about pricing, inventories, compliance costs, limited access to accounting support, and the transition to a new digital tax system. To mitigate these risks, RMI emphasized sustained outreach and education, continuous communication between tax authorities and businesses, and a flexible, supportive approach during the transition. Additional priorities include strengthening internal capacity within the Ministry of Finance through training and donor partnerships, coordinating with other government agencies on fiscal impacts, and clearly communicating new rates, processes, and exemptions to support compliance.

Finally, FSM's working group noted that its tax reform efforts are still at an early stage due to constitutional constraints at the state level, especially in Yap, and past opposition from policymakers, the public, and the private sector. A new administration has revived the process through a national task force that is conducting outreach and public awareness across the FSM states to build support, including discussions around possible constitutional amendments. The group emphasized the need for flexibility in reform design, such as state-led or optional approaches, and highlighted that lessons from Palau and RMI and insights from the workshop have helped identify potential pathways forward despite the challenges.

Development Planning

Development Planning Overview, Dr. Mark Sturton

Dr. Mark Sturton provided an overview of development planning with a focus on its relevance for Palau, FSM, and RMI, particularly in meeting Compact requirements and guiding national development priorities. Drawing on his professional experience across the Pacific and other regions, he noted that development planning has evolved over time, moving from early postwar enthusiasm, through a period of disillusionment in the 1970s and 1980s, to a renewed role in recent decades. While earlier plans were often criticized as overly prescriptive and disconnected from implementation, recent experience shows renewed interest in planning as a way to articulate national priorities, coordinate policies, and respond to globalization, fiscal shocks, and development challenges.

Dr. Sturton explained that modern development plans are best understood as time-bound, overarching frameworks that articulate a country’s development vision across sectors, rather than as detailed blueprints. Key characteristics include an appropriate planning horizon, clear institutional ownership, broad coverage of economic and social priorities—such as diversification, inclusion, and climate resilience—and a credible financing framework. He emphasized that, despite ongoing skepticism toward planning, there is no single international “best practice” template. Instead, plans tend to reflect country context and capacity, but remain important tools for guiding

budget decisions, prioritizing investments, and aligning donor support.

The presentation outlined four broad types of development plans, distinguished by whether they are top-down or participatory and by the strength of their analytical foundation. Dr. Sturton noted that plans combining strong evidence with inclusive, bottom-up processes tend to be the most effective. He further described a practical planning framework consisting of a macro-level component—linking development objectives to realistic resource availability—and sector-level components that define outcomes, activities, and measurable outputs.

Finally, Dr. Sturton reviewed Compact-related planning requirements for FSM, RMI, and Palau. While the terminology differs—Strategic Development Plan in FSM, Budget and Investment Framework in RMI, and a National or Palau Development Plan in Palau—the underlying requirements are broadly similar and emphasize economic advancement, fiscal self-reliance, and multi-year sector objectives. He noted that all three Compacts embed a strong expectation of national development planning and that countries face the shared challenge of ensuring their planning documents are current, credible, and aligned with these obligations. He concluded by encouraging participants to reflect on whether their existing plans effectively guide development and resource allocation, beyond simply fulfilling Compact requirements.

Following Dr. Sturton’s presentation, workshop participants commented that development planning should be driven by national priorities rather than treated primarily as a Compact compliance exercise. One participant noted that Palau, FSM, and RMI would benefit from strong, country-specific development plans that guide policy, budgeting, and investment while also meeting Compact requirements through alignment. Participants also noted the advantage of predictable Compact funding for long-term planning and stressed that effective plans should focus on outcomes, manage risks such as climate change, and improve coordination across government and development partners.

Dr. Sturton’s full presentation slides have been included as **Attachment 10** of these Proceedings.

Country Working Group Report-Outs

The workshop next moved into country working group sessions designed to translate the morning’s



Participants working together during group breakout sessions.

discussions into practical next steps. Participants reported on the current status of their development planning frameworks, considered alignment with national priorities and Compact requirements, and identified next steps. Each country working group examined how planning is organized in their country, how plans are linked to budgeting and implementation, and where gaps or improvements are needed to strengthen the planning process as a practical tool for guiding development.

Palau's working group reported that it is strengthening its development planning framework by institutionalizing planning through the establishment of a National Planning Office under the Office of the President and using the Palau Development Plan (PDP) as the central medium-term planning document. The current PDP (2023–2026) sets national priorities across five pillars and 16 sectors and guides sector strategies, budgeting, capital investment, and Compact-funded activities through alignment with the Annual Implementation Plan. The group confirmed that Palau needs a development plan and characterized the PDP as a participatory, bottom-up, evidence-based plan, but noted challenges in clarifying linkages between the PDP and the national budget. Key next steps include updating the PDP and the National Infrastructure Investment Plan (NIIP), improving the integration of planning and budgeting, and legislating the National Planning Office and planning processes to more firmly embed them within government system.

RMI's working group reported that it has an existing National Strategic Plan (2020–2030) and does not see a need for a new plan at this time, but rather for strengthening the current one. While the NSP is bottom-up and includes objectives, indicators, and a monitoring framework, limited data and capacity constrain effective monitoring, and the plan lacks the macroeconomic framework required to meet Compact Budget Investment Framework requirements. The group plans to use the midterm review to inform the next planning cycle, incorporate missing macroeconomic and financing elements, strengthen links between the NSP and the Annual Implementation Plan, and seek technical assistance from development partners to address data gaps and improve evidence-based planning.

Debt Management and Policy

RMI Debt Profile: History, Sources, and Uses, Ms. Stefania Pozzi

Ms. Stefania Pozzi presented an overview of the Republic of the Marshall Islands' (RMI) debt profile, highlighting a significant improvement in debt sustainability over time. As of FY2024, gross external debt totaled \$48.5 million, equivalent to about 17.3% of GDP, with roughly 80% owed directly by the national government and the remainder held by state-owned enterprises (SOEs), primarily the National Telecommunications Authority, for which the government is the guarantor. Debt service obligations were relatively low at \$4.7 million, or about 2.3% of national government revenues. The Asian Development Bank is the main creditor, followed by the International Cooperation and Development Fund of Taipei, China, reflecting a largely concessional debt structure.

The presentation traced the historical drivers of RMI's debt, noting that levels were substantially higher in the past. In the late 1980s and 1990s, RMI issued large Compact revenue-backed bonds, borrowing against future Compact grants to finance investments and refinance existing debt. These investments did not generate the expected returns, and by the late 1990s a large share of Compact funds—over 40% in some years—was diverted to debt repayment, constraining public spending and contributing to fiscal stress, economic contraction, and public sector downsizing. Subsequent borrowing from ADB during the 1990s and 2000s, although highly concessional and spread across multiple sectors, coincided with prolonged fiscal pressures and periods of cash-flow shortfalls, including near-default episodes. Government-guaranteed borrowing by SOEs further added to contingent liabilities and debt service burdens.

Ms. Pozzi emphasized that the shift to grant-only financing under the Amended Compact Period, combined with restrained borrowing, played a central role in reducing RMI debt from over 70% of GDP in the early 2000s to its current low levels. She noted that RMI's recent upgrade to a moderate risk of debt distress allows renewed access to concessional borrowing, offering greater flexibility for development financing. However, given past challenges, she stressed the importance of prudent debt management, careful project selection, and continued reliance on grants as the cornerstone of RMI's fiscal strategy.

Following Ms. Pozzi’s presentation, discussion focused on debt servicing and future borrowing. It was clarified that no Compact funds are used to repay or service debt under the current Compact, with all debt service paid from the general fund. Looking ahead, questions were raised about acceptable debt thresholds now that RMI can access concessional borrowing. RMI Minister of Finance, Hon. David Paul, noted that a formal debt management strategy is still under development, but emphasized guiding principles that any new borrowing should be limited to self-financing projects, investments backed by clearly identified future funding such as Compact resources, or projects that reduce long-term costs, including renewable energy investments, to ensure debt remains sustainable.

Ms. Pozzi’s full presentation slides have been included as **Attachment 11** of these Proceedings.

Palau Debt Profile: History, Sources, and Uses, Mr. Rison Nakamura

Mr. Rison Nakamura, Finance Specialist at the Palau Ministry of Finance, presented an overview of Palau’s debt profile, focusing on central government debt currently tracked by the Ministry. He noted that Palau’s debt levels were low prior to the COVID-19 pandemic but rose sharply from FY2020 onward as the government borrowed to support the economy. Debt peaked at close to 70% of GDP during the pandemic and has since begun to decline, with projections showing government debt falling to about 28% of GDP by FY2030, below the statutory limit of 30%. Debt service, however, is expected to remain elevated in the medium term, peaking around FY2026

as principal repayments on pandemic-era loans begin. The Asian Development Bank accounts for about 80% of outstanding public debt and borrowing has primarily financed capital investments, social and economic programs, and pandemic-related government support.

Mr. Nakamura also outlined Palau’s debt management framework and institutions. He highlighted the National Government Fiscal Responsibility and Debt Management Act and the Debt Management Policy adopted in 2022, which set clear borrowing principles and limits, including thresholds for debt-to-GDP and debt service. He described recent institutional strengthening, including the establishment of a Debt and Investment Office, adoption of regulations for government bonds, and acquisition of the Commonwealth Meridian public debt management system to improve monitoring, reporting, and risk management. While progress has been made in formalizing debt management practices, he noted ongoing challenges related to the need to better consolidate data, particularly for loans taken directly by state-owned enterprises and other government units.

Following Mr. Nakamura’s presentation, participants discussed the use of Compact resources for debt service and appropriate debt thresholds. Mr. Nakamura clarified that in FY2024 and FY2025, Palau used allocations from the Compact Fiscal Consolidation Fund to service eligible ADB loans, with some excess funds remaining and under review for optimal use, and noted that including SOE debt could add an estimated 10–15% of GDP. Questions were raised about ideal debt-to-GDP thresholds for small island economies. World Bank and ADB representatives emphasized that there is no single safe threshold, as debt sustainability depends on country-specific factors such as exposure to shocks, growth performance, and contingent liabilities, including SOEs and natural disasters. They highlighted the importance of debt sustainability analyses, scenario testing, clear numerical targets where appropriate, and stronger fiscal risk statements to guide borrowing decisions and manage risks over the medium to long term.

Mr. Nakamura’s full presentation slides have been included as **Attachment 12** of these Proceedings.

RMI Country Debt Management Institutions: Laws, Policies, Units, Ms. Stefania Pozzi

Ms. Stefania Pozzi explained that while the Republic



Mr. Rison Nakamura, Finance Specialist, presenting Palau’s debt profile.

of the Marshall Islands (RMI) has significantly reduced its external debt over time, the economy remains vulnerable due to its small size, exposure to shocks, and reliance on external funding. Past episodes of rapid debt accumulation and periods of fiscal stress highlight why strong debt management remains important. She emphasized the close link between fiscal policy and debt, noting that RMI's spending has historically followed revenue availability, which can lead to pro-cyclical spending, limited savings, and reduced flexibility during downturns.

She reviewed the RMI's Fiscal Responsibility and Debt Management Act (FRDMA), enacted in 2021, which provides a foundation for responsible budgeting and borrowing, but has important gaps. These include the absence of medium-term fiscal targets, spending ceilings, clear reserve policies, and modern debt-risk management standards. To strengthen the framework, she outlined potential reforms such as introducing medium-term fiscal rules, establishing cyclical and climate resilience reserve funds, clarifying trust fund withdrawal rules, and strengthening oversight of borrowing and SOE liabilities. She also highlighted the need for stronger institutions, including a dedicated debt management function, improved monitoring of fiscal risks, and clearer oversight by both technical staff and legislators.

Following the presentation, participants emphasized the need to balance innovation with strong fiscal and institutional foundations. RMI Minister of Finance, Hon. David Paul underscored the importance of thinking creatively about debt and financial solutions, describing the USDM1 initiative as a fully collateralized instrument aimed at expanding financial inclusion across the Marshall Islands' dispersed population, and stressed that such efforts are intended to strengthen—not undermine—fiscal credibility. Other participants highlighted that financial innovation should proceed alongside investments in core public financial management systems, monitoring, and staff capacity to manage risks effectively. Additional comments stressed the value of contingency planning tools such as insurance, the importance of assessing both liabilities and assets when evaluating debt sustainability, and the need for proper maintenance and climate-resilient infrastructure. Speakers also noted the capacity constraints faced by small states and encouraged regional and development partner support to strengthen debt management expertise in a practical and sustainable way.

Ms. Pozzi's full presentation slides have been included as **Attachment 13** of these Proceedings.

Palau Country Debt Management Institutions: Laws, Policies, Units, Mr. Rison Nakamura

Mr. Rison Nakamura presented an overview of Palau's debt management institutions, focusing on the legal framework, policy foundations, and recent institutional developments. He explained that Palau's Debt Management Act, enacted in 2021 as part of the National Government Fiscal Responsibility and Debt Management Act, delegates the constitutional authority to borrow to the President while retaining legislative oversight through mandatory joint resolutions of the OEK. The Act establishes core borrowing principles, assigns responsibilities to the Minister of Finance and the Debt Management Unit, and is complemented by a Debt Management Policy adopted in 2022, which sets explicit debt limits of 30 percent of GDP and 15 percent of domestic revenues for debt service. Regulations for government-issued bonds were adopted in 2024, enabling Palau to begin issuing bonds domestically.

He then described the institutional strengthening currently underway, including the creation of a dedicated Debt and Investment Office within the Ministry of Finance in 2025 to operationalize debt management, support analysis and reporting, and oversee new initiatives such as the Palau Retail Savings Bonds. These bonds are designed to retain domestic capital, diversify debt sources, increase local lending, and provide an investment option for citizens and the diaspora, with proceeds on-lent primarily for housing, infrastructure, and small business development. Mr. Nakamura further highlighted Palau's adoption of the Commonwealth Meridian public debt management system to improve data consolidation, automate debt service calculations, monitor risks, and support debt sustainability analysis and regular debt reporting. He concluded by noting key progress achieved to date alongside ongoing challenges, particularly limited resources and the need to consolidate debt data across government and state-owned entities.

Mr. Nakamura's full presentation slides have been included as **Attachment 14** of these Proceedings.



Ms. Georgina Conway presenting on Palau's Fiscal Responsibility and Debt Management Act.

Palau's Fiscal Responsibility and Debt Management Act (FRDMA) Compliance: Towards an Approval & Appraisal Framework, Ms. Georgina Conway

Ms. Georgina Conway's led a presentation and discussion focused on strengthening compliance with Palau's Fiscal Responsibility and Debt Management Act (FRDMA) utilizing a clear, practical framework for approving and appraising new borrowing. She recapped the FRDMA's core debt principles, including that borrowing must be for public purposes, demonstrate positive returns, avoid financing recurrent expenditure, and be used only after other financing options are exhausted. She also highlighted the Act's assignment of responsibilities to the Debt Management Unit, including risk assessment, debt policy implementation, debt sustainability analysis, and the review of fiscal and economic impacts of proposed loans before submission to the OEK.

Drawing on international best practices and country examples, Ms. Conway emphasized that while detailed debt management manuals exist, they are often impractical for small island states with limited capacity. She proposed a streamlined, two-page loan appraisal and approval checklist tailored to Palau's legal framework, adapted from examples used in the UK and Caribbean small states. The checklist is designed to support transparent and consistent decision-making by summarizing key information on loan rationale, alignment with FRDMA principles, repayment terms, fiscal and macroeconomic impacts, risk management (including SOEs), and legal features. She concluded that such a tool would strengthen accountability, support legislative review, and provide a practical, capacity-appropriate approach that Palau,

RMI, and FSM could adapt to their own contexts.

Following the presentation, Participants expressed broad support for the proposed two-page loan appraisal checklist as a practical starting tool for countries with limited staff and resources, noting its immediate usefulness for ongoing and future borrowing decisions. Palau's experience with nationally approved state borrowing and its use of the Commonwealth Meridian system was shared as a helpful example for strengthening oversight, data consistency, and investment management. Additional comments emphasized that loan appraisal should sit within a broader project appraisal process, with projects first assessed for economic and financial viability before financing options are considered, and that clearer institutional workflows would strengthen governance. Ms. Conway agreed, noting the checklist is intended to be a foundational step that can be refined and linked over time to development planning, investment frameworks, and more detailed procedures.

Ms. Coway's full presentation slides and loan appraisal evaluation form have been included as Attachment **15a** and **15b** of these Proceedings.

Multilateral Institutions and the North Pacific

Debt Sustainability Assessment (DSA) in Action, Mr. Leonardo Martinez, International Monetary Fund (IMF)

Mr. Leonardo Martinez, Senior Economist at the IMF Institute for Capacity Development, presented how the IMF assesses debt sustainability in practice, focusing on the Public Debt Dynamics Tool (DDT) as a practical, Excel-based framework used in country work. He explained that the DDT projects public debt using a simple accounting identity that links debt dynamics to growth, interest and exchange rate costs, primary balances, and other debt-creating flows, allowing users to analyze baseline paths, alternative scenarios, and the drivers of debt changes. The tool is designed to align with IMF and World Bank debt sustainability frameworks, support policy dialogue, and help authorities test fiscal adjustment paths needed to reach specific debt targets, while also assessing risks through shocks, historical comparisons, and fan charts. Mr. Martinez emphasized that debt sustainability at the IMF goes

beyond projections, noting that debt can be stabilized under realistic shocks with fiscally and politically feasible primary balances and manageable rollover risks, assessed through indicators such as debt levels, debt service, and gross financing needs under the IMF's low-income country and market-access country frameworks.

Following the presentation, a question from ADB focused on the availability of IMF support if countries were to begin to use the tool independently, recognizing that applying and interpreting the results would require time and hands-on guidance. In response, Mr. Martinez explained that the IMF regularly provides technical assistance to help countries integrate the tool into policy analysis and reporting, including through regional experts, and noted that countries could request support through their IMF country teams or contact him directly to help facilitate assistance.

Mr. Martinez's full presentation slides have been included as **Attachment 16** of these Proceedings.

Best Practices for Debt Management, Ms. Lilia Razlog, World Bank

Ms. Lilia Razlog, Senior Debt Specialist at the World Bank, presented an overview of current best practices and emerging challenges in sovereign debt management, emphasizing its core objective: meeting government financing needs at the lowest possible cost while maintaining prudent risk levels. She outlined the full debt management cycle—planning, borrowing, servicing, and reporting—underscoring the importance of a strong governance and accountability framework that clearly defines legal authority, institutional roles, decision-making responsibilities, and audit and oversight arrangements. Even in small administrations with limited staff, these functions must be clearly assigned and well coordinated across ministries, central banks, auditors, and political leadership to ensure sound medium-term fiscal and debt outcomes.

A central theme of the presentation was the importance of debt transparency. Ms. Razlog highlighted progress in recent years, with more countries publishing high-level debt data and medium-term debt strategies, but noted that major gaps remain, particularly beyond central government debt. Weak disclosure of state-owned enterprise debt, subnational borrowing, contingent liabilities, and loan-level details continues to pose risks. She

illustrated how fragmented debt management functions, weak legal frameworks, limited IT systems, and staff turnover can lead to hidden debt, citing recent cases where undisclosed obligations triggered market reactions and higher borrowing costs. Rising use of collateralized lending, private placements, and domestic debt instruments with lower disclosure standards was identified as an additional source of fiscal and transparency risk.

Ms. Razlog concluded by outlining recommendations for strengthening debt management institutions and transparency, including legislative reforms, clearer borrowing authorization procedures, improved debt reporting coverage and timeliness, and publication of loan-level data. She emphasized the World Bank–IMF Debt Management Facility (DMF) as a key platform for supporting countries through diagnostics, strategy development, reform planning, and management of contingent liabilities and fiscal risks. The World Bank and its partners reaffirmed their commitment to providing tailored technical assistance and encouraged countries to engage actively to address their most pressing debt management challenges and build more resilient, transparent public debt frameworks.

Following Ms. Lilia Razlog's presentation, discussion focused on how Pacific island countries could practically access World Bank support for strengthening debt management. Participants asked about the process for requesting technical assistance, and Ms. Razlog explained that support under the Debt Management Facility is flexible, demand-driven, and tailored to country priorities and capacity constraints, with options ranging from debt management strategies and diagnostics to legal reforms and institutional reviews. Emphasis was placed on close coordination with partners such as the IMF and ADB and the importance of strong government commitment to reform. Participants from small states highlighted challenges related to debt contracted by state-owned enterprises (SOEs), particularly unclear repayment responsibilities and weak coordination between governments and SOEs. Ms. Razlog noted that these challenges are common and typically require stocktaking of SOE obligations, clarification of legal frameworks, and consolidation of information within government. The session concluded with agreement on the value of coordinated donor engagement, country ownership of reforms, and potential future work focusing specifically on SOE-related debt risks and transparency.

Ms. Razlog's full presentation slides have been included as **Attachment 17** of these Proceedings.



Mr. Jung Ho Kim, presenting on behalf of the ADB

The Asian Development Bank in the Pacific, Mr. Jung Ho Kim, ADB

Mr. Jung Ho Kim outlined the Asian Development Bank's (ADB) approach to engagement in the Pacific, focusing on how ADB works with countries to identify priorities and deliver support. He explained that ADB assistance is guided by each country's Country Partnership Strategy (CPS), which sets out priority areas agreed with governments, and is implemented through annual country programming missions that help build project pipelines. ADB emphasizes achieving development outcomes rather than focusing only on inputs, linking project preparation, implementation, and evaluation to longer-term impacts. ADB provides a range of products, including grants, concessional loans, guarantees, technical assistance, and transaction advisory services, with funding sources and eligibility determined by country classification and debt sustainability assessments.

Mr. Kim also described the project cycle, noting that implementation is often the most challenging stage and critical to project success. He highlighted the importance of project readiness financing to speed up implementation after project approval. Looking ahead, he introduced ADB's new Pacific Approach strategy, which will cover 12 Pacific countries under a single regional CPS (with separate strategies for Fiji and Papua New Guinea). This strategy aims to respond to the rapidly growing scale of ADB support in the region and will focus on priority sectors such as transport, water and urban services, finance, education, and public sector management. Key cross-cutting priorities include private sector development, climate action, and regional cooperation. Mr. Kim

emphasized that country input is essential and encouraged governments to actively share their priorities during upcoming country programming missions so these can be reflected in ADB's future strategy and operations.

Following the presentation, participants asked about ADB's support for social programs and how countries could access them. Mr. Kim explained that ADB's social protection assistance targets vulnerable groups and is often integrated with education, skills training, women's economic empowerment, and support for elderly populations, with program priorities determined by governments through their annual country allocations. Discussion also highlighted FSM's recent shift from grant-only financing to a mix of grants and concessional loans following an updated Debt Sustainability Assessment, raising concerns about the need for stronger coordination among central governments, states, and state-owned enterprises to manage debt responsibly. ADB acknowledged these challenges and emphasized the importance of continued dialogue and technical assistance, encouraging countries to identify priority areas for future support and workshops.

Introduction to the Debt Dynamics Tool (DDT) Template

Debt Background, Dr. Mark Sturton

Dr. Mark Sturton introduced the debt dynamics session by explaining why understanding debt trends is increasingly important for Pacific island economies. He noted that country circumstances have changed: Palau's debt rose sharply during the pandemic but is now declining as the economy recovers and fiscal balances strengthen, creating opportunities to actively manage and reduce debt. In contrast, the FSM and the Marshall Islands have recently shifted away from grant-only financing following IMF assessments, meaning their debt levels are likely to rise going forward. Against this backdrop, Dr. Sturton emphasized the need for governments to monitor debt trajectories, understand sustainable debt levels, and assess borrowing capacity, particularly as IMF and other lenders closely examine these indicators when considering new loans. He concluded that the debt dynamics tool provides a practical way to build this awareness, as today's favorable debt positions may not persist without careful analysis and management.

Following Dr. Sturton’s introduction, participants discussed the prominence of debt issues within their governments. The Marshall Islands noted that debt is not yet a major public or political topic, as the country has only recently moved from grant-only to blended financing; however, significant upcoming infrastructure needs, particularly for new hospitals, are expected to make borrowing decisions and parliamentary oversight a central issue. Palau reported increased congressional scrutiny of debt limits, compliance with fiscal responsibility legislation, and the use of debt sustainability analysis, even if broader political discussions remain largely internal. FSM participants highlighted that debt is not yet a strong focus in routine planning, especially at the state level, but repayment arrangements—often involving national retention of state revenues—are already creating budget pressures. Much of FSM’s debt is linked to state-owned enterprises, underscoring the need for stronger coordination among SOEs, states, and the national government as eligibility for blended financing expands. Overall, the discussion reflected growing awareness that debt will become a more significant policy issue, with a shared interest in clearer thresholds, stronger coordination, and better tools to manage future borrowing responsibly.

A Simplified DSA Simulation Model, Ms. Georgina Conway and Ms. Stefania Pozzi

Ms. Georgina Conway and Ms. Stefania Pozzi introduced the afternoon’s hands-on session on the Debt Dynamics Tool (DDT), explaining that the objective was to move from theory to practical application through country-specific exercises. They emphasized that debt, when well-managed, can support growth, stability, and development, but poor or excessive borrowing can undermine fiscal sustainability. The presenters reviewed the basic concepts underlying debt dynamics—such as debt stock, debt-to-GDP ratios, fiscal balances, interest rates, and economic growth—and explained in simple terms how these factors interact to influence a country’s debt path. They stressed that the Simplified DDT is an analytical tool designed to support policy discussion rather than produce definitive forecasts, particularly relevant for the region’s small, capacity-constrained debt management units.

Ms. Pozzi then guided participants through the structure of the DDT Excel template, explaining how pre-filled historical data and baseline projections are used to generate debt-to-GDP outcomes and

visual results. Participants were shown how to analyze baseline projections and alternative scenarios—such as new borrowing, economic shocks, or contingent liabilities—to assess how different policy choices affect future debt levels. The session concluded with instructions for country working groups, which were tasked with running scenarios for Palau or the Marshall Islands, interpreting the results, and discussing the policy implications. The exercise was designed to encourage peer learning, practical engagement with the tool, and informed discussion on managing debt risks going forward.

Ms. Conway and Ms. Pozzi’s full presentation slides have been included as **Attachment 18** of these Proceedings.

Country Working Group Report-Outs

Palau’s working group reported that under the baseline scenario, which assumes no new borrowing and continued use of fiscal surpluses to repay debt, Palau’s debt-to-GDP ratio declines to around 29% by 2029, driven by tourism recovery, economic growth, and a shift to primary surpluses; however, participants agreed this outcome is unrealistic given Palau’s need to continue borrowing for development and infrastructure. Alternative scenarios show that continued borrowing leads to a modest rise in debt—peaking around 30–31% in the early 2030s—while borrowing combined with fiscal pressures or a tourism shock weakens debt dynamics through lower growth and larger deficits, though debt remains below 30% of GDP. The group emphasized that pension reform, use of a cyclical reserve fund, and greater economic diversification would improve resilience to shocks and support more sustainable debt outcomes over the medium term.

RMI’s working group reported that under Scenario 1, a one-year loan of USD \$300 million for hospitals and ports caused a sharp spike in debt, with the debt-to-GDP ratio peaking at about 88% in 2026, reflecting the impact of concentrating borrowing in a single year; participants agreed infrastructure investment is preferable to recurrent spending, although ports were seen as more economically self-liquidating than hospitals. Under Scenario 2, spreading the same borrowing over five years reduced volatility but still raised debt to a peak of about 50.6% in 2030, above the commonly cited 30 percent benchmark, with debt declining below that level only after roughly eight to nine years; the group noted that RMI does not yet have a formal debt threshold. Under Scenario 3, a

fisheries collapse led to a peak debt-to-GDP ratio of about 39.2% in 2028, driven by revenue losses and higher borrowing, followed by improvement as GDP recovered; participants emphasized that a cyclical reserve fund and greater economic diversification would reduce borrowing needs and vulnerability to such shocks.

Social Security Programs

Features of Social Security Programs, Mr. Kevin O’Keefe

Mr. Kevin O’Keefe outlined the core design features, risks, and reform considerations of social security systems, drawing on international experience and the U.S. model as an illustrative case. He explained that social security is a defined-benefit, pay-as-you-go social insurance system intended primarily to prevent old-age poverty, typically financed by combined employee and employer contributions and providing retirement, disability, and survivor benefits with built-in progressivity that favors lower earners. He highlighted key pressures facing such systems globally—especially population aging and longevity risk, changing worker-to-beneficiary ratios, investment and interest-rate risks, structural design weaknesses, and political delays in reform—and noted that recent reforms in the FSM and RMI focused on restoring long-term financial sustainability, while Palau faces similar challenges. Mr. O’Keefe also distinguished clearly between defined-benefit social security schemes and defined-contribution pension plans, emphasizing that while defined-contribution plans may be suitable as supplemental retirement savings vehicles due to their portability and limited fiscal risk, they are not appropriate substitutes for social security, which should remain a stable, predictable foundation of retirement income.

Mr. O’Keefe’s full presentation slides have been included as **Attachment 19** of these Proceedings.

Marshall Islands Social Security Administration (MISSA), Mr. Bryan Edejer

Mr. Bryan Edejer, Administrator of the Marshall Islands Social Security Administration (MISSA), presented an overview of the country’s defined benefit social security system, established under the Social Security Act of 1987 and operationalized in 1991 to provide retirement, disability, and survivor



Mr. Bryan Edejer, Administrator, presenting on RMI’s Social Security Administration.

benefits. MISSA is funded through equal employee and employer contributions of 8 percent of wages and currently offers retirement, disability, surviving spouse, dependent child, and lump-sum benefits, with normal retirement eligibility at age 63 and a minimum requirement of 38 quarters of coverage. He outlined the system’s financial challenges prior to reform, noting persistent cash deficits between 2011 and 2016, withdrawals of more than \$23 million from investments, and a 2017 actuarial assessment projecting fund depletion by 2028 without corrective action. In response, comprehensive reforms were enacted in March 2017, including eliminating early retirement, increasing contribution rates, raising the covered earnings ceiling, reducing benefits, and capping the maximum monthly benefit, which significantly improved the fund’s outlook and stabilized assets, now projected to exceed \$140 million by 2030. Mr. Edejer concluded by discussing the most recent actuarial valuation, ongoing long-term funding gaps, and proposed legal amendments to strengthen sustainability, including allowing benefit offsets for unpaid debts and reconsidering the minimum benefit level to better align payouts with actual contributions.

Following the presentation, participants discussed MISSA’s long-term sustainability, focusing on projections that show a gradual decline in contributors due to out-migration and demographic trends in the RMI, rather than an immediate collapse. Mr. Edejer clarified that these are stress scenarios for planning purposes, noting that maintaining current workforce levels would keep the fund relatively stable. The discussion also highlighted policy and equity issues, including the impact of out-migration and inflation,

recent social protection measures aimed at retaining residents, concerns that the earnings cap creates a regressive contribution structure, and clarifications on the limited role of the informal sector, treatment of non-Marshallese workers, and the defined-benefit nature of MISSA, under which benefits are not directly adjusted for investment performance.

Mr. Edejer’s full presentation slides have been included as **Attachment 20** of these Proceedings.

FSM Social Security Administration (MISSA), Mr. Leon Panuelo, Jr.

Mr. Leon Panuelo, Jr., Administrator of the FSM Social Security Administration (FSMSSA), presented an overview of the FSM social security system, a defined benefit, pay-as-you-go program established in 1988 under Title 53 of the FSM Code to provide retirement, disability, and survivor benefits as a basic income support rather than a wage replacement. Funded primarily through equal employer and employee payroll contributions of 7.5 percent each, the system currently supports over 6,100 beneficiaries with monthly payouts of nearly \$2 million, making it a significant contributor to the FSM economy. Mr. Panuelo highlighted ongoing financial pressures, including benefit payments exceeding contributions in most years, reliance on national government subsidies and investment drawdowns, and a low funded ratio of 13.5 percent with an unfunded liability exceeding \$320 million. He emphasized that long-term sustainability has depended on a series of gradual reforms since 2000—most notably reduced benefits for retirees aged 60–64, periodic increases in the taxable wage base, tighter eligibility rules, and recent amendments allowing older retirees to continue working at partial benefit levels. He concluded by noting proposed legislative changes to modernize investment rules, which would broaden allowable asset classes and potentially support domestic economic development while improving returns and strengthening the system’s financial position over time.

Mr. Panuelo Jr.’s full presentation slides have been included as **Attachment 21** of these Proceedings.

Republic of Palau Social Security Administration (ROPSSA), Mr. Hefflin Bai

Mr. Hefflin Bai, Chairman of the Board of Trustees of the Palau Social Security Administration (ROPSSA), presented an overview of Palau’s defined benefit



Mr. Leon Panuelo Jr., Administrator, presenting an overview of FSM’s Social Security System.

social security system, its operations, financial condition, and proposed reforms. Established in 1987 under Title 41 of the Palau National Code, ROPSSA is governed by a five-member board appointed by the President. The presentation covered employer services (registration, contribution collection, and compliance), member services (claims, benefit payments, and allotments), and workforce trends, highlighting that overall employment and contributions have grown in recent years, driven largely by an increase in foreign workers. Social security contributions rose from about \$18.9 million in 2023 to over \$23.2 million in 2025, while beneficiaries increased from just over 4,000 to more than 4,290.

Despite this growth, benefit payouts continue to exceed contributions, resulting in persistent annual deficits. Benefit payments rose from \$29.3 million in 2023 to \$31.9 million in 2025, requiring regular drawdowns from investments and ongoing government support. Actuarial data show a sharp deterioration in financial sustainability: accrued liabilities increased significantly over time, the unfunded accrued liability reached approximately \$227.7 million by 2022, and the funded ratio declined from about 46% in 2011 to roughly 25%, with further decline expected. In response, the Board has developed a package of reform recommendations aimed at improving long-term sustainability, including capping maximum monthly benefits, increasing required contribution quarters, raising the employer contribution rate, modifying dual-benefit rules, introducing an exit tax, expanding coverage of self-employed workers, and allowing greater government financial support during economic hardship. Mr. Bai

emphasized that while reforms are politically difficult, timely and well-designed changes are essential to stabilize the system and protect future generations.

Mr. Bai's full presentation slides have been included as **Attachment 22** of these Proceedings.

Palau Civil Service Pension Plan (CSPP), Mr. Elliot Udui

Mr. Elliot Udui, Administrator of the Palau Civil Service Pension Plan (CSPP), presented an overview of the defined benefit, cost-sharing, multi-employer pension system established in 1987 to provide retirement, disability, survivor, and related benefits to eligible Palauan government employees. He outlined key plan features, including normal retirement at age 60 with a minimum of five years of service, disability retirement, and pre-retirement survivor benefits, as well as employee and employer contribution rates of 6 percent each. Significant reforms enacted in 2013 eliminated early retirement, capped benefits, and revised benefit calculations, resulting in reduced long-term liabilities but also lower benefits compared to the pre-reform system. Mr. Udui highlighted ongoing financial challenges, noting that benefit payouts continue to exceed contribution revenues, requiring investment drawdowns, with the funded ratio improving modestly to 18 percent but unfunded actuarial liabilities remaining high. He concluded by discussing proposed reforms under consideration, including a potential shift from a defined benefit to a defined contribution plan, gradual increases in employer contribution rates, and adjustments to benefit accrual factors, all aimed at improving the plan's long-term sustainability.

Mr. Udui's full presentation slides have been included as **Attachment 23** of these Proceedings.

Social Security and Pension Program Reform Options, Mr. Kevin O'Keefe

Mr. Kevin O'Keefe discussed the importance of complementing actuarial assessments with economic cash-flow analysis when evaluating social security sustainability, noting that large unfunded liability figures can be misleading when based on assumptions such as system closure or sharp declines in employment. Using the RMI Social Security presentation (Attachment 18) as an illustrative case, he showed that applying more realistic assumptions on labor force participation, wages, and economic growth can result in contribution

revenues eventually matching or exceeding benefit payments, thereby reducing the need for aggressive reforms. He cautioned against over-reforming, which can unnecessarily channel resources into offshore trust fund investments at the expense of domestic economic activity, and emphasized maintaining balance and flexibility in system design. He concluded by introducing an interactive policy simulation model that enables policymakers to test reform options—such as contribution rates, retirement age, benefit indexation, and benefit formulas—and assess trade-offs to support evidence-based, proportionate reforms that ensure long-term sustainability.

Mr. O'Keefe's full presentation slides have been included as **Attachment 24** of these Proceedings.

Country Working Group Report-Outs

Group 1 presented a reform package designed to improve long-term sustainability while accounting for inflation and preserving benefit adequacy. The group proposed introducing benefit indexation at 2 percent, increasing the contribution rate to 9 percent, maintaining the existing base benefit level, and keeping the benefit scaling factor at 100 percent. As a trade-off, they raised the full retirement age to 65 and increased the years of service required for full benefits to 40, arguing that longer working lives justified retaining full benefit levels. Under this policy mix, their projections showed the trust fund remaining solvent through 2057, with manageable gaps between contributions and benefits covered by accumulated reserves. The group acknowledged that the higher contribution rate could face political resistance but emphasized that the model clearly demonstrated the consequences of limiting contributions without offsetting adjustments elsewhere in the system.

Group 2 presented a reform package aimed at restoring financial sustainability while emphasizing fairness, adequacy, and self-financing. The group proposed introducing 2 percent benefit indexation, increasing the contribution rate from 7 percent to 9 percent, reducing the base benefit credit from 5,000 to 4,000, lowering the benefit scaling factor from 100 percent to 90 percent, and raising the retirement age from 60 to 65. These changes were guided by four principles: ensuring the system is self-supporting without reliance on general tax revenues, maintaining a minimum benefit sufficient for basic living needs, sharing adjustment costs fairly across generations, and aligning retirement age with demographic realities. Under this scenario, the group concluded

that the system would remain solvent, with trust fund assets capable of covering projected gaps between contributions and benefits, provided performance is closely monitored and assumptions are periodically reviewed.

Group 3 presented a more incremental reform approach, emphasizing political feasibility and stability. The group proposed maintaining the existing 8 percent contribution rate, setting the benefit scaling factor at 95 percent, and keeping benefit indexation at zero, while making two targeted adjustments: increasing the retirement age by one year and extending the coverage period by five years. Under this scenario, projections showed a broadly stable reserve position, with contribution revenues closely aligned with benefit payouts over time. The group viewed this option as a pragmatic near-term model that limits disruption while signaling the need for modest reforms to policymakers, recognizing that continued monitoring would be required, particularly given the absence of benefit indexation and the potential for future pressure to adjust benefits.

Group 4 presented a modest but forward-looking reform package aimed at achieving near-term sustainability with minimal disruption. The group recommended keeping benefit parameters largely unchanged, including the base benefit, scaling factors, and retirement age, while increasing the contribution rate by 1 percentage point, from 7.5 percent to 8.5 percent. Under this scenario, contribution revenues and benefit payments converge, resulting in a self-sustaining system over the medium term and continued growth in the trust fund, reflecting expectations of a growing workforce and higher employment participation.

In discussion, it was noted that while the proposal successfully stabilizes the system, it could lead to a very large accumulation of trust fund assets over the longer term, raising the possibility of “over-reforming” by diverting more resources than necessary from workers and employers. The group acknowledged this risk and emphasized that their approach was intentionally conservative, providing a strong starting point that could be adjusted over time through future reviews and policy refinements as economic and demographic conditions evolve.

Group 5 presented a balanced reform package that spreads adjustments across beneficiaries, current workers, and future retirees by introducing a 1.5 percent benefit indexation to provide inflation protection for current beneficiaries, alongside a

1.5 percentage point increase in contribution rates to help finance the added cost. To offset the fiscal impact, the proposal also reduced the base benefit credit to 4,500, increased the retirement age to 65, and raised the required years of service from 30 to 40, reflecting a deliberate “give-and-take” approach across generations; under this combination of measures, the projected funding gap was small—about \$0.5 million—and considered manageable through existing investment income, with discussion noting that modest adjustments across multiple variables distribute the burden more evenly and enhance both financial sustainability and political feasibility.

Group 6 presented a reform package that combined moderate benefit indexation of about 2.5 percent, a reduction in the base benefit credit to 4,000, an increase in the contribution rate, and a lower scaling factor of 90 percent, while retaining the retirement age at 65 and the existing years-of-service requirement. Under this scenario, the gap between contributions and benefits narrows over time, with trust fund resources viewed as sufficient to cover short-term shortfalls during the transition period, allowing the system to move toward balance without relying on the trust fund indefinitely.

Group 7 presented a reform package guided by the principle of preserving a relatively generous retirement framework while maintaining financial sustainability. The group recommended keeping the contribution rate at 8 percent, reducing the benefit scaling factor to 75 percent, maintaining a retirement age of 61, and requiring 35 years of service for full benefits, reflecting a deliberate trade-off in which future retirees would receive lower benefit levels in exchange for earlier retirement eligibility and lower contribution burdens. Discussion highlighted that this approach shifts more adjustment to future beneficiaries while keeping demands on current workers moderate, resulting in a trust fund that continues to grow and a withdrawal rate considered sustainable, thereby meeting the exercise’s objective of achieving long-term financial balance without excessive short-term disruption.

Across all groups, there was broad agreement on the objective of restoring long-term financial sustainability while avoiding abrupt or destabilizing reforms, with most favoring packages of modest, incremental measures rather than a single major adjustment and accepting that intergenerational and stakeholder trade-offs were unavoidable. Differences emerged

mainly in how the adjustment burden was allocated: some groups emphasized higher contributions and later retirement, others focused on moderating benefit generosity, while a few prioritized protecting current beneficiaries and shifting more adjustment to future retirees; these variations reflected differing judgments about fairness, timing, political feasibility, and the risk of over-correction rather than disagreement on the need for reform itself.

Social Protection

Social Protection, Mr. Ning Fu and Mr. Vincenzo Vinci, World Bank

Mr. Ning Fu, Senior Economist, and Mr. Vincenzo Vinci, Social Protection Specialist, World Bank, presented an overview of social protection concepts and the World Bank’s engagement in the Republic of the Marshall Islands (RMI) and the Pacific. They outlined social protection as a set of policies and programs that help individuals manage risks, reduce poverty, and build human capital across the life

cycle, encompassing social insurance, labor market programs, and social assistance. Drawing on global and regional evidence, they emphasized that well-designed cash transfer programs, particularly when linked to health and education services, can improve service uptake, strengthen resilience to shocks, and contribute to poverty reduction and greater equity.

The presentation highlighted the World Bank-supported Early Childhood Development (ECD) Conditional Cash Transfer in RMI as a flagship example. Introduced in 2022 and now in its second phase, the program provides bimonthly, indexed cash transfers to mothers and pregnant women conditional on antenatal care, child health checkups, and preschool attendance, and has expanded to near-universal coverage across all atolls. The program has reached more than 3,000 early years families, delivered approximately US\$3.6 million in benefits, and contributed to measurable improvements in maternal health visits, child immunization, and preschool enrollment. The speakers also discussed the broader Pacific context, noting countries’ high vulnerability to shocks and the growing importance of adaptive social protection systems that can scale up



in crises, and concluded with reflections on the need for a coherent national social protection policy in RMI, sustaining ECD gains, and strengthening systems for disaster response and resilience.

Following the presentation, participants discussed social protection experiences in Micronesia and Palau, particularly during COVID-19, highlighting Palau's ADB-supported initiatives addressing gender-based violence, rural livelihoods, climate-resilient agriculture, women's groups, education, skills development, school feeding, transportation, and financial literacy, alongside efforts to sustain effective programs beyond donor financing, while FSM noted that formal social assistance remains limited beyond early childhood initiatives. In response to questions on evidence and systems, the World Bank team explained that early results in RMI show strong improvements in service uptake—such as antenatal care, child health visits, and preschool attendance—consistent with international evidence linking social

assistance to better human development outcomes, and emphasized that while traditional community support remains important, it is often insufficient during major shocks, underscoring the value of formal social protection systems with broad coverage, social registries, and payment infrastructure; they also noted that RMI shifted from poverty-based targeting to a more universal approach for mothers and young children to reduce exclusion errors, simplify administration, and better align with government objectives and capacity.

Mr. Fu and Mr. Vinci's full presentation slides have been included as **Attachment 25** of these Proceedings.

RMI Social Protection: Design, Implementation, and Monitoring, Mr. Bryan Edejer and Ms. Stefania Pozzi

Mr. Bryan Edejer and Ms. Stefania Pozzi presented an overview of the Republic of the Marshall Islands' new Universal Basic Income (UBI) program, known locally as *ENRA*, which began disbursements in late 2024. Mr. Edejer explained that the program provides quarterly cash transfers to all Marshallese

Participants joined together in Koror, Palau for the Second Sub-Regional Workshop with heads of delegation.



residents, financed through Trust Fund dividends, with an annual allocation of \$26.7 million (about 8% of GDP). Administration is led by the Marshall Islands Social Security Administration, using a newly developed registration and payment system linked to social security records. As of the first disbursement, over 33,000 individuals were approved, with payments delivered mainly through bank transfers, supplemented by check collection and a limited digital wallet option. Early implementation demonstrated strong operational readiness, including rapid mass registration, large-scale check printing, and coordinated inter-agency processes, though challenges remain around migration tracking, reliance on checks, and service delivery to outer islands. Ms. Pozzi focused on monitoring and evaluation, noting the need to track operational performance and potential economic effects such as inflation, labor supply, migration, and business responses. Initial business consultations suggest modest expected increases in demand, no immediate plans to raise prices, and price-setting driven more by import costs and logistics than domestic demand. At the same time, firms reported ongoing difficulties in hiring local labor, raising concerns that UBI could affect work incentives or migration, underscoring the importance of continued data collection, administrative monitoring, and future surveys to inform program adjustments.

The discussion following the presentation focused on implementation lessons, potential welfare impacts, and applicability to other countries. Participants asked whether the UBI rollout revealed long-standing administrative issues, such as identification and social security registration gaps; the presenters confirmed that problems with missing or misclassified social security records had surfaced and were being addressed. Several comments highlighted interest in household- and child-level welfare effects, noting large household sizes and high food insecurity; while speakers agreed these impacts are likely significant, they noted that no dedicated household survey is currently funded, though existing early childhood development programs and qualitative community feedback could provide useful insights. Development partners emphasized the advantages of universal coverage, particularly for crisis response and income stability, while cautioning that cash alone may not address nutrition and child development challenges without complementary interventions. Finally, participants from other Pacific countries noted that similar programs would be difficult to replicate

using trust funds in their contexts, citing different funding structures, governance arrangements, and preferences for more targeted approaches.

Mr. Edejer and Ms. Pozzi's full presentation slides have been included as **Attachment 26** of these Proceedings.

Optimal Use of RMI Stable Coin – USDM1, Hon. David Paul

Minister of Finance, Hon. David Paul presented the Lomalo digital wallet and USDM1 as a national initiative to expand financial access and reduce the high cost and inefficiencies of moving money in the Marshall Islands. He explained that Lomalo enables secure, instant, and low-cost transfers between government, households, and businesses, addressing longstanding challenges such as expensive remittances, limited banking access, and service gaps in remote atolls. USDM1 is a sovereign-backed digital asset, redeemable one-to-one for U.S. dollars and fully backed by U.S. Treasury securities, designed specifically for the country's geographic and connectivity constraints. Built on the Stellar blockchain and supported by regulated international partners, the system allows benefits and payments to be delivered quickly and reliably, supports peer-to-peer and merchant transactions, and aims to replace paper-based disbursements. Minister Paul emphasized that, unlike private stablecoins, USDM1 carries sovereign backing and clear regulatory treatment, reducing risk and supporting trust, and concluded that Lomalo provides a foundation for greater financial inclusion, economic activity, and equitable access to opportunities across all atolls.

Following the presentation, participants discussed how USDM1 would integrate with the existing financial system, manage risks, and expand financial access. Questions focused on the role of commercial banks, with the Minister explaining that local banks—particularly Bank of Guam—are being integrated as conversion points, while the broader objective is to minimize conversion and encourage use of USDM1 for everyday transactions such as taxes, salaries, and supplier payments. Participants also asked whether users earn interest, how the system is regulated, and what transaction costs apply; in response, the Minister clarified that balances earn interest from U.S. Treasury backing, the system is fully regulated under national and U.S. trust laws, and transaction costs are effectively negligible. Discussion further addressed risks and readiness, with the Minister acknowledging

uncertainties but emphasizing calculated risk-taking and learning from past experience, while other comments highlighted the value of the digital wallet for outer islands, disaster response, and populations without reliable access to traditional banking.

Wrap-up Discussions

Participants highlighted the value of peer learning among the freely associated states, particularly on debt management, pension and social security reforms, universal basic income implementation, and the USDM1 digital payments initiative. Several delegations noted that these topics broadened understanding of complex fiscal and social policy issues and offered practical lessons that could be adapted at home.

Feedback from table discussions underscored common takeaways and future priorities. Many participants expressed interest in further work on debt management, including state-owned enterprises, pension systems, capital planning, and social housing, while others suggested more focused sessions on budget formulation, grant integration, and customs administration. There was broad agreement that future workshops should continue to balance technical depth with practical application and provide updates on ongoing reforms in the region. The session concluded with agreement that the workshop was productive and informative, setting a strong foundation for continued regional dialogue and collaboration.

Attachments

01

Attachment 1

Sub-Regional Workshop Agenda

Draft Agenda

Second Sub-Regional Workshop: Advancing Planning, Debt, Social Security, and Social Protection Policies in the North Pacific

Koror, Palau
December 8-12, 2025



900 Fort Street Mall, Suite 1540, Honolulu, Hawaii 96813

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Second Sub-Regional Workshop: Advancing Planning, Debt, Social Security, and Social Protection Policies in the North Pacific

Koror, Palau | December 8–12, 2025

Sunday, December 7, 2025

8:00 am

Rock Islands Field Visit

1. Workshop Opening Remarks

Participants will have the opportunity to join a structured field visit to Palau's Rock Islands Southern Lagoon, a UNESCO World Heritage Site. The visit will highlight Palau's natural-resource management and tourism policies. Time on the water will also provide informal space for dialogue among participants.


 **Conference Venue:** West Plaza Hotel Conference Room at Lebuu Street, Koror, Palau

Monday, December 8, 2025

9:00 am

Welcome and Introductions

1. Workshop Opening Remarks

 *H.E. Surangel Whipps, Jr., President, Republic of Palau*

2. Workshop Opening Remarks

 *Aziz Haydarov, Advisor, North Pacific, ADB*

3. Review Agenda and Introductions

 *Emil Friberg, Economist, GSUSA*

9:15 am

A. Country Economist Reports

1. Program Background

 *Kevin O'Keefe, Economist, GSUSA*

2. Palau Activities Since Nov 2024


 *Georgina Conway, Palau Country Economist*

- Activities and Major Products
- Challenges and Lessons Learned
- Priorities Looking Forward
- Open Discussion


3. RMI Activities Since Nov 2024

 *Stefania Pozzi, RMI Country Economist*

- Activities and Major Products

- Challenges and Lessons Learned
 - Priorities Looking Forward
 - Open Discussion
4. **Moderated Discussion of Crosscutting Issues and Program Implementation**
 *Jung Ho Kim, Principal Operations Coordination Specialist, Pacific Department, ADB*

B. Tax Reform

1. **RMI Tax Reform Status and Progress**
 *Lincoln Mea, Chief of Revenues and Taxation, Ministry of Finance*
- Achievements
 - Next Implementation Steps
 - Anticipated Challenges
 - Open Discussion


12:00 pm  Hosted Lunch – West Plaza

Open Forum: Knowledge Sharing Among the North Pacific DMCs

 *Facilitator: Kaleb Udui, Jr., Director of Budget and Planning, Palau Ministry of Finance*

1:30 pm

2. **Palau Tax Reform Progress and Lessons Learned**
 *Elway Ikeda, Director, Bureau of Revenue and Taxation*
 *Turang Rengiil, Chief, Bureau of Revenue and Taxation*
- Timeframes and IT Requirements
 - Business Implementation Requirements
 - Challenges Experienced
 - Open Discussion
3. **New Tax Regimes: Risk Identification and Mitigation Strategies**
 *Mark Sturton, Economist, GSUSA*
- Economic, Fiscal, and Price Impacts of Tax Reform
 - Open Discussion
4. **Country Working Group Sessions**
- Define Risks
 - Develop Mitigation Strategies
 - Outline Next Steps for Driving Tax Reforms
 - » FSM Session
 *Mark Sturton and Emil Friberg, GSUSA (Facilitators)*
 - » RMI Session
 *Katt Chong-Gum, RMI Economic Analyst (Facilitator)*
 - » Palau Session
 *Georgina Conway, Palau Country Economist (Facilitator)*
5. **Country Reports on Risk, Mitigation, and Next Steps**
 *Georgina Conway, Palau Country Economist (Facilitator)*

4:30 pm  Break for the day

Tuesday, December 9, 2025

9:00 am

C. Development Planning

1. Development Planning Overview

 *Mark Sturton, Economist, GSUSA*

- Overview of the Role of Development Planning
- Development Planning Best Practices: Structure, Topics, and Data
- FAS Development Planning Requirements
- Compact Development Planning Requirements
- Open Discussion

2. Country Working Group Sessions

- Outline Development Planning Status
- Assess Development Planning Relative to Best Practices
- Assess Development Planning Relative to Country/Compact
- Identify Next Steps for Development Planning Process

» RMI Session

 *Stefania Pozzi, RMI Country Economist (Facilitator)*

» Palau Session

 *Georgina Conway, Palau Country Economist (Facilitator)*

3. Country reports

 *Emil Friberg, GSUSA (Facilitator)*

12:00 pm  Lunch




1:30 pm

D. Debt Management and Policy

1. Country Debt Profiles: History, Sources, and Uses

- RMI
 -  *Stefania Pozzi, RMI Country Economist*
- Palau
 -  *Rison Nakamura, Finance Specialist, Palau Ministry of Finance*
- Open Discussion


2. Country Debt Management Institutions: Laws, Policies, Units

- RMI
 -  *Stefania Pozzi, RMI Country Economist*
 - » RMI Update on Debt Outlook and Bonds
 - » Development of Debt Framework and Linkages to Financial Management Legislative Requirements
- FSM
 -  *Representative, FSM or GSUSA staff*
 - » FSM Update on Debt Outlook and Bonds
 - » Development of Debt Framework and Linkages to Fiscal Responsibility and Debt Management Act
- Palau
 -  *Rison Nakamura, Finance Specialist, Palau Ministry of Finance*

- » Debt Management Unit & Meridian System
 - » Investment (Savings Bond)
 - » Progress, Challenges and Lessons Learned
 - » External Debt Policy Statement & Medium-Term Debt Strategy
 - » FRDMA compliance: Towards an Approval & Appraisal Framework
-  *Georgina Conway, Palau Country Economist*

3. Open Discussion: Lessons Learned and Next Steps

 *Georgina Conway, Palau Country Economist (Facilitator)*

4:30 pm  Break for the day

6:00 pm  Hosted Dinner at Belau National Museum

Wednesday, December 10, 2025

9:00 am

E. Multilateral Institutions and the North Pacific

1. International Monetary Fund: Debt Sustainability Assessment (DSA) in Action

 *[Remote] Leonardo Martinez, Senior Economist, International Monetary Fund (IMF) Institute for Capacity Development*

- Explanation of Official DSA Methodology
- DSA Data Requirements
- Open Discussion

2. World Bank: Best Practices for Debt Management

 *[Remote] Lilia Razlog, Senior Debt Specialist, World Bank*

- Presentation
- Open Discussion

3. Asian Development Bank: ADB in the Pacific

 *Jung Ho Kim, Principal Operations Coordination Specialist, Pacific Department, ADB*

- Overview of ADB Processes
- Updating the Pacific Approach – North Pacific DMC Role
- Priorities Looking Ahead
- Open Discussion

12:00 pm  Hosted Lunch-Taj


1:30 pm

F. Introduction to the Debt Dynamics Tool (DDT) Template

1. Debt Background

 *Mark Sturton, Economist, GSUSA*


2. A Simplified DSA Simulation Model

- RMI
 -  *Stefania Pozzi, RMI Country Economist*
- Palau
 -  *Georgina Conway, Palau Country Economist*
- Open Discussion

3. Country Working Group Sessions (FSM Attendees Distributed Between RMI and Palau Sessions)

- Use the Simplified Debt Analysis Tool
- Consider Different Scenarios/Shocks
 - » RMI Session
 [Stefania Pozzi, RMI Country Economist \(Facilitator\)](#)
 - » Palau Session
 [Georgina Conway, Palau Country Economist \(Facilitator\)](#)

4. Conclusions and Way Forward on Debt Sustainability Work

-  [Emil Friberg, GSUSA \(Facilitator\)](#)
- Country Reports on Simulations
 - Reflections From Each Country on Way Ahead and Work Priorities


4:30 pm  Break for the Day

Thursday, December 11, 2025


9:00 am

G. Social Security Programs


1. Features of Social Security Programs

-  [Kevin O'Keefe, Economist, GSUSA](#)
- Social Security Systems and Characteristics
 - Social Benefits and Redistribution Objectives
 - Pension Plans and Types: Defined Benefits (DB) vs. Defined Contributions (DC)
 - Open Discussion


2. RMI: Marshall Islands Social Security Administration (MISSA)


-  [Bryan Edeger, Administrator, MISSA](#)
- The RMI SS System and Features
 - The RMI Reform Process
 - Recent Actuarial Assessment
 - Open Discussion

3. FSM: FSM Social Security Administration (FSMSSA)

-  [Leon Panuelo, Jr., Administrator, FSMSSA](#)
- The FSM SS System and Features
 - Recent Actuarial Assessment
 - The FSM Reform Process
 - Open Discussion

4. Palau: Republic of Palau Social Security Administration (ROPSSA)

-  [Hefflin Bai, Chairman, ROPSSA](#)
- Palau SS System and Features
 - Recent Actuarial Assessment
 - The Palau Reform Process and Participatory Workshops
 - Open Discussion

12:00 pm  Hosted Lunch - West Plaza

1:30 pm




5. Palau: Civil Service Pension Plan (CSPP)

 *Elliot Udoi, Administrator, CSPP*

- Palau CSPP System and Features
- Recent Actuarial Assessment
- The Reform Process and Participatory Workshop
- Open Discussion

6. Social Security & Pension Program Reform Options

 *Kevin O'Keefe, Economist, GSUSA*

- Applying Reform Simulation Model to Current Policy
 - » Review Simulation Model Structure
 - » Review Simulation Model Policy Variables (Changing Contribution Rates, Eligibility, Benefit Levels, Etc.)
- Working Group Sessions: Mixed Country Groups Assigned
 - » Use the Reform Simulation Model
 - » Consider Different Policy Scenarios
 - » Group 1 Session
 *Stefania Pozzi, RMI Country Economist (Facilitator)*
 - » Group 2 Session
 *Georgina Conway, Palau Country Economist (Facilitator)*
- Discuss Simulation Experiences
 *Kevin O'Keefe, Economist, GSUSA (Facilitator)*
 - » Group Reports on Simulations
 - » Lessons Learned

4:30 pm



Break for the Day

Friday, December 12, 2025

9:00 am

H. Social Protection

1. World Bank Presentation on Social Protection

 *[Remote] Ning Fu, Economist, World Bank and Vincenzo Vinci, Social Protection Specialist, World Bank (Sydney)*

- Overview of Social Protection Schemes in the RMI
- Options for Future Social Protection Schemes
- Practical Considerations for Implementation
- Open Discussion

2. RMI Social Protection: Design, Implementation, and Monitoring

- Objectives
- Policy Risks and Monitoring
 *Stefania Pozzi, RMI Country Economist*
- Implementation: Marshall Islands Social Security Administration (MISSA)
 *Bryan Edeger, Administrator, MISSA*
- Implementation: Optimal Use of RMI Stable Coin – USDM1
 *David Paul, RMI Minister of Finance*
- Open Discussion

I. Wrap-up Discussions

 *Jason Aubuchon and Emil Friberg, GSUSA (Facilitators)*

1. Open Discussion

- Areas for Reflection and Improvement
- Work Program Priorities
- Opportunities to Strengthen the Program

2. Planning for Future Workshops

- What are the Key Elements of a Successful Workshop Experience
- Suggestions to Improve Workshop Experience
- Topics Identified During the Week
- Other Topics to be Nominated

3. Workshop Closeout Comments

- Palau as Host
- Republic of the Marshall Islands as Visitor
- Federated States of Micronesia as Visitor

12:15 pm



Workshop Adjourns

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.



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02

Attachment 2

Sub-Regional Workshop Participant List

List of Participants

Republic of Palau

- **Andrea Ngirarois**, Ministry of Finance
- **Darla Babauta**, Ministry of Finance
- **Elliot Udui**, *Administrator*, Palau Civil Service Pension Plan (CSPP)
- **Elsie Ann Ikeya**, *CFO*, ROP Social Security Administration
- **Elway Ikeda**, *Director of Tax*, Ministry of Finance
- **Everdil Rechebei**, Palau Civil Service Pension Plan
- **Gail Rengiil**, *Director of Treasury*, Ministry of Finance
- **Georgina Conway**, *Palau Country Economist*, Ministry of Finance
- **Hefflin Bai**, *Chairman*, ROP Social Security Administration
- **Kaleb Gotlob**, Ministry of Finance
- **Kaleb Udui**, *Director*, Budget and Statistics, Ministry of Finance
- **Leony Christman**, *Human Resources Specialist*, Ministry of Finance
- **Limei Tesei**, Ministry of Finance
- **Rison Nakamura**, *Finance Specialist*, Ministry of Finance
- **Roleen Ronny**, *Economist*, Ministry of Finance
- **Sweetie S. Kalbesang**, *Senior Accountant*, Ministry of Finance
- **Tabesul Ngirailemesang**, Ministry of Finance
- **Turang Rengiil**, *Division of Tax*, Ministry of Finance
- **Ubai Kingzio**, Ministry of Finance

Republic of the Marshall Islands

- **Ann Marie Muller**, *Assistant Secretary for Customs, Treasury, Revenue, and Taxation* at the Ministry of Finance
- **Augustine Augustine**, *Assistant Secretary for the SOE Monitoring Unit*, Ministry of Finance
- **Ayako Yamaguchi-Eliou**, *Secretary*, Ministry of Finance
- **Bryan Edejer**, *Administrator*, RMI Social Security Administration
- **Chris Yanckello**, *PFM Project Manager*, Ministry of Finance
- **Hon. David Paul**, *Minister*, Ministry of Finance

- **Katt Chong-Gum**, *Economic Analyst*, Ministry of Finance
- **Lincoln Mea**, *Chief of Revenues and Taxation*, Ministry of Finance
- **Nicodemus Anuntak**, *Chief of Customs*, Ministry of Finance
- **Stefania Pozzi**, *RMI Country Economist*, Ministry of Finance

FSM National Government

- **Jeanie G. Gallen**, *Economist*, Department of Finance and Administration
- **Leon Panuelo Jr.**, *Administrator*, FSM Social Security Administration
- **Senny Phillip**, *Assistant Secretary*, Investment & International Finance, Department of Finance and Administration

Chuuk, FSM

- **Dickenson Dois**, *Chief of Tax and Revenue*, Department of Administrative Services
- **Jonas Paul**, *Director*, Department of Administrative Services
- **Linda Maipi**, *Chief of Budget*, Department of Administrative Services
- **Roxalyn Kaminanga**, *Chief of Finance*, Department of Administrative Services

Pohnpei FSM

- **Adelman Joseph**, *Chief of Tax and Revenue*, Dept of Treasury and Administration
- **Anthony Loyola Dainard**, *Budget Officer*, Dept of Treasury and Administration
- **Kelly Keller**, *Financial Advisor*, Dept of Treasury and Administration
- **Meryda Inos**, *Chief of Personnel*, Dept of Treasury and Administration
- **Shirley Lighor**, *ODA Coordinator*, Office of the Governor
- **Sihna Lawrence**, *Director*, Dept of Treasury and Administration

Kosrae, FSM



- **Ann Noda**, *Budget Officer*, Kosrae State Government
- **Horace M. Salik**, *Administrator*, Division of Tax & Revenue
- **Lipar George**, *Director*, Office of Finance and Administration

Yap, FSM



- **Julius Tun**, *Director*, Office of Planning & Budget
- **Thomas Tun**, *Director*, Office of Administrative Services

Asian Development Bank – On-Site



- **Alfonsa Koshiba**, *Principal Country Officer*, Palau Pacific Country Office
- **Aziz Haydarov**, *Advisor*, North Pacific, Pacific Department, Manila
- **Ellen Milne-Paul**, *Principal Country Officer*, Marshall Islands Pacific Country Office
- **Jung Ho Kim**, *Principal Operations Coordination Specialist*, Pacific Department, Manila
- **Maybelline Andon-Bing**, *Principal Country Officer*, Federated States of Micronesia Pacific Country Office
- **Miel de Villa**, *Operations Coordination Officer*, Pacific Department, Manila
- **Zoe Kintaro**, *Senior Operations Assistant*, Palau, Palau Pacific Country Office

International Monetary Fund



- **Leonardo Martinez**, *Senior Economist*, Institute for Capacity Development (Remote Presenter)

World Bank



- **Ekaterine Vashakmadze**, *Senior Economist*
- **Karlene Francis**, *Senior Operations Officer*
- **Lilia Razlog**, *Senior Debt Specialist* (Remote Presenter)
- **Ning Fu**, *Economist* (Remote Presenter)
- **Omar Lyasse**, *Resident Representative*
- **Vincenzo Vinci**, *Social Protection Specialist* (Remote Presenter)

Graduate School USA



- **Ciara Santiago**, *Contract Manager*
- **Emil Friberg, Ph.D.**, *Economist*
- **Jason Aubuchon**, *Sr Director*
- **Kevin O’Keefe**, *Economist*
- **Mark Sturton, Ph.D.**, *Economist*



Attachment 3

Welcoming Remarks, H.E. Surangel Whipps, Jr. President, Republic of Palau

Attachment 3 – Welcoming Remarks, HE President Surangel Whipps, Jr.

Opening Remarks — Subregional Workshop

Ali'i, good morning. This room does not seem red enough for me. I thought yesterday you were supposed to get some sun, but I guess it does not affect most of you? But most importantly, welcome to Palau. We are really excited to host the second subregional meeting.

Minister Paul, it is always good to see you, and to see all our friends from the FSM. I think it is important that when we have opportunities like this, we get together and we share. One of the first things I asked Minister Paul at the table this morning was how his stable coin is doing. I asked that because I was at a press conference on Wednesday, and they asked me, “So what are we going to do about the pennies? There are no more pennies.” I said, “Well, if we had stable coin, maybe we could solve that problem.”

We started that concept in 2021. Unfortunately, I do not have a parliament like Minister Paul that can just keep moving forward. We have two houses, and kind of like the U.S., we could not pass a budget. But the good news is that on Friday, we did pass a budget. Still, what is important is that we are able to learn from each other, and I think that is the purpose of these workshops.

So I want to take this opportunity to thank the ADB for sponsoring this. I know there are many friends with us here, but most importantly I would like to recognize the North Pacific Department, its Director Aziz, and Mr. Jung Ho Kim for this project. And of course, our friends from the World Bank, and really our friends from across the Pacific for taking the time to come out.

I also want to thank Graduate School USA and the team that are here. It is good to see Kevin and Jason, and of course we have our own economists here, Mark Sturton and Georgina. So today and for the next five days, it will be about sharing and learning from each other.

One of the things we know is that we have many things in common, whether it is our challenges with tax reform, and even though we have passed tax reform, it continues to be a challenge for us. In fact, what was interesting is that the IMF was just here, and our OEK had the opportunity to ask them a lot of questions about tax reform. And Emily can tell you

that the ADB was very honest with them and said, “What you have is good. Do not touch it. Let it work out.” And the OEK—unfortunately—some of them believe that the economists at the IMF work for the President of Palau. But that is the reality we face sometimes: politics.

That is why it is so important that we learn from each other and we share. Kevin does not work for me. Mark does not work for me. Jason does not work for me. The IMF does not work for me. ADB does not work for me, and neither does the World Bank. But what is important is that we learn and we try to get the best practices, because at the end of the day, we want what is best for our people, what is best for our country, what is easiest to enforce, what is fair, and what can lift everybody up.

I had the opportunity when I was in Congress in 2013, when we first tried to pass tax reform. Before we did that, one of the recommendations from the Graduate School USA was that we needed to go visit New Zealand and the Cook Islands. Why those two countries? Because they operate a value-added tax with no exemptions, and that is the model you need to follow if you want to close the loopholes and make it effective and easy to enforce.

So we did visit, but of course we came back, and the President at the time did not want to pass it, so it was dead in the water. But it was interesting, because in 2024 it became a campaign issue. My former colleague, now retired, wanted to say, “Let’s go back.” And we also have a number of Senators now who want to go back. But the reality is, you are supposed to get the best information out there, learn from the best, and try to adapt that to help your nation move forward.

So congratulations on your stable coin, but we also want to learn from you, because maybe that is something that can be learned across the Pacific.

We also have challenges with debt and how to manage our debt and keep the cost down. For us, our debt repayments are now almost 20 percent of our budget, and that is a lot of money. So when we talk about these issues, we have to learn from each other how to solve them.

I think one of the challenges that we all share is our retirement systems. I do not know what is happening in the rest of your islands, but in Palau we have a growing aging population. Most of our people are leaving and moving to the United States, but we also have some who move there and then come back and

retire. So they get double retirement. These systems were not designed for people to work here for 10 years, go to the States, and then come back and earn both retirements. These are honest issues that we need to talk about.

They were not designed so that you could just keep taking more than you are putting in. We have been trying to say we need to raise the retirement age, and maybe increase contributions. But all these models and options, unfortunately, have to go through a democratic system. We have politics. When they go in front of Congress, the voters do not want to do it, so they say, “We will not worry about it now, we will push it down the road and let it go bankrupt, and let the younger generation deal with it.” In Palau, that means letting Elway and Risin and the younger generation deal with it. No, I do not think that is acceptable.

So in this room, we are blessed to have such a diverse group. And it is important that you, the people in this room who are doing the work every day, understand the problems and share them with leadership and politicians.

One of the great things we have here is that we have our administrator of the pension plan with us at this meeting. It is important that when he is telling Congress what the issues are, the rest of the people in government support what he is saying. Because when he is just one voice, Congress does not move. Sharing information and helping people understand the challenges helps us make better decisions, and really ensures that we have stable governments, resilient governments, and retirement funds that are not just for retirees today, but for retirees in the future.

So enjoy this week. I will be popping in and out, but I know there are a lot of diverse topics. Once again, I want to thank our sponsors and our friends for this important workshop. And have fun, right? Everybody seems so serious!

Thank you.



Attachment 4

Welcoming Remarks, Mr. Aziz Haydarov, Advisor, North Pacific, ADB

Welcoming Remarks, Mr. Aziz Haydarov, Asian Development Bank

Opening Remarks — Subregional Workshop

Good morning, dear colleagues. Please excuse my slightly formal appearance today—I am feeling a bit under the weather, and the air conditioning convinced me to wear a jacket.

Thank you all for joining this very interesting event. The agenda is compelling, and the topics to be covered promise rich discussion. Let me begin by expressing our sincere appreciation to His Excellency President Surangel Whipps, Jr. for his presence and leadership at the outset of this workshop. We also extend our deep gratitude to the Government and people of Palau for their warm hospitality.

We are pleased to acknowledge the presence of Mr. Udui and Minister Paul, Governors of ADB for Palau and the Republic of the Marshall Islands, respectively; Ms. Senny Philip, Assistant Secretary of the FSM Department of Finance; and all counterparts from the FSM, Palau, and RMI governments. Your participation underscores the strong commitment of all three governments to advancing economic management and policy reform.

Building on last year's workshop in Majuro, this subregional initiative highlights the value of bringing North Pacific counterparts together to share experiences and explore solutions to common challenges—an important point emphasized by President Whipps.

Allow me to make three brief points.

First, ADB has begun strengthening the management of its North Pacific operations. This includes establishing a dedicated team to oversee North Pacific activities and planning for a North Pacific subregional office. We have initiated assessments of potential locations and aim to begin operations toward the end of next year.

Second, starting next year, ADB plans to conduct regular portfolio performance reviews of ADB-supported projects in all three countries. These reviews aim to promote on-time and on-budget implementation, a priority consistently raised by governments. The reviews will be co-led with ministries and departments of finance and coordinated with development partners, including our World Bank colleagues. We also plan to share portfolio review highlights across North Pacific governments to encourage knowledge sharing.

Third, the IMF Article IV Mission staff report and debt sustainability analysis for RMI were published last week. The analysis upgraded RMI's debt distress risk to moderate, reflecting strong and improving macroeconomic and fiscal performance. Congratulations to Minister Paul on this important milestone.

With this upgrade, all North Pacific countries are now eligible for concessional loan financing. Given the significant development financing needs and disproportionately high climate adaptation costs, governments may wish to begin discussions with subnational entities and parliaments on strengthening public borrowing frameworks. This includes establishing clear procedures for loan preparation, appraisal, approval, on-lending, and fund reflow arrangements. This workshop provides an excellent platform to begin those discussions.

Unfortunately, I will only be able to attend the first two days of this workshop. However, our team will be here throughout to capture priority needs and support requirements. These insights will inform upcoming country programming missions planned for the first quarter of next year. The perspectives shared here will also contribute to the preparation of ADB's next regional partnership strategy, the Pacific Approach 2026–2030, ensuring it reflects the needs of North Pacific countries.

I would like to thank Graduate School USA for organizing this workshop and for their continued dedication to North Pacific development and regional knowledge leadership.

Let me conclude by reaffirming ADB's strong commitment to working closely with each North Pacific country, in a differentiated way, to address complex challenges together.

Thank you very much.



Attachment 5

Presentation Slides: Palau Country Economist Report, Ms. Georgina Conway, Palau's Resident Economist under the ADB-supported TA-10071-REG

ADB RETA-10071 – Second Sub-Regional Workshop

Country Economist Report

PALAU- Georgina Conway

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



Program Background

FSM

RMI

PAL

- 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 FAS
- GSUSA implement the TA under the name eMAPS: Economic Management, Analysis, and Policy Strengthening Program

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

2



Programme Objectives

FSM RMI PAL

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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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 **Development Partner Coordination**
5. Support Public Financial Management Initiatives (**PFM Reform**)



Settling In & Steering Committee

PAL

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

4

- Identified counterparts
- Introduction with relevant bureaus within MOF & external stakeholders
- Steering committee May 2024 & 2025
- Membership:
 - ROP: MOF, PCC, MHRTC, CC
 - ADB Country & Manila
 - GSUA
- Established quarterly workplan and endorsed by committee



1. Capacity Supplementation Yr I

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

5

- 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 Unit



26-27 JUNE 2024 KOROR, PALAU



ANNUAL IMPLEMENTATION PLAN (AIP)
Fiscal Year 2024
Presented to the Agreement Between the Government of the Republic of Palau and the Government of the United States of America Pursuant to the 2023 Compact of Free Association Revisions (CFR)

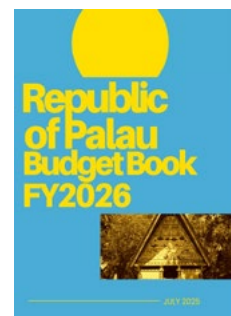


1. Capacity Supplementation Yr II

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

6

- Fiscal Strategy 2025-2028
- State of the Republic Address (SORA)
- Establishing Macroeconomic Committee
- Budget FY26:
 - process
 - compilation
 - Budget Statement



2. National Capacity-Building Yr I

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

7

- Identified national counterparts
 - 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



2. National Capacity-Building Yr II

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

8

- Fiscal Strategy Capacity building sessions
- Building National Capacity Through Mentoring and Applied Training
- Financial Literacy & Outreach
 - Working with Financial Leadership lead to develop pipeline of junior economist/ policy makers





4. In-Country Development Partner Coordination Yr I

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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- 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



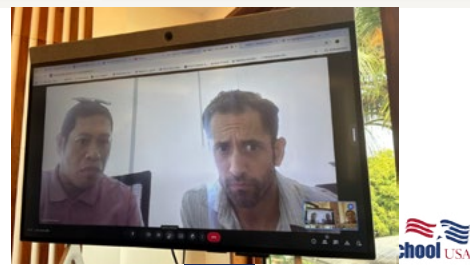
4. In-Country Development Partner Coordination Yr II



Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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- Bilateral meetings with:
 - JICA
 - UN
- Lessons learnt sessions:
 - Timor-Leste
 - Samoa



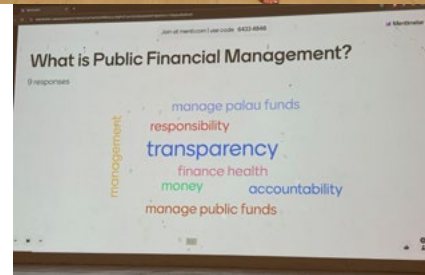
PAL

5. PFM Reform Yr I

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

11

- 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



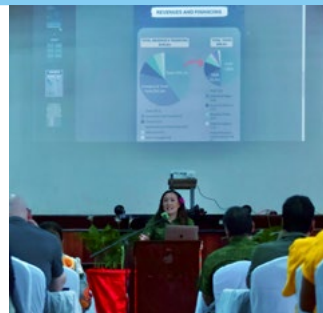
5. PFM Reform Yr II

PAL

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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- Strengthening transparency:
 - Citizens Budget
 - Economic & Fiscal Update: At A Glance
- Embedding Green PFM:
- Climate narrative in Budget Statement
- Contingency Fund FY26



Reflections to enhance TA

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

- More connections/check-ins and lessons learned in between subregional workshops
- Potential to fund:
 - delivering workshops/ trainings in-country
 - attachments/ work shadowing exchanges between countries
 - CE travel to support government



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Challenges & Opportunities

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

- Uncertainty:
 - Elections & policy paused
 - Budget not passed
- ->Engagement with President on key issues
- Limited time for analytical work
- -> Synergies with Financial Literacy and identifying more counterparts



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Priorities Moving Forward

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

- Institutionalizing assets/ frameworks/ committees:
 - EFU At a Glance,
 - Citizens Budget,
 - Budget Statement,
 - Macroeconomic Committee,
 - Fiscal Strategy
- Building up analytical and economic functions (macro, fiscal, micro, socio etc)
- Pensions & Social Security reform
- Debt Strategy



THANK YOU!
SULANG!

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau



06

Attachment 6

**Presentation Slides: RMI Country
Economist Report, Ms. Stefania Pozzi,
RMI Resident Economist under the
ADB-supported TA-10071-REG**

ADB RETA-10071 – Second Sub-Regional Workshop

RMI Country Economist Report

Stefania Pozzi

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



Reminder: TA Objectives

FSM

RMI

PAL

Objective 1: Provide Capacity Supplementation to Improve Economic Management

Objective 2: Improve National Capacity for Economic Management

Objective 3: Improve Sub-Regional Economic Management Coordination (Workshops)

Objective 4: Support Enhanced Development Partners Coordination

Objective 5: Support PEFA Assessments & Public Financial Management Reforms



Improve Economic Management Capacity in the North Pacific

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

2



RMI Country Economists

RMI

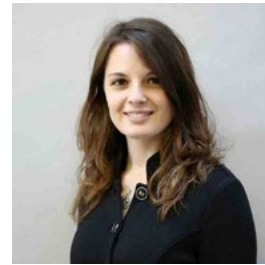
Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

3

Year 1



Year 2



Settling In

RMI

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

4

- Established **workplan** and **priorities** taking into account previous country economist's workplan and Ministry's priorities
- **Steering committee** took place in August 2025
- **Introduction** with different departments within MOFBPS, IMF Article IV meetings and meetings with SOEs



Obj 1: Capacity Supplementation (Year 1)

RMI

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

5

- **Agenda 2030**
 - Agenda development
 - Six-month monitoring framework
- **Tax reform**
 - Implementation options (GSUSA modeling)/recommendations
- **Credit Guarantee Mechanism**
 - Concept paper for a small business loan guarantee scheme
- **National Budget FY25 support**
- **Annual Implementation Plans (AIPs) FY24 and FY25**
- **Budget Investment Framework (BIF)**
 - Draft BIF and MTBIF
 - Agencies coordination



Obj 1: Capacity Supplementation (Year 2)

RMI

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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- **Universal Basic Income (UBI)**
 - Implementation options/recommendations
 - Monitoring Framework
- **Extraordinary Needs Distribution (END)**
 - Orientation sessions
 - Meetings with atolls representatives
- **Statistical support**
 - Data access facilitation (GFS, Trade, National accounts)
 - Concept paper on establishing a statistical calendar



Obj 2: National Capacity



Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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- Counterpart Economist joined in September 2024
- Activities
 - Tax Reform and Modernization Commission (TRMC)
 - Business Forum 2024 Action Plan
 - Peer learning visit to Palau (tax reforms)
 - FY25 National Budget Book
 - Extraordinary Needs Distributions (END)



Obj 3: Sub-Regional Economic Management



Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

8

- First Sub-Regional Workshop took place in the RMI in October 2024
- Topics covered
 - Tax Reform
 - Budget cycle implementation
 - Best practice Fiscal Policy
 - Fiscal Responsibility and Debt Management Act (FRDMA)





Obj 4: In-country Development Partners Coordination

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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- October 2025 **Development Partners** Coordination Meeting
- November 2025 **Inter-Ministries** Coordination Meeting
- Activities
 - Key National Frameworks and Strategies
 - Government Project Number (GPN) Application
 - Challenges in development partners coordination, reporting, monitoring
 - **Presentation on the RMI Economy**



Obj 5: PFM Reforms

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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- The TA built on existing PEFA assessments and PFM roadmaps
- Complemented effort of the ADB **RCU** Reform Coordination Unit, which is supporting PFM reforms within the Ministry
- Focus on targeted technical inputs and reinforced ongoing reforms



Challenges

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

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1. Country Economist transition
2. Limited capacity for analytical functions due to high operational workload
3. Concurrent major reforms and programs require strengthened analysis, coordination, and monitoring



Priorities looking forward

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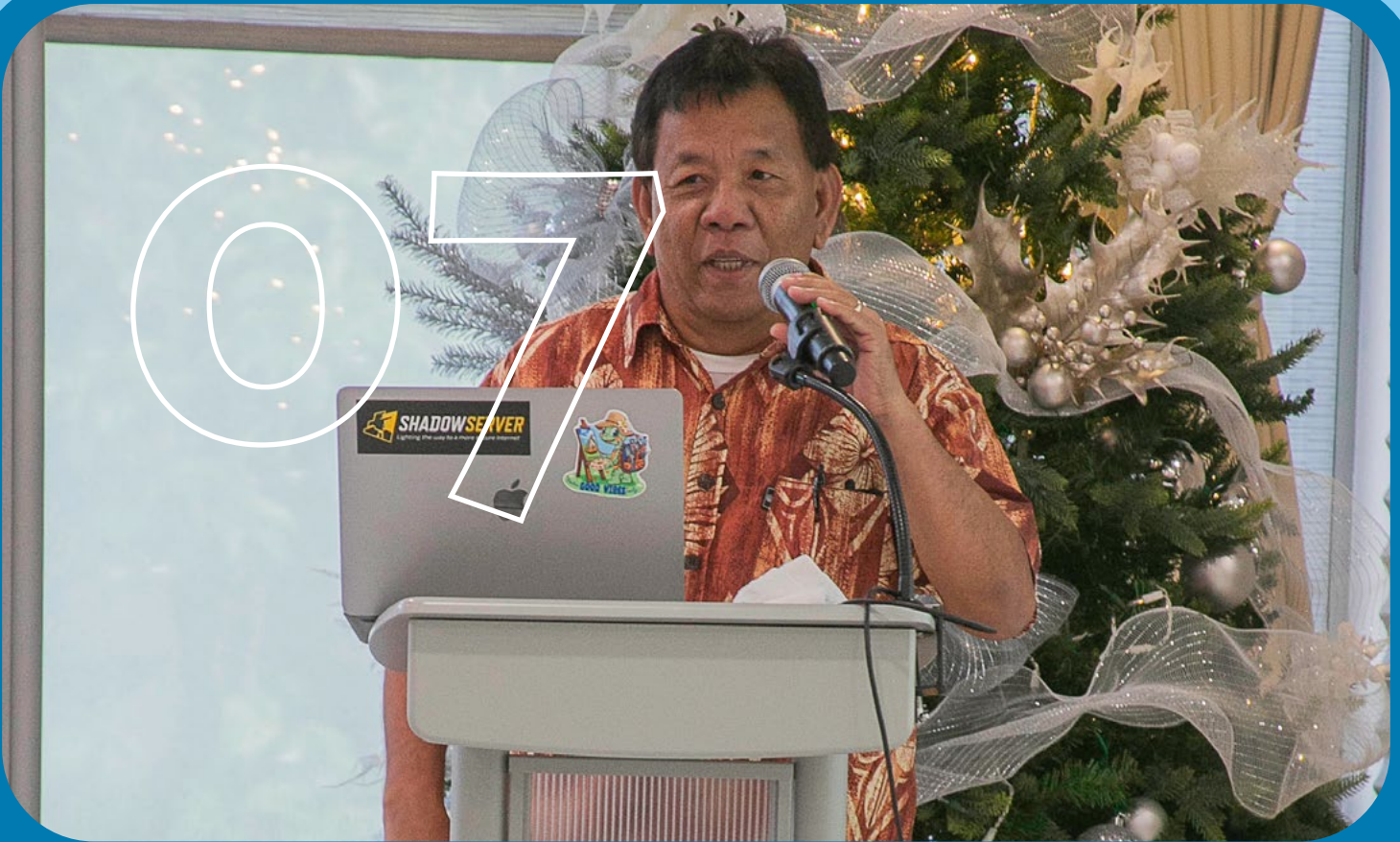
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1. Fiscal Policy and Management related work
 1. FRDMA enhancements
 2. Revenue forecasting, Economic & Fiscal Update Budget support
 3. Compact related requirements (BIF, AIP)
2. Strengthen Economic Analysis within the MOFBPS
 1. Macro-Economic Committee
 2. Leverage Macro-Model for Budget formulation and Policy analysis
 3. Support to Statistical systems/Data adequacy
3. Monitor key reforms and programs (UBI, END, Tax Reform, etc.)



THANK YOU!





Attachment 7

Presentation Slides: RMI Tax Reform Status and Progress, Mr. Lincoln Mea, Chief of Revenues and Taxation for the RMI Ministry of Finance



2nd Sub-Regional Workshop
Advancing Debt, Pension, and Social Protection
Policies in Palau and RMI

Koror, Palau
December 8-12, 2025

“BUILDING TODAY FOR A STRONGER TOMORROW”

Ministry of Finance, Banking, and Postal Services

OUTLINE

1. BACKGROUND
2. SEGMENTATION- GROSS REVENUE TAX / TAX TYPES
3. ACHIEVEMENTS
4. IMPLEMENTATION STEPS
5. COMMUNICATION / TOOLS
6. ANTICIPATED CHALLENGES
7. MOVING FORWARD
8. QUESTIONS/ CONCLUSION

Background: An outdated tax regime

THE RMI PREVIOUS TAX REGIME WAS OUTDATED, INEFFICIENT AND DISTORTIONARY

- **Outdated system:** Inherited from Trust Territory days; not suited for a modern economy.
- **Cascading effects:** Business Gross Receipts Tax (BGRT) taxed turnover (rather than profit) at every stage, creating distortions and burdening businesses even when unprofitable.
- **Inefficient:** Import duties and BGRT had low revenue-generating capacity; Exemptions and uneven application caused unfair competition.
- **Distortions:** Wages tax have anomalies (higher earners sometimes take home less than lower earners).
- **Inequity:** Heavy reliance on households (67% of total tax), light burden on businesses (11%).
- **Trade:** Import exemptions prevented full participation in international trade agreements
- **Compliance:** Complex and inconsistent rules reduced transparency and compliance.

→ THE RMI TAX SYSTEM NEEDED REFORMS

Background: The Tax Reform and Modernization Commission

TAX REFORM & MODERNIZATION COMMISSION (TRMC) ESTABLISHED IN JULY 2024

Members: 3 Chamber Of Commerce; 3 Senators of Nitijela; 2 Local Governments (Majuro & Ebeye); 1 MOF

RESPONSIBILITIES:

- Review GSUSA tax reform option paper and modeling 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.

Background: Phase 1 and Phase 2

PHASE 1:

Changes to income tax rates and thresholds (effective October 1, 2025) aim to build community support for the Reform

PHASE 2:

Scheduled for October 2026, this phase aligns income tax adjustments with the Marshall Islands Consumption Tax (MICT) launch and addresses other distortions in the tax system.

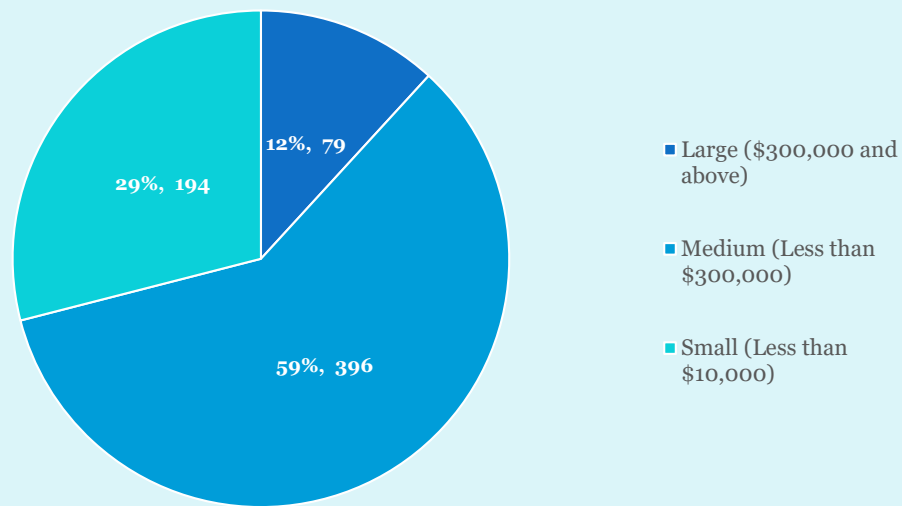
Segmentation – Tax Types

Tax Type	Number of Taxpayer
Wages and Salaries Tax – Marshallese / Expat	844/450
Gross Revenue Tax (GRT)	590
Non-Resident Gross Income Tax	51
Import Duty	245
Fuel Tax	6
Sin Tax	30

Segmentation – Gross Revenue Tax

Segment	Gross Revenue Tax	Number of Taxpayer
Large Businesses	\$300,000.00 and more	79
Medium Businesses	\$10,000.00 to \$299,000.00	396
Small Businesses	Less \$10,000.00	194
Micro Businesses		

Gross Revenue Tax Segmentation with Current Data



ACHIEVEMENTS



9 Forums Conducted

2 with Parliament Members

Excellency Madam President Heine and her Cabinet members, Honorable Speaker Wase, and Vice Speaker Zackhras.

6 Majuro Business Community

1 Ebeye, Kwajalein Business Community

ACHIEVEMENTS

- 4 New Tax Laws – Passed by Nitijela (August 2025)

1. Net Profit Tax Act 2025- PL2025-38
2. Excise Tax Act 2025 – PL2025-46
3. Consumption Tax Act, 2025- PL2025-47, and
4. Tax Administration Act, 2025 – PL2025-48

ACHIEVEMENTS

- **New IT System – Approved by the Bid Committee**
 - Contract awarded – November 2025
 - Contract Commence – November 2025
 - Installment – December 2025

Implementation Steps

Net Profit Tax (NPT)

- | | |
|--|---|
| <ul style="list-style-type: none"> • What is the Net Profit Tax?
NPT is a tax on the net profit from a trade, business, profession, enterprise, or other commercial activities by individuals and entities for a year. • Who need to register for NPT?
Businesses with annual gross revenue of \$300,00.00 or more are required to register for NPT • How do I register?
Will register on IRAS / in person with the DRT/online | <ul style="list-style-type: none"> • What is the NPT tax rate?
The tax rate is 16% on business net profit income sourced in the RMI. It does not include foreign income of residents. • What tax do I pay if my business has annual gross revenue between \$10,000.00 and \$300, 000. 00?
You will be required to pay GRT of 3% |
|--|---|

Implementation Steps

Consumption Tax (MICT)

- **What is the Consumption Tax?**

It's a new tax, also known as a Value-Added Tax set at 12% on most goods and services in the RMI

- **Who pays the tax?**

Business collect it from customers when they buy good or services and pay it to the government.

- **Do I need to register for the Consumption Tax?**

Yes, if your annual revenue is over \$300,000.00

- **Are some goods or services not taxed?** Yes. Some such as;

- Certain imports (e.g., small personal goods, diplomatic goods)
- Precious metals in their purest form
- Financial services
- Donated goods/services by non-profits
- Long-term residential (leases over 2 months)
- Holiday/hotel stays for at least 2 months
- Passenger transport services
- Goods already taxed under excise tax laws
- Unimproved land

Implementation Steps

EXCISE TAX

- **What is Excise Tax?** Excise is a new tax that will-replaces national import duties, local government sales taxes and sin taxes currently imposed on alcohol, tobacco, soft drinks, petroleum products and motor vehicles
- **Who does the Excise tax apply to?** It applies to businesses who manufacture or import excisable goods.

EXCISE TAX

- **What products are now subject to excise tax?**
- Petroleum products (gasoline, diesel, jet fuel, LPG)
- Motor vehicles (new, used, and public transport vehicles)
- Tobacco products (cigarettes, cigars, other tobacco)
- Alcoholic beverages (beer, wine, spirits, mixed drinks)
- Soft drinks (carbonated and non-carbonated)
- Foodstuffs are excluded from Excise but are subject to the new Consumption Tax.

Implementation Steps



Tax Administration Act

- provides the rules of administration of the taxation laws and efficient collection of taxes, for example rules for taxpayer registration, tax return filing, tax assessments, tax decisions, collection and recovery of tax, penalties and record-keeping.
- As part of the reforms, a number of taxes will be abolished,
 - all sales taxes administered by KALGOV and MALGOV
 - all import duties;
 - Gross Revenue Tax (only for taxpayers with annual revenue above \$300,000)
 - Hotel and Resort Tax.
- Provided to help taxpayers understand and comply with each of the new taxes

As a Start – What Communication/Tools does the DCTRT need to support Reform



- A website - DCTRT Standalone?
- Facebook – DCTRT Standalone?
- Implementing these digital tools would enable the Division of Customs, Treasury, and Revenue and Taxation (DCTRT) to bridge information caps, foster transparency, and promote voluntary compliance, even with limited resources.
- Use clear and easy to understand language

Current Internet and Social Media Usage

(The Digital Growth Indicator Report of January 2024)



The Adoption and use of Connected Devices in the Marshall Islands

Total Population	Cellular Mobile Connection	Individuals Using the Internet	Social Media Users
42.2 Thousand	8,413	30.9	22.3
Urbanization 79%	19.8%	73.2%	52.%

Three (3) Example Messages for Website Banner



A new consumption tax and net profits tax start soon. Businesses need to get ready by registering for these new taxes. Check your obligations now. Go to(website link)

1. across the RMI. Register and stay ahead of the changes.
2. Attention Businesses: Consumption Tax Starts Soon. Most goods and services will now include a 12% tax. Ensure your business is compliant. Check your obligations now.
3. Ready for a new tax system?

Two (2) Examples Facebook Messages

• Attention Businesses & Shoppers in the RMI!

1. A new 12% Consumption Tax (VAT) is being introduced on most goods and services.
2. What does this mean for you?
3. Businesses with annual revenue above \$300,000 must register for the Consumption Tax
4. Smaller businesses (\$10,000–\$300,000) can choose to register or stay under the current system (GRT).
5. Businesses with annual revenue under \$10,000 pay only a simple quarterly fee of \$80.
6. Stay compliant. Stay informed.
7. Learn more about your obligations here: [Insert Link]
8. #RMI #ConsumptionTax #BusinessUpdate #TaxCompliance

Two examples of Facebook Messages -continue

• Attention Businesses in RMI

- A new Net Profits Tax is being introduced.
- Businesses with annual gross revenue of \$300,000 or more are required to register for NPT.
- Small businesses taxpayers with annual gross revenue below \$300,000 may register voluntarily.
- Stay compliant. Stay informed.
- Learn more about your obligations here: [Insert Link]
- #RMI #NetProfitTax #BusinessUpdate #TaxCompliance

Implementation Steps

TARGET AUDIENCE	TOOL OR CHANNEL
<ul style="list-style-type: none"> ❖ The Community and all Businesses ❖ Large Business ❖ Medium and Small business ❖ Government agencies ❖ Key stakeholder representative group ❖ Accountants 	<ul style="list-style-type: none"> ❖ Brochure ❖ Online video ❖ NTA Message / Facebook message ❖ Email/letter to all registered businesses ❖ Marshall Islands Journal (MIJ) ❖ Radio Program – V7AB/ Power 103.5 ❖ Guide book – what you need to know

Implementation Steps: Communication

Large business	Medium & Small business
<ul style="list-style-type: none"> ➤ Personal visits ➤ Follow up visit to assist taxpayers to meet their new obligations ➤ Frequently asked questions – located website, printed brochure, social media post 	<ul style="list-style-type: none"> ➤ Identify key industry groups and channels they use to get information ➤ Business Associations ➤ Chamber of Commerce – work with them to develop communications and seek their support to communicate the changes ➤ Office presentations ➤ Town hall gatherings workshops

Implementation Steps



Implementation Steps

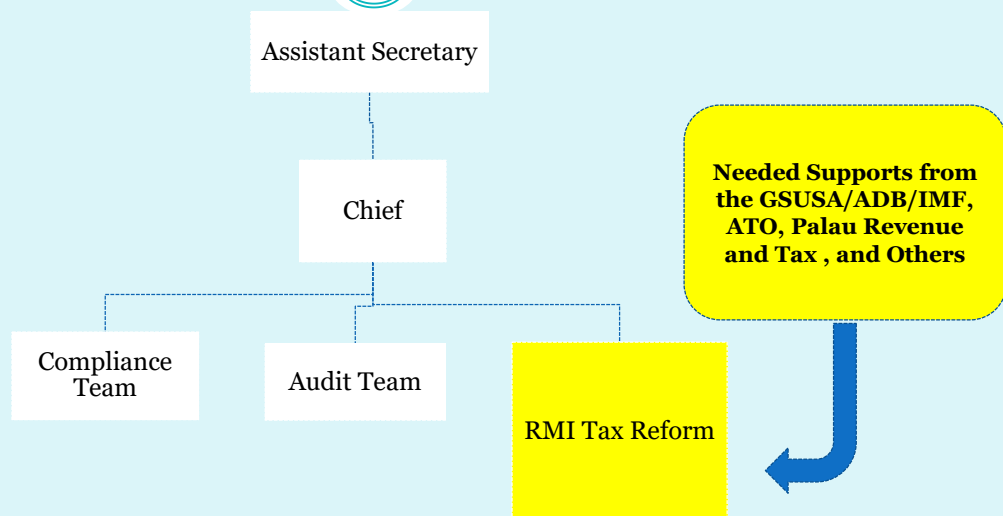
• New IT System

- Management /Staffs training – January – February 2026
- Large Business / Medium Training – March – April 2026
- Ebeye Staffs training – May 2026
- IT System –deployment – July to September 2026
- GO LIVE – October 1, 2026

Anticipated Challenges Public Concerned - Discussion

- Overall taxes will rise
- Business costs will rise
- Changes not good for RMI
- Poor pay more tax
- Tax reform will cause mass migration to USA
- Burden will be on consumer
- Lawyer understand reform – discourage consumers / changes not good for RMI
- Medium and Small Businesses disadvantaged
- Consumption tax not good for small island countries

Moving Forward – Technical Assistance



Conclusion

1. Why does RMI need a VAT?
2. How does VAT work?
3. What is the impact of VAT?
4. What is/are disadvantages and advantages of Consumption Tax?
5. What is/are the disadvantages and advantages of VAT?
6. Is Tax Reform Easy?



Questions

KOMOL TATA / SULANG



Attachment 8

Presentation Slides: Palau Tax Reform, Ms. Turang Rengiil, Chief, Bureau of Revenue and Taxation, Palau Ministry of Finance



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Comprehensive Tax Reform: Palau's Experience

16 OCT 2024

Palau Comprehensive Tax Reform



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TAXATION

- **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



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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



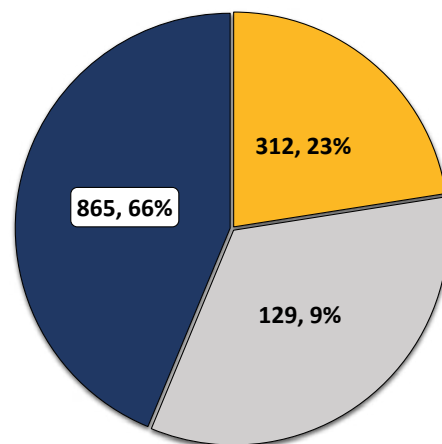
Balancing: Mitigating the Impacts

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)

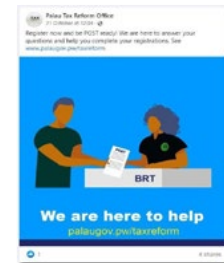
Implementation Process



- 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



Palau Goods and Services Tax RETURN FORM



Current state and future mapping exercise – ATO and BRT Staff - July 2022



Core Design Team meeting – BRT Staff – June 2022

Palau Goods and Services Tax (PGST)



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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)



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TAXATION

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

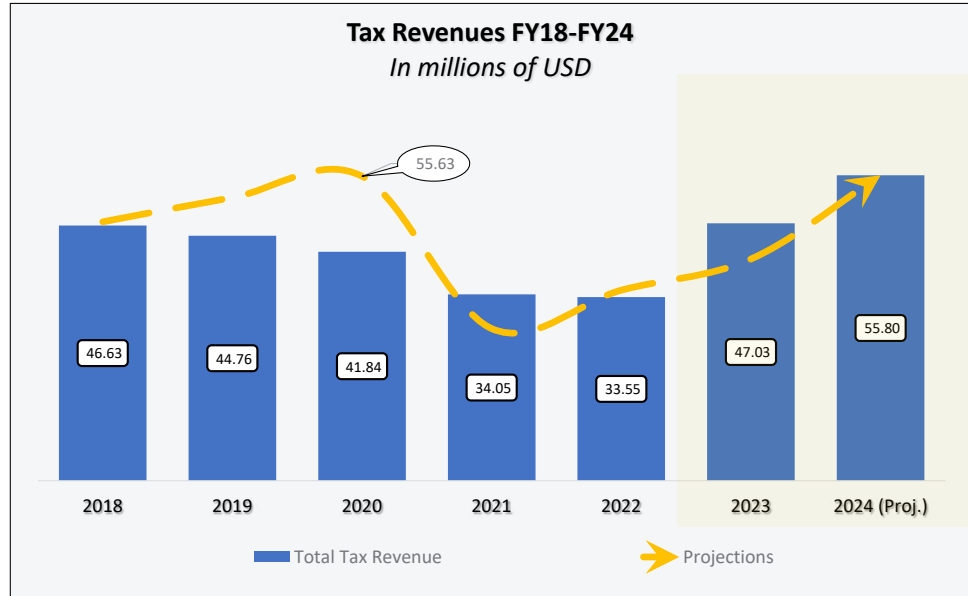
Revenue Impacts



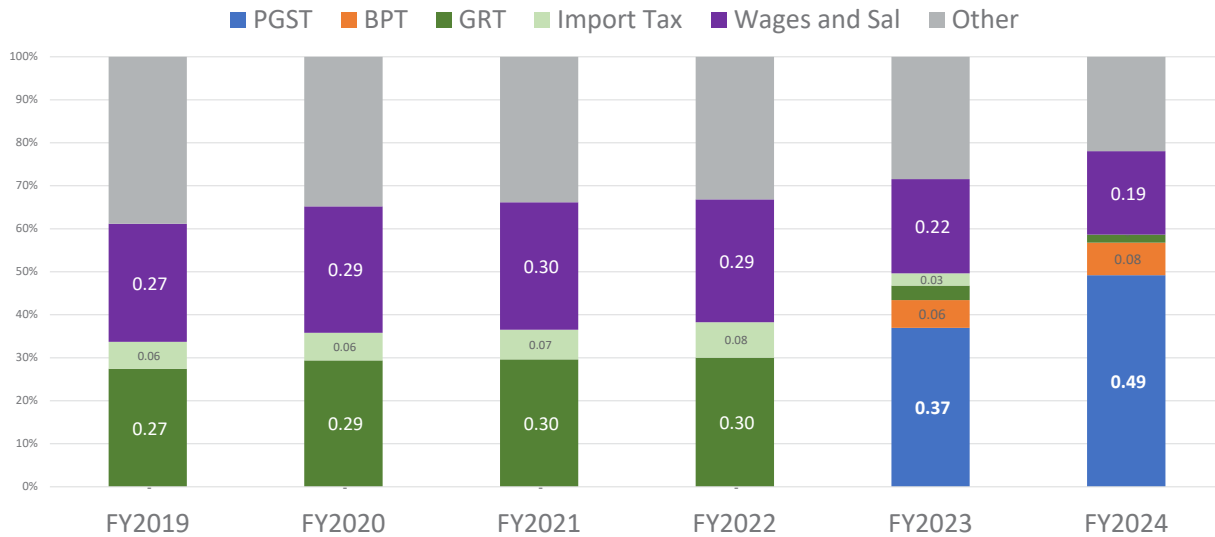
93% average compliance rate on PGST



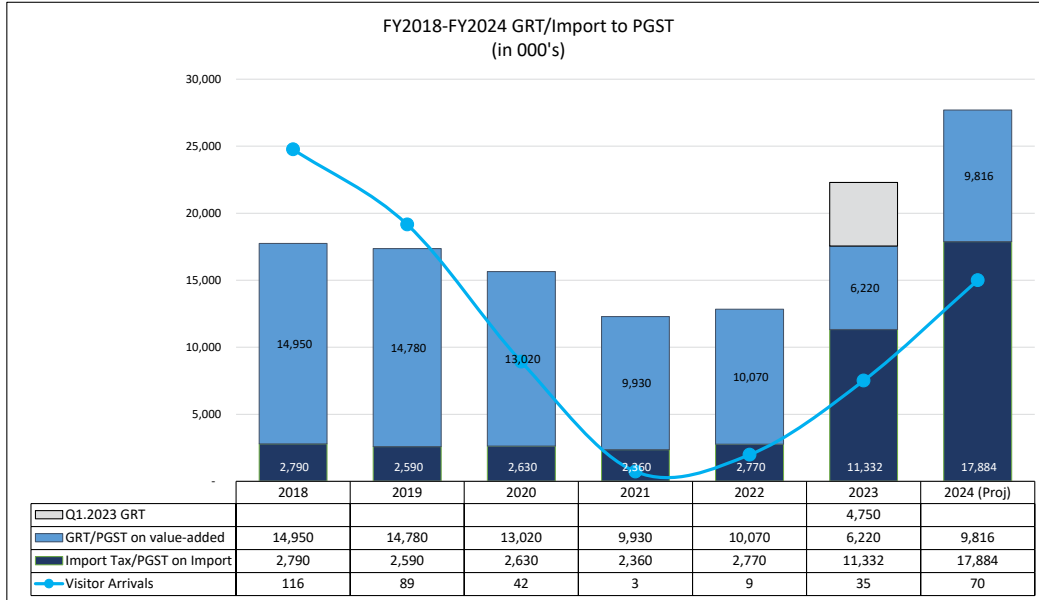
FY2023 Cost per collection ratio went down to 1.9 from 3.2 in 2022



Tax Revenue Composition (%)



Revenue Efficiency



Balancing the Impact through Transfers



More than \$5M with Mitigation Measures:

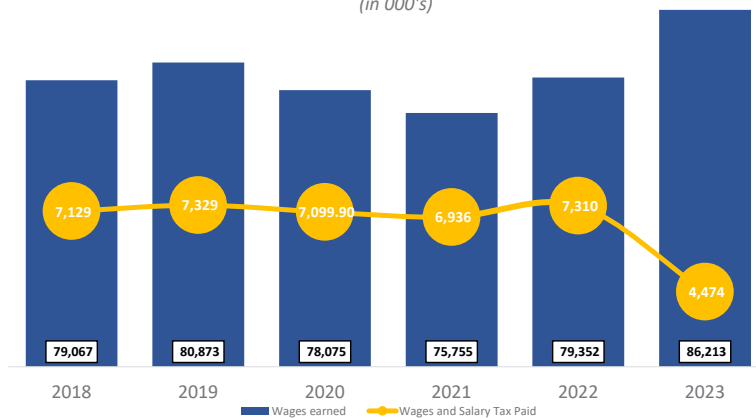
- ✓ Wages and Salary Tax Refunds
- ✓ Social Assistance to Retirees / Informal Sector
- ✓ Child Raising Subsidy to ALL Palauan children

WST Refunds
\$3million

Retired Citizens Social Assistance
\$1.08M

Child Subsidy Payments
\$438K

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

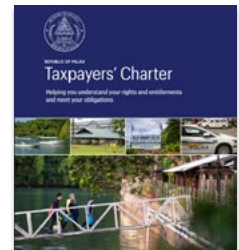


Success in Reform takes Leadership, Partnership, and Collaboration



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- **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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Next Leap Forward: Digital Transformation

Tentative Revenue System Implementation



Bid Preparation & Issuance					
Evaluation & Selection					
Contract Negotiation, Budget and Procurement					
Implementation					
Go Live & Transition					



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TAXATION**

Thank You Very Much

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



Attachment 9

Presentation Slides: New Tax Regimes, Dr. Mark Sturton, GSUSA Economist

ADB RETA-10071 – Second Sub-Regional Workshop

Economic, Fiscal, and Price Impacts of Tax Reform

Mark Sturton

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



Impact of Reforms on Tax Revs and the Palau Economy

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

- The analysis is divided into 3 sections:
 - The impact of the reforms in revenue generation and as a share of the economy
 - The impact of recent global inflation and PGST on prices with decomposition of the causes
 - An analysis of the incidence (who pays) of the tax burden by institutional sector

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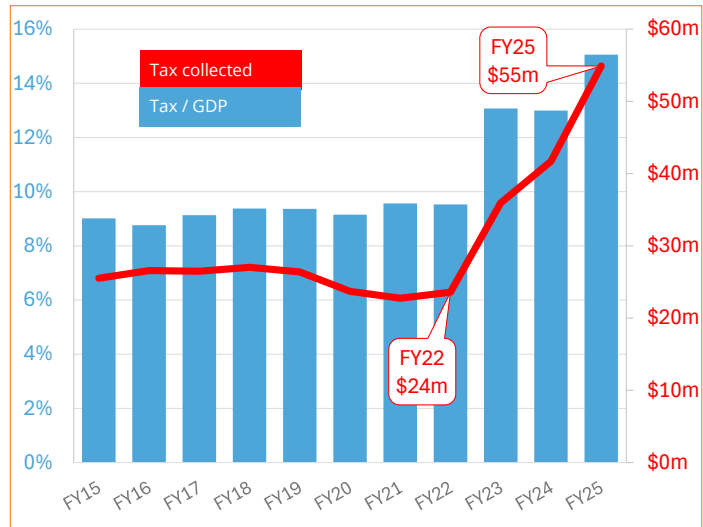
PAL

Revenues mobilization expands rapidly with tax reform

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- Before the reform (2023), the **tax-to-GDP ratio** showed little movement; after the reform, it increased significantly
- **Tax revenues** more than doubled following the reform



ADB

Graduate School USA

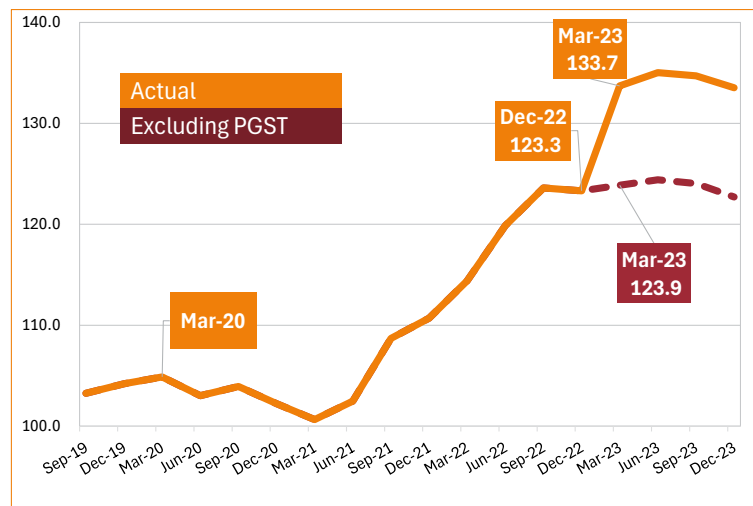
ROP CPI Index: Actual and Excluding PGST

PAL

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- The CPI **increased** by 22.5% before the tax reforms between 20q1-22q4
- With the introduction of PGST the CPI **rose** by 8.4% in 23q1



ADB

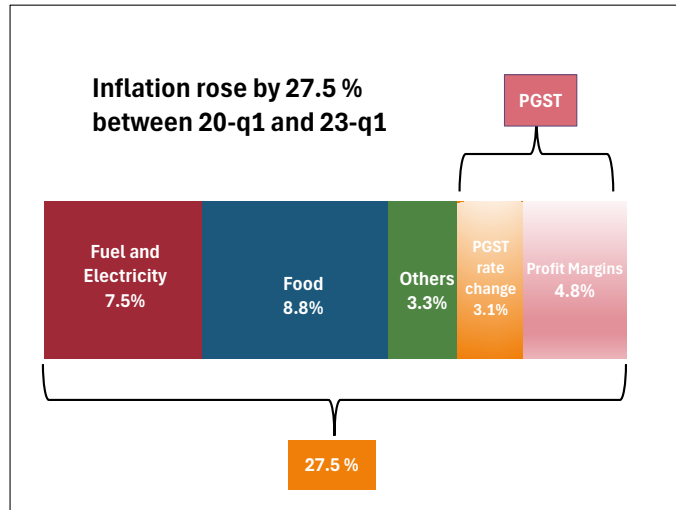
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Decomposition of price change between 20-q1 and 23-q1

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- The majority of inflation after COVID has been due to **rising global prices.**
- Of the increases in prices at the time of the reforms the **majority was due to increased profit margins.**



ADB

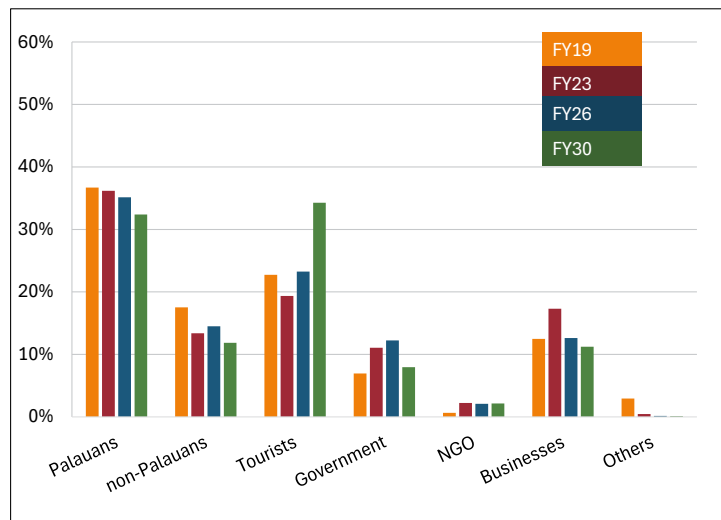
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Tax burden by Institution

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- The Tax burden is **decreasing for households** (Palauans and foreign workers),
- With an **increasing** share paid by **tourists.**
- The share paid by business before and after the reforms remains **largely unchanged**



ADB

Graduate School USA

THANK YOU!
SULANG!





Attachment 10

Presentation Slides: Development Planning Overview, Dr. Mark Sturton, GSUSA Economist

ADB RETA-10071 – Second Sub-Regional Workshop

Development Planning Overview

Mark Sturton

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



Outline

- A Brief History of Development Planning
- A Classification of Plan Types
- A Plan Outline
- Compact Requirements

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Sturt's Experience in Planning

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- Fiji Seventh Development Plan (1976-1980)
- Tonga: Sixth Development Plan (1990-1995)
- FSM Strategic Development Plan (2004-2023)
- Lesotho: National Strategic Development Plan (2012–2016)



Origins of Development Planning

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- Observed lack of development attributed to market failure in the mid-20th century – 1950s and 1960s.
- Apparent success of Soviet industrialization through 5-year plans
- Interventionist and prescriptive economic policies: *dirigiste* or socialist model.
- Examples of planning models: “Big push, balanced growth, two-gap models” that emphasized need for state to coordinate development efforts.

This section draws on The ‘New’ national development planning and global development goals: Processes and partnerships, World Development



Disillusionment with Planning in the 1970s

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- Failure of plans to generate economic growth and development
- Lack of political will to enact plans, “planning” seen as a problem that distorted budgets, and over-investment.
- Encouragement of failing state structures – state owned enterprises.
- Rent seeking and unproductive activities with government interference in the economy



The Washington Consensus

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- By 1980 the IMF and World Bank began a full-scale assault on development planning to be replaced by a set of market-oriented policies:
 - Fiscal Discipline: Reducing budget deficits
 - Tax Reform: Broadening the tax base, lowering rates.
 - Interest Rates: Market-determined, positive real rates.
 - Trade Liberalization: Removing tariffs and quotas.
 - FDI Liberalization: Reducing barriers to foreign direct investment.
 - Privatization: Selling state-owned enterprises.
 - Deregulation: Eliminating rules hindering competition.
 - Secure Property Rights: Protecting assets to encourage investment.

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Re-emergence of National Planning in the 1990s

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- Despite the strong objections to planning from the Washington Consensus there has been a re-emergence of Development Plans:
 1. Heavily Indebted Poor Countries (HIPC) and World Bank required Poverty Reduction Strategy Papers (PRSP)
 2. MDGs and STGs required a planning and monitoring framework
 3. NDPs seen as counter-narrative to Washington Consensus
 4. Fears and opportunities presented by GFC and globalization

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Development Planning—Defined & Characterized

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- Plan defined as: “A time-bound national plan with a set of coherent economic and socio-political objectives that transcends sectors and articulates a vision for national development”.
- Plan characteristics:
 1. Duration: 4-6 years: Palau PDP 4 yrs, FSM NSD 20 yrs, RMI 3/10 yrs
 2. Ownership: (i) MoF or Econ Planning, (ii) President's office, or (iii) National Planning Authority
 3. Content: focus on (i) economic factors, (ii) diversification, (iii) poverty reduction, gender and youth, and (iv) climate and environment
 4. Financing: costed and sources of finance key factors

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The Planning Experience

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- Development Planning has gone through a cycle of enthusiasm, disillusionment, and renewal.
- However, attitude towards planning remains ambivalent.
- While there are documents and guides prepared by the multilateral institutions in areas, such as PEFA, fiscal rules, debt management, etc. there is no international template for a “best practice” plan.
- The need remains for an overarching document that indicates the nation’s development objectives and how it plans achieve them; and
- To guide resource allocation during the annual budget, criteria to align selection of investment and infrastructure projects, and to provide a guide for donor support.

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Classification of Plan Types

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- Planning types can be categorized into four types:
 - Type A – Top-down, expert-led plans with a strong evidence base but limited social embeddedness;
 - Type B – Bottom-up, collaboratively created plans with a strong evidence base and high social embeddedness;
 - Type C – Top-down plans, disjointed and with weak evidence and limited social embeddedness; and
 - Type D – Bottom-up plans with weak evidence base and limited social embeddedness.

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Plan Type Matrix

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	Top-down, limited social embeddedness	Bottom-up socially embedded
Strong Evidence base	Type A: Linear Rationality Technically competent Macroframework	Type B: Communicative Rationality Inclusive with macro framework, widely accessible
Weak evidence base	Type C: Disjointed lack macro constancy	Type D: Communicative Rationality lack macro and financial consistency

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Stylized Planning Framework: Macroframework

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- **Statement of development objectives** at the national level with analysis of the impact of different scenarios:
 - Economic growth, employment, income distribution, gender, climate, socially vulnerable, environment, culture, etc.
- **Resource needs** & financing requirements: (i) recurrent operations at the sector level, (ii) capital and infrastructure needs.
- **Resource availability**: (i) domestic – bonds (savings and government), government savings, (ii) external – FDI, IFIs, bilaterals loans & grants.
- **Macroeconomic consistency**: Resource needs \equiv Resource availability
- Financial sector development to improve the efficiency of financial intermediation and resource allocation

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Stylized Planning Framework: Sector Level

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- Sector Outcomes (for each Plan sector)
 - Sector goals and objectives
 - Monitoring achievement through definition of indicators and KPIs
- Sector Deliverables (under control of Gov Dept or Ministries)
 - Activities (broad categories of deliverables)
 - Outputs (quantifiable / measurables under the control of the sector)

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Compact requirements: FSM

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Strategic Development Plan: FPA Art V

- No later than March 31 of the Fiscal Year, in which this agreement enters into force, the Government of the FSM shall provide the Strategic Development Plan. The **SDP** is to include:
 - i. The goals and broad strategies of the FSM to promote economic advancement, macro-economic goals, budgetary self-reliance, and economic self-reliance
 - ii. Specific multi-year objectives for each of the sectors described in ...

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Compact requirements: RMI

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Budget and Investment Framework: FPA Art VII

- No later than March 31 of the Fiscal Year, in which this agreement enters into force, the Government of the RMI shall provide the Budget and Investment Framework. The **BIF** is to include:
 - i. The goals and broad strategies of the RMI to promote economic advancement, macro-economic goals, budgetary self-reliance, and economic self-reliance
 - ii. Specific multi-year objectives for each of the sectors described in ...

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Compact requirements: Palau

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National Development Plan: Original Compact (1989) Section 231(a)

- The annual expenditure by the Government of Palau shall be in accordance with an official **National Development Plan** promulgated by the Government of Palau prior to the effective date of this Compact (original Compact), and
- The "Official National Development Plan" is to provide the policy and project activities necessary to achieve a set of economic goals: population trends, manpower requirements, social needs, gross national product estimates, resource utilization, infrastructure needs and expenditures, and the specific private sector projects required to develop the local economy of Palau.....

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Palau: The 2023 Compact Review Agreement

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- Acknowledges the Government of Palau's commitment to responsible public financial management and its plans to continue with reforms;
- Notes the Government of Palau's commitment to national development planning;
- Desires to support Palau's economic health and development, and to provide a framework for the monitoring of U.S. economic assistance towards Palau's achievement of long-term economic stability and increased self-reliance

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Development Planning in the Northern Pacific

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- There is a strong requirement of national and development planning running through each of the 3 Compacts.
- The Compact requirements indicated in the FSM and RMI Fiscal Procedures Agreements are identical with the modification that
- In the FSM the Planning document is called a
 - **Strategic Development Plan** and in the RMI a
 - **Budget Investment Framework**
- In Palau, the language of the CRA is different to the FSM and RMI, but the requirement remains the need to maintain a national development plan (aka Palau Development Plan – PDP).

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Development Planning in the Northern Pacific

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- Group discussion:

1. Does your country need a Development Plan?
2. In which Plan Category Type does your country's Plan fall?
3. Do the current planning documents fulfill the Compact requirements? If not, what elements are needed?
4. Prepare an outline of an action program to satisfy planning needs of your country to guide development and (as a secondary benefit) to fulfill Compact requirements?

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11

Attachment 11

Presentation Slides: RMI Debt Profile: History, Sources, and Uses, Ms. Stefania Pozzi, RMI Resident Economist under the ADB-supported TA-10071-REG

ADB RETA-10071 – Second Sub-Regional Workshop

RMI Country Debt Profile

Stefania Pozzi

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



Key Debt Figures

RMI

- In FY24, gross external debt totaled **\$48.5 million**, with roughly **80% owed by the national government** and the remaining **20% by state-owned enterprises (SOEs)**. This represents around **17.3% of GDP**.
- Debt service—covering both principal and interest payments—amounted to **\$4.7 million**, equivalent to **2.3% of national government revenues**.

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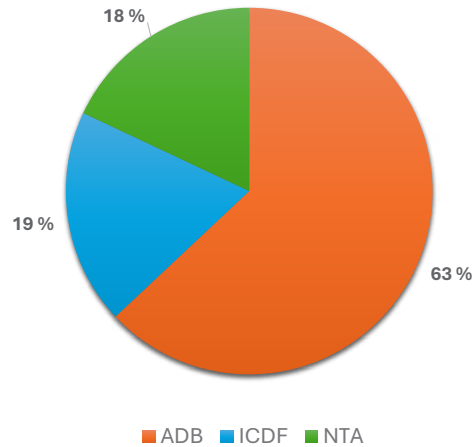
Main Debt Sources Today

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- **National Government Debt**
 - ADB is the main lender
 - The International Cooperation and Development Fund of Taipei,China is also a lender (ICDF)
- **Publicly-guaranteed Debt**
 - The government is guarantor for NTA (National Telecommunication Authority) loans

Percentage of total external debt

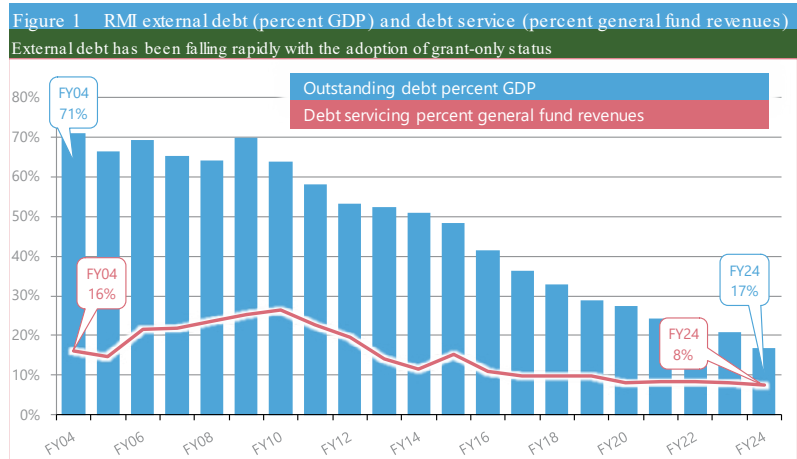


Debt History

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- **Debt-to-GDP** has been falling rapidly (71% in FY04 to 17% in FY24)
- **Debt service** as a ratio of payments to general fund revenues has also fallen significantly (22.6% in FY11 to 8% in FY24)

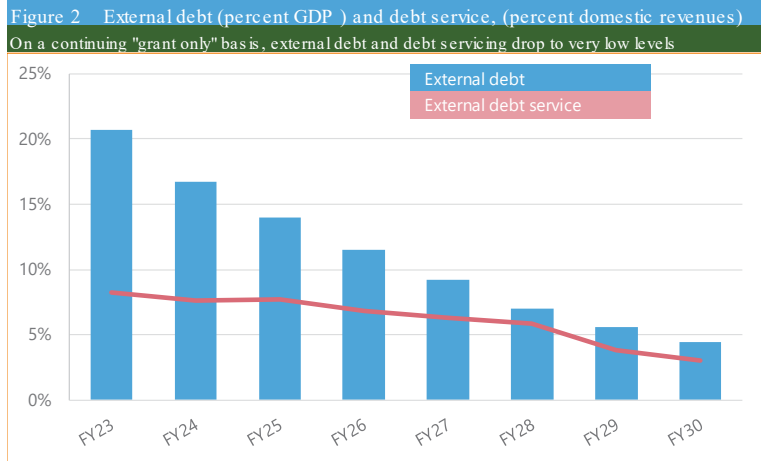


Debt Projections

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- Following this trend, external debt and debt service obligations are **projected to virtually disappear** by FY30



History: Compact revenue-backed bonds

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- **Late 1980s-mid 1990s**
 - RMI issued ~ **\$275 million** in Compact revenue-backed bonds
 - Debt service was **deducted from future Compact grants**
- **By 1998**
 - **42%** of all Compact funds (**\$217M**) had gone to repay bonds
 - Debt repayments have **limited the availability of Compact funds for other uses**
 - Investments **failed to generate expected returns**
 - Resulting **economic contraction** and cuts to government operations (in order to repay debt)



Debt Service on Annual Compact Expenditures

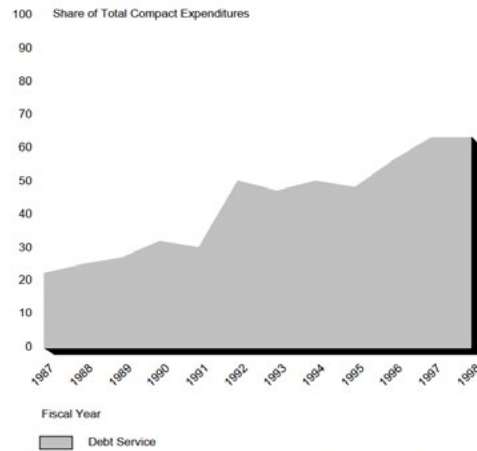
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• FY1998 Example

- **\$39m** Compact funds received
- **\$25m (64%)** used for debt service
- Only **\$6m (15%)** left for capital investment, operations, and particular Compact sectors
 - Excluding payments for rent for Kwajalein military use

Figure 4: RMI Debt Service as a Percentage of Annual Compact Expenditures, Fiscal Years 1987-98



Source: GAO analysis of financial statements and audits of the RMI prepared by Deloitte Touche Tohmatsu for fiscal years 1987-98.



History: ADB Borrowing

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• 1990s-2000s

- Total ADB lending: **~\$87 million**
- Sectors: fisheries, water supply, transport, social sector, policy reforms
- Mostly on highly concessional terms



• Mid 1990s-late 2000s

- Prolonged **fiscal stress** throughout the Compact years
- **Debt arrears**: RMI almost defaulted on ADB loans (2006–08) before resuming payments
- Frequent cash-flow shortfalls and periods of fiscal and economic instability





History: Government-guaranteed debt to SOEs

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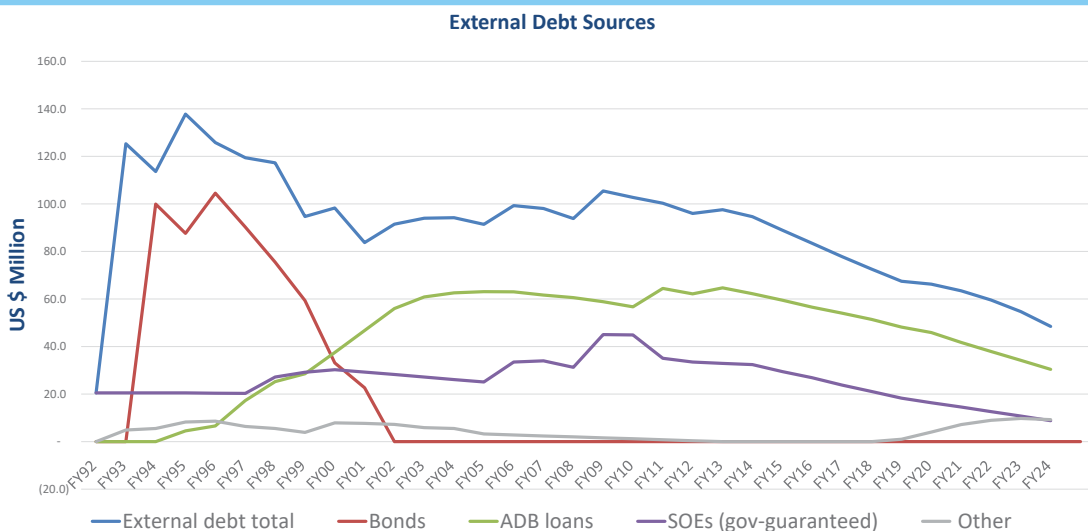
• 1990s–2000s: RUS Debt and SOE Obligations

- Major external liabilities came from **government-guaranteed loans** to SOEs:
 - **NTA**: \$22.8M guaranteed + \$14.5M for fiber-optic cable (not guaranteed)
 - **MEC**: \$12.5M government-guaranteed loan for the Majuro power plant (1997)
- SOE external debt carried **higher interest rates** and **shorter terms**, creating heavier debt-service burdens.



Bonds, ADB loans, SOE loans

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2nd Sub-Regional Workshop



Compact 2024-2023 Era and Present

RMI

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- Large U.S. Compact grants stabilize fiscal position and remain central for fiscal strategy
- Heavy reliance on **grants**, not loans
- Debt remained controlled due to **grant-only** status and restricted borrowing.
- With the recent (December 2025) upgrade of RMI’s debt-distress risk rating to moderate, the country now has access to concessional borrowing. This new flexibility is positive, but given past debt challenges, prudent and carefully managed borrowing will remain important.



RMI

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THANK YOU!
KOMMOL TATA!





Attachment 12

Presentation Slides: Palau Debt Profile: History, Sources, and Uses, Mr. Rison Nakamura, Finance Specialist, Palau Ministry of Finance

REPUBLIC OF PALAU MINISTRY OF FINANCE

PALAU DEBT PROFILE

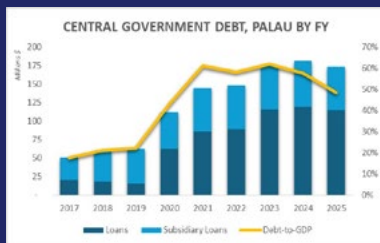
HISTORY, SOURCES, AND USES

Presented by: Rison Nakamura

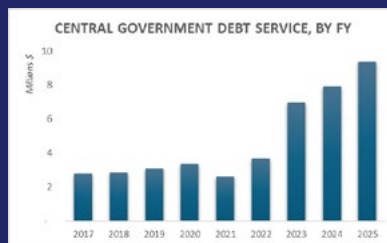
ADB Sub-Regional Workshop

December 10, 2025

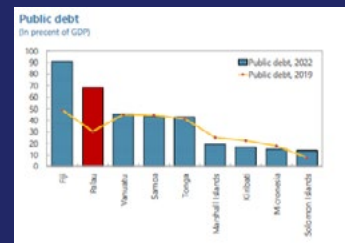
HISTORY



1. Spike in debt level FY21 onward due to Covid-19 Pandemic.
2. This graph only shows central government debt. Debts directly entered to by non-central government units are not included.



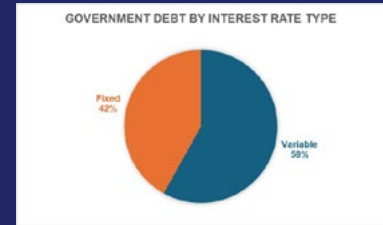
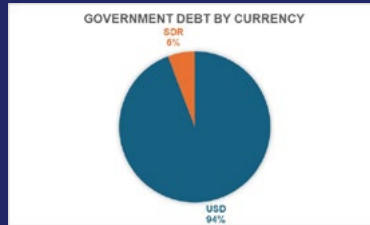
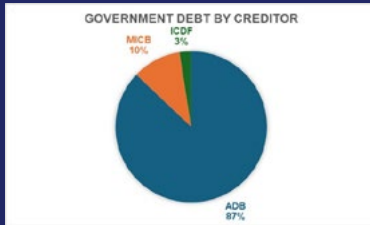
1. Debt service is expected to rise and peak in FY2026 and gradually decline.



1. In this comparison, Palau ranked 5th following Fiji, Vanuatu, Samoa, and Tonga
2. In 2022, Palau trails only Fiji.
3. Despite this, IMF 2023 Article IV graded Palau's sovereign risk of debt distress as "moderate" and, in the medium term, "low".

* Data only includes central government debt. Other components of general government (loans directly by SOEs with lenders).

SOURCES



- High debt composition from ADB = relatively better terms
- High composition in USD denomination = less exchange rate risk

* Data only includes central government debt. Other components of general government (loans directly by SOEs with lenders).

USES

Capital Investments

- Water Sector Improvement
- Koror-Airai Sanitation Project
- Capitol
- Improvements and repairs for the Palau International Airport
- Submarine Cable
- Other utility projects and reforms

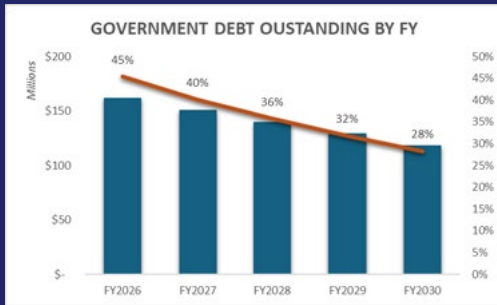
Social, Economic, and Environmental Issues

- Housing
- Women and Youth Entrepreneur Program
- Agriculture and Aquaculture Business Development
- Disaster Resilience Program

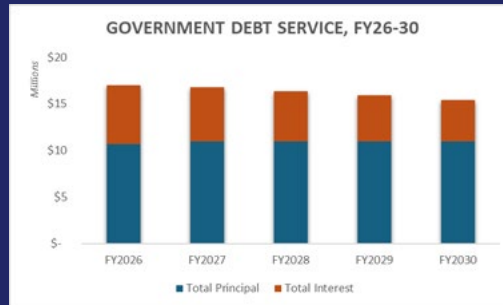
Government Support

- RISES Program, as a result of the COVID-19 Pandemic
- Strengthening Fiscal Resilience Program

OUTLOOK ON CURRENT PORTFOLIO



GDP Projections from IMF 2023 Article-IV



1. Government Debt Service is expected to remain very high in the medium term.
2. Reasons:
 1. Principal repayment of loans taken during the Pandemic will start this fiscal year.
 2. Some on-lent loans have been absorbed by the National Government.

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Attachment 13

Presentation Slides: RMI Country Debt Management Institutions: Laws, Policies, Units, Ms. Stefania Pozzi, RMI Resident Economist under the ADB-supported TA-10071-REG

ADB RETA-10071 – Second Sub-Regional Workshop

RMI Country Debt Management Institutions, Laws and Policies

Stefania Pozzi

Koror, Palau | December 8-12, 2025

FSM

RMI

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Agenda

RMI

- Why Debt Management Matters for RMI
- Existing Legal Framework: FRDMA
- Institutional Improvement Priorities

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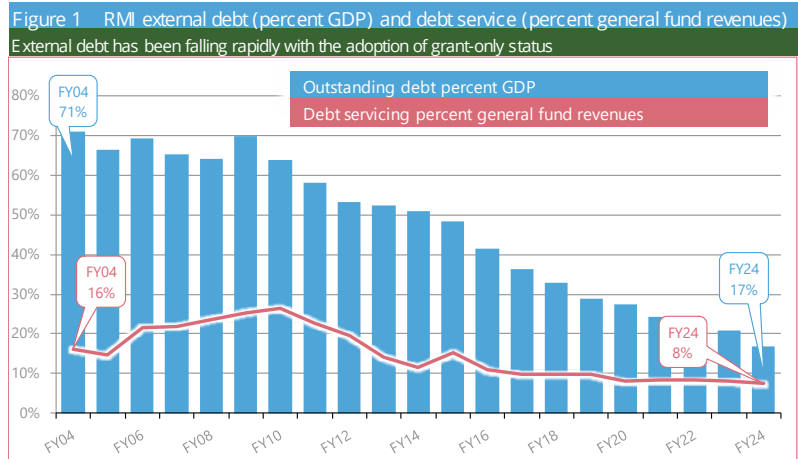


Reminder: RMI External Debt

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- Although historical debt levels were quite high, **external debt has been falling rapidly**
- However, the RMI economy remains small, **vulnerable**, and heavily reliant on **external funding**



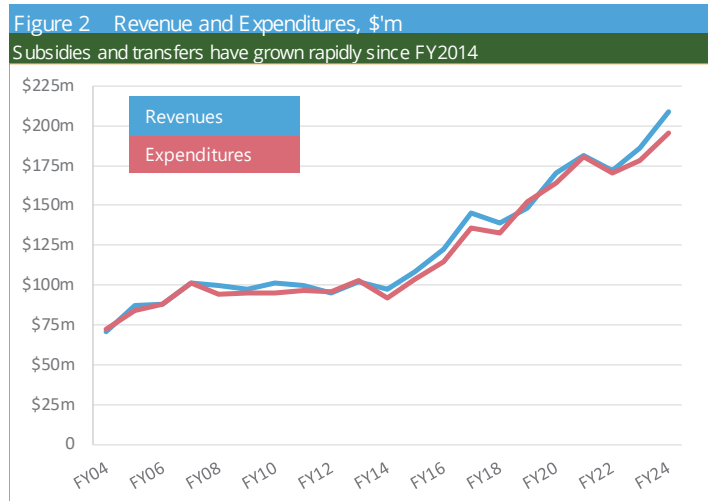
Government fiscal position: Revenues vs Expenditures



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- Fiscal policy in the RMI has mainly followed revenues, with spending rising as revenues rise, and limited attention to the economic cycle or future financing needs.
- Need to strengthen fiscal and debt management, including:
 - sustainable **borrowing**
 - **contain expenditure growth**
 - and **building reserves** to buffer against business-cycle downturns



Fiscal Responsibility and Debt Management Act

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- The Fiscal Responsibility and Debt Management Act (FRDMA) serves as the legislative basis for:
 - Fiscal Responsibility
 - Debt Management
- Its purpose is to provide a framework for responsible budgeting, safe borrowing, shock-resilience, and long-term fiscal sustainability
- It was drafted in late 2019 on the **model of the Cook Islands**, and became law in 2021



Main Gaps in the FRDMA

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- **Fiscal rules are too narrow**
 - Centered on a **short-term balanced-budget rule** tied to revenue
 - Does *not* constrain expenditure growth in line with medium-term revenues or the size of the economy
- **No Medium-Term Fiscal Anchor**
 - No spending ceilings or medium-term fiscal targets
 - No guidance on consumption vs. capital expenditure
 - No strategy for accumulating net national wealth
- **Reserve Policies Not Well Defined**
 - Does *not* define cyclical reserves, rainy-day funds, rules for accessing reserves
- **Does Not Incorporate Modern Debt-Risk Management Standards**



Why does the FRDMA need updating?

RMI

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- RMI’s fiscal policy historically follows revenues availability
- Risks:
 - Sharp “pro-cyclical” increases in spending during good years (e.g., FY2016–2018)
 - Limited savings accumulation
 - Vulnerability during downturns
- With the recent shift to moderate risk of debt distress, the risk is to fall back into high debt if borrowing becomes unsustainable
- Need for clear rules and better monitoring and oversight



Proposed Enhancements to the FRDMA

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- **Strengthen Fiscal Rules**
 - Medium-Term Expenditure Ceilings, Long-Term Fiscal Strategy, 3-year Budget Policy Statement, Annual Fiscal Updates and Risk Statements
- **Establish Reserves Funds**
 - **Cyclical Reserve Fund** (for downturns and cash-flow shortfalls)
 - **Climate Resilience Fund** (for climate events and natural disasters)
- **Strengthen Debt Governance**
 - Clear borrowing procedures, vetting and appraisal of loan proposals, implement a standard for reporting debt risk
- **Trust Fund Withdrawals**
 - Allow withdrawals only when they don’t reduce national wealth



Other Institutional Improvement Priorities

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1. Debt Management Unit

1. Forecast debt and repayment, risk monitoring, review new loan proposals, etc.

2. Oversight of SOE Liabilities

1. Centrally monitor existing guaranteed debt and screen any new guaranteed debt issuance

3. Monitoring of USDM1 Initiative

1. Fiscal contingency risk exposure through potential T-bill market disruptions or cybersecurity threats triggering mass investor redemption requests (government would be liable)



Questions

RMI

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- Did the presentation resonate with your experience or current challenges? If so, which points stood out most?
- From your perspective, what should be the key next steps and priorities for strengthening debt management in the RMI?



THANK YOU!
KOMMOL TATA!



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Attachment 14

Presentation Slides: Palau Country Debt Management Institutions: Laws, Policies, Units, Mr. Rison Nakamura, Finance Specialist, Palau Ministry of Finance

REPUBLIC OF PALAU MINISTRY OF FINANCE

PALAU DEBT INSTITUTIONS

Presented by: Rison Nakamura

ADB Sub-Regional Workshop

December 10, 2025

LAW

- National Government Fiscal Responsibility and Debt Management Act, passed in 2021 - became Chapter 1 and 5 of Title 40 PNC
 - Debt Management Act in Chapter 5
- Key Insights of Debt Management Act:
 - Constitutional authority to borrow - delegated to the President by OEK
 - Every borrowing, however, requires joint resolution approval from OEK
 - Set borrowing principles and departures from these principles
 - Established responsibilities of Minister of Finance and Debt Management Unit
- Debt Management Policy, adopted in March 2022
- Regulations for Government-issued bonds, adopted in late 2024

Palau Debt Institutions

Slide 07

POLICIES

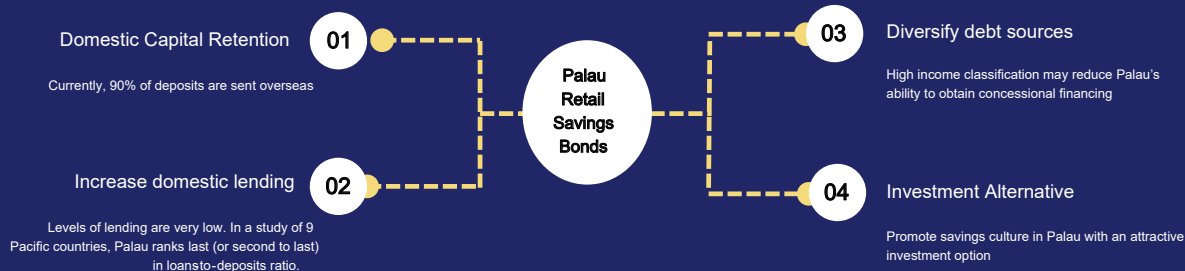
- Debt Management Policy, adopted in 2022
 - Set debt limits at 30% debt-to-GDP and 15% debt service-to-domestic revenues
- Main Borrowing Principle: "... to ensure that the Government's financing needs and its payment obligations are met at the lowest possible cost with a prudent degree of risk over the medium to long term ..."
- Principles
 - a. All programs, projects or capital improvements funded through a loan or sovereign guarantee by the Republic shall be for public purposes only;
 - b. Projects and activities financed by loans or sovereign guarantees are able to demonstrate quantifiable positive returns and shall not be for the purposes of supplementing recurrent budget expenditure;
 - c. Loans or sovereign guarantees shall only be considered once all other practical avenues of financing have been considered;
 - d. Total debt shall be maintained at prudent levels so as to provide a buffer against factors that may impact adversely on the Republic's total net worth in the future; and
 - e. Loans shall, where possible, be denominated in United States Dollars (USD).
- Departure from these principles is allowed if it is temporary and approved by OEK.

DEBT AND INVESTMENT OFFICE

- Debt Management Unit was created in April 2022.
- Debt and Investment Office was created under the Ministry of Finance in May 2025.
- Reasons for new office:
 - Operationalize debt management operations
 - Oversee the launch of the Palau Retail Savings Bonds and subsequent government-issued bonds



PALAU RETAIL SAVINGS BONDS



- Proposed Terms**
- \$50 bond - 10 year, 3% coupon sold at par
 - \$50 bond - 3 year, 2% coupon sold at par
 - Non-transferrable
 - Proceeds are on-lent to NDBP for lending towards housing, infrastructure, and SME development
- Because investments are long-term, liquidity management is key.
- Percentage of proceeds held by MOF
 - On-lending arrangements may be modified.
 - Diversify borrower = include Palau Housing Authority
 - Include a premium on interest rate (e.g. 25-50 basis points)
 - Shorten maturity of on-lent loans

Palau Debt Institutions

Slide 10

COMMONWEALTH MERIDIAN

- Commonwealth Meridian is a debt management system owned by the Commonwealth Secretariat.
- Currently in use by 46 countries, including Fiji, Samoa, and Tonga
- Signed a contract with Commonwealth Secretariat in September 2025.
- Functions
 - Centralized debt database for loans, bonds, and guarantees.
 - Automated debt service calculations including SOFR-based variable interest.
 - Payment scheduling and alerts for principal and interest obligations.
 - Risk monitoring tools for interest-rate, refinancing, and maturity risks.
 - Support debt sustainability analysis
 - Standardized reporting, aligned with *Public Sector Debt Statistics: Guide for Compilers and Users*
 - Helps ease the production of a debt bulletin

Palau Debt Institutions

Slide 11

PROGRESS AND CHALLENGES

- Progress
 - Established a Debt and Investment Office.
 - Improve monitoring, ongoing
 - Debt bulletin, will soon be published quarterly
 - Adopted regulations for Government Bonds
 - Acquired Commonwealth Meridian Debt Management System
- Challenges
 - Limited resources
 - Data consolidation

15a

Attachment 15a

Presentation Slides: Palau's Fiscal Responsibility and Debt Management Act (FRDMA) Compliance: Towards an Approval & Appraisal Framework, Ms. Georgina Conway, Palau's Resident Economist under the ADB-supported TA-10071-REG

ADB RETA-10071 – Second Sub-Regional Workshop

FRDMA Compliance: Approval and Appraisal

PALAU- Georgina Conway

Koror, Palau | December 8-12, 2025

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Structure

PAL

- Recap of FRDMA
- Best Practice Guidelines
- Country Examples
- Moving towards an appraisal framework
- Next steps

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Recap: FRDMA: Debt

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Principles:

- **Public purposes only**
- **Able to demonstrate quantifiable positive returns**
- **NOT for supplementing recurrent budget expenditure**
- **Only once all other practical avenues of financing considered (last resort)**
- **“Prudent levels”**
- **May depart is temporary for exceptions circumstances & approved by OEK**



Recap: FRDMA: Debt

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Responsibilities of DMU to manage & monitor:

- **Assessment of risk,**
- **Debt Management Policy,**
- **Appraisal & approval framework,**
- **DSA,**
- **Standards of good governance,**
- **Review of each proposal and fiscal/ econ impact prior to submit to OEK**



PAL

Case Study: MEFMI

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Debt Management Procedures Manual Vol.1

Conformity with legal and regulatory framework:

- The Front Office should always operate within the legal and regulatory borrowing framework that instills confidence and protects investors, creditors and rating agencies.
- It should always adhere to government debt guidelines and strategy and should also adhere to systems and procedures that ensure that the government’s funding and risk management activities are conducted in a timely and transparent manner.



MEFMI
Macroeconomic and Financial Management
Institute of Eastern and Southern Africa



Case Study: MEFMI

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Debt Management Procedures Manual Vol.1

Evaluation of funding alternatives:

- The Front Office should be able to evaluate funding prospects and their impact on the debt portfolio in terms of compliance with the approved strategy.
- Evaluation should be made of the technical, financial and legal terms and conditionalities of the external loan proposals, including the loan purposes, conditions for disbursing loans and the degree of conditionality



MEFMI
Macroeconomic and Financial Management
Institute of Eastern and Southern Africa



Case Study: MEFMI

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Debt Management Procedures Manual Vol.1

Evaluation of funding alternatives:

- The Front Office should be able to evaluate funding prospects and their impact on the debt portfolio in terms of compliance with the approved strategy.
- Evaluation should be made of the technical, financial and legal terms and conditionalities of the external loan proposals, including the loan purposes, conditions for disbursing loans and the degree of conditionality



MEFMI
Macroeconomic and Financial Management
Institute of Eastern and Southern Africa



Case Study: United Kingdom

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Contingent Liabilities and Guarantees Checklist

Evidence and Rationale

- A clear articulation of the market failure necessitating government action. Why is it beneficial for government to take this on?
- Business case for taking it on- how does it advance government strategic priorities? Does it conflict with any other government priorities?
- Provide analysis demonstrating what alternatives have been considered.



PAL

Case Study: United Kingdom

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Risk Management

- Plans to monitor and report risk (SOE).
- SOE plans to reduce burden on central gov

Affordability

- How will what % of budgetary resource will the payments represent?
- How will SOE demonstrate make payments, considering other loans/ obligations?



Draft Approval Checklist for Palau

PAL

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Supports:

- ✓ Transparency
- ✓ Accountability
- ✓ Comparability
- ✓ Institutional record of decision making
- ✓ Legislative understanding



PAL

Draft Approval Checklist for Palau

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- Key Information
- Rationale & FRDMA
- Repayment Terms
- Financial & Risk Indicators
- Macro-Fiscal Impacts
- SOE Risk Management
- Legal & Policy Features

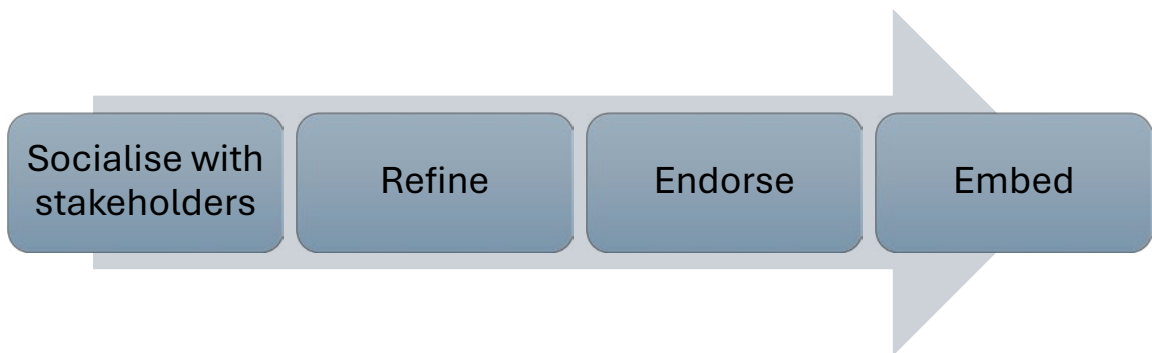


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Draft Approval Checklist for Palau

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**THANK YOU!
SULANG!**



15b

Attachment 15b

**Form: Palau's Loan Appraisal Evaluation,
Ms. Georgina Conway, Palau's Resident
Economist under the ADB-supported
TA-10071-REG**

ROP Loan Appraisal Checklist	
Key Loan Information	
Loan Title:	
Creditor:	
Loan Amount:	
Loan Currency (preferred USD/local currency):	
Rationale & FRDMA	
Market Failure and need for ROP intervention	
Ability to demonstrate quantifiable positive returns	
Strategic alignment including any conflicts	
Recurrent budget expenditure?	
Assessment of alternative funding sources explored	
Other Comments:	
Repayment Terms	
Interest Type (Fixed/Floating):	
Fixed Interest Rate (target <3%):	
Interest Margin:	
Years to Maturity:	
Grace Period:	
Payments per year:	
First Period Interest:	
Annual Amortisation:	

Annual Debt Service during Grace Period:	
Fees:	
Other Expenses:	
Financial & Risk Indicators	
Net Present Value (NPV) to Budget:	
Effective Rate of Interest:	
Currency Risk Assessment:	
Macro-Fiscal Impacts	
Debt-to-GDP Ratio Impact:	
Annual Debt Service/ Budget Impact (\$)	
Debt Service Rule-of-Thumb Check ($\leq 15\%$ of budget):	
SOEs Risk Management (On-Lent & Guarantees)	
Plans to monitor and report payment risks	
% annual entities Budget will cover debt service	
Demonstrate ability to pay given other obligations/ loans	
Legal & Policy Features	
Governing Law / Jurisdiction:	
Parity of Treatment (pari passu):	
Accelerated Repayment Clause (Yes/No):	
Conversion options	
Policy/Conditions Assessment (PBL, KL, etc):	
Other Key Legal Terms:	
Recommendation	
Accept / Reject:	
Signature & Date:	

16

Attachment 16

**Presentation Slides: International
Monetary Fund: Debt Sustainability
Assessment (DSA) in Action, Mr. Leonardo
Martinez, Senior Economist, IMF**



INSTITUTE FOR
CAPACITY DEVELOPMENT

The Public Debt Dynamics Tool (DDT)

DECEMBER 2025

Leonardo Martinez
IMF Institute for Capacity Development
lmartinez4@imf.org

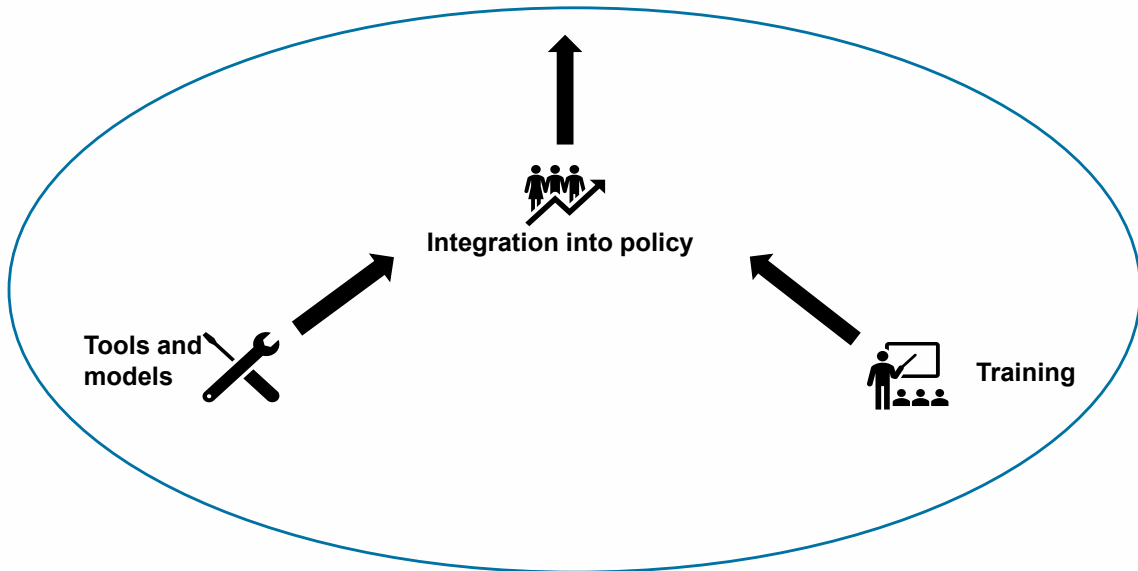
Outline

1. The Public Debt Dynamics Tool (DDT)
2. Working with the DDT
3. DDT extensions
4. Beyond the DDT: Debt sustainability

1. The Public Debt Dynamics Tool (DDT)

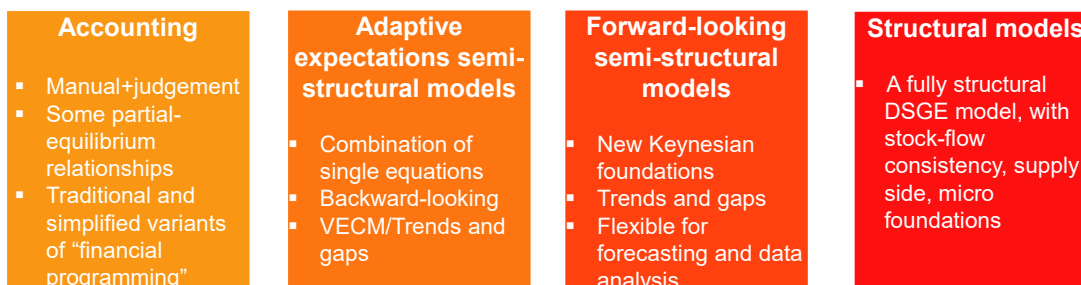
ICD Technical Assistance (TA) in Macroframeworks

- **Objective:** develop capacity in **macroeconomic forecasting** and **policy analysis** to support **policy decision-making** and **communication**



ICD's CD-tailored tools and models

- **Macroframeworks:** from spreadsheets to DSGE models



- **Complements:** **DDT**, near-term forecasting, TA and training in basic macro policy
- **A common thread:** systematic use of data, judgement, narratives, alternative scenarios

The Public Debt Dynamics Tool (DDT)

- The [Public Debt Dynamics Tool \(DDT\)](#) is a **simple** Excel-based tool that **projects the public debt-to-GDP ratio** under a baseline and alternative scenarios, including for **fiscal adjustments** to achieve user-defined debt targets.
- The debt-to-GDP ratio is projected using the governments' **borrowing requirements** (its primary fiscal balance and other flows):

$$d_t = \frac{1+\hat{r}_t^w}{1+g_t} d_{t-1} - \mu_t pb_t + \mu_t of_t$$

- $1 + \hat{r}_t^w = \frac{\alpha_{t-1}(1+i_t^f e_t^{avg} / e_t^{eop})(1+\varepsilon_t^{eop}) + (1-\alpha_{t-1})(1+i_t^d)}{1+\pi_t} \mu_t$: total real effective cost of debt
- $\mu_t = (1 - \alpha_t(1 - e_t^{avg} / e_t^{eop}))^{-1} > 0$: coefficient linked to *sfa*^{ier}
- The DDT can reproduce exactly the baseline projections of the **LIC DSF and MAC SRDSF (MAC DSA)**.

The DDT is online

- The [DDT and its Technical Notes and Manuals](#) are available in the IMF website.
- The 6-hr online course [DDTx](#) is available in English, French, Spanish, Portuguese, and Arabic.
- [DDTx](#) videos are also available on YouTube, in the [IMF Institute Learning Channel](#), organized in three playlists:
 1. [Projecting public debt](#)
 2. [Projecting public debt with the Public Debt Dynamics Tool \(DDT\)](#)
 3. [Calculating possible fiscal adjustment paths with the Public Debt Dynamics Tool \(DDT\)](#)

DDT technical assistance (TA) and training

- Because of the DDT simplicity, DDT TA has achieved results **very quickly**, after
 - short **virtual** meetings (e.g., one hour per week for a couple of months; Uruguay),
 - and/or short **face-to-face** missions (e.g., one week or less; Jamaica, Rwanda, El Salvador).
- DDT TA projects can be **standalone** (Mauritania, Rwanda, Uruguay), **part of** macroframework TA (Costa Rica, Honduras, Philippines, Tunisia, Vietnam), or **parallel** to macroframework TA (Chad).
- Internal and external **debt reports** (Chad, Costa Rica, Jamaica, Mongolia, Tunisia, Uruguay).

2. Working with the DDT

DDT color codes

- Information and relevant data should only be **entered** in **yellow-shaded cells**, which are only found in worksheets with **yellow tabs**.
- **Light yellow cells** are used to indicate that the user can select the input from a **drop-down menu**.
- White-shaded cells contain formulas that users should **not override**.
- Worksheets with **green tabs** present details for **all scenarios**.

Readme

Basic Inputs

Select country	Macondo
First year of projection	2021
Year for medium-term indicators	2027
Definition of the public sector	central government
Includes public guarantees?	Yes
Specify or define the guarantees	outstanding amount of loans guaranteed by the central government

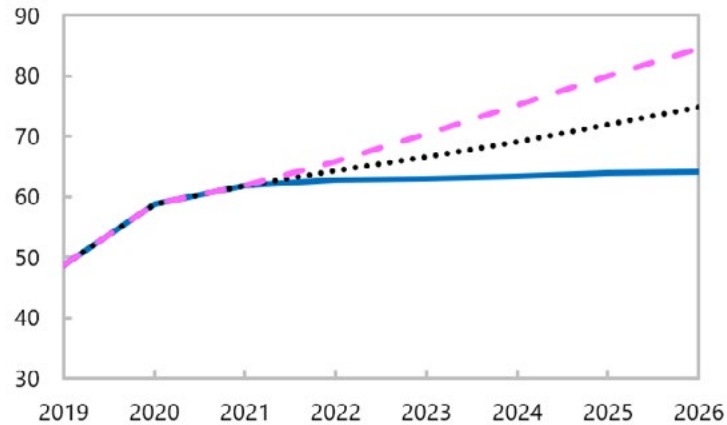
Input - Data

Year/Variable	First Year of Projection				
	2020	2021	2022	2023	2024
d_t (debt including uncalled guarantees) : Stock of total gross public debt, percent of GDP	58.86				
<i>o/w stock of local-currency guarantees (uncalled)</i> : Stock of uncalled guarantees in local currency included in total debt, percent of GDP	0.82	0.57	0.50	0.44	0.38
<i>o/w stock of foreign-currency guarantees (uncalled)</i> : Stock of uncalled guarantees in foreign currency included in total debt, percent of GDP	2.46	1.71	1.50	1.32	1.15
α_t (share excl. guarantees) : Share of foreign currency denominated debt in total debt, percent of total debt	60.45	63.47	63.47	60.30	57.28
e_t (LCU/FCU, avg) : Nominal average exchange rate, local currency per unit of foreign currency	24.58	24.21	24.38	24.71	25.21
e_t (LCU/FCU, eop) : Nominal end-of-period exchange rate, local currency per unit of foreign currency	24.11	24.30	24.47	24.96	25.46
i_t^d : Nominal effective interest rate on local currency denominated debt, percent	10.39	9.87	9.38	9.84	10.34
i_t^f : Nominal effective interest rate on foreign currency denominated debt, percent	3.60	3.78	3.78	3.59	3.41
π_t : GDP deflator inflation, percent	4.01	4.04	3.65	3.76	3.74
g_t : Real GDP growth, percent	-8.99	4.23	3.75	3.41	3.66
pb_t : Primary balance, percent of GDP	-3.55	-4.04	-1.05	0.45	0.27
of_t : Other net debt-creating flows, percent of GDP	0.00	0.90	0.90	0.90	0.90
π_t^f : Foreign GDP deflator inflation, percent (used in fan chart)	1.41	2.21	1.78	1.81	1.91

Debt projections

Gross Nominal Public Debt: Alternative Scenarios

(in percent of GDP)



— Baseline

- - - Constant Primary Balance

..... Historical Scenario

Contributions to debt changes

Contribution to Debt Changes in Baseline Output Table

Baseline

Baseline - muMACDSA

Baseline - SRDSF

Baseline - LICDSF



Alternative scenarios

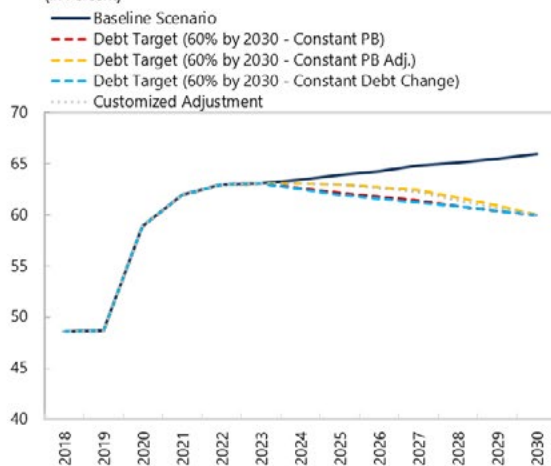
- **Historical scenario:** Starting the second projection year, **key drivers** (primary balance, growth, interest rates, depreciation rates, and other flows) take average historical values. Average **residual** is added to other flows.
- **Constant-primary-balance scenario:** Starting the second projection year, the primary balance takes the value of the first projection year.
- **Standardized Shock scenarios:** one scenario with a shock to each **key driver** (primary balance, growth, interest rates, depreciation rates).
- Other fully **customized scenario** (banking crises, currency crises, commodity price shocks, etc.).
- **Fan charts.**

Fiscal consolidation scenarios

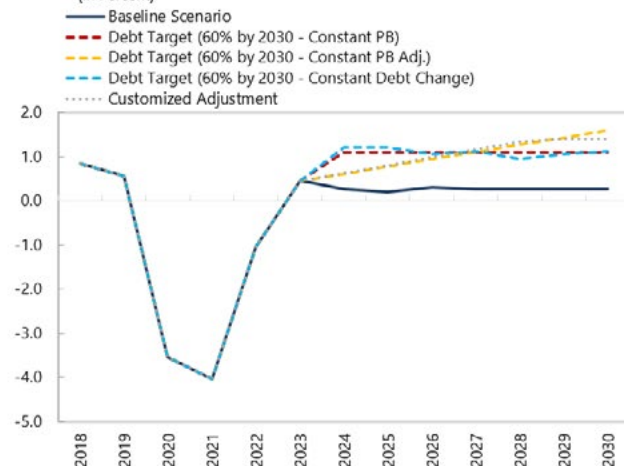
- **Fiscal balance paths** between years t_1 and t_2 that would achieve a debt target in t_2 .
 1. Debt-stabilizing primary (overall) balance: balance in t that would make $d_t = d_{t-1}$
 2. Constant fiscal balance
 3. Constant debt reductions
 4. Constant fiscal adjustment (change in the fiscal balance)
 5. Customized adjustment: first 4. and then 2.

Output – Debt Target

Total Public Debt
(in Percent)



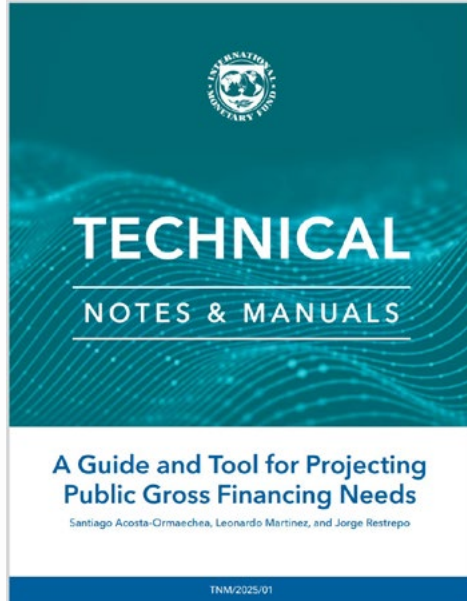
Primary Balance
(in Percent)





3. DDT extensions

How to use the DDT to project GFN and other liquidity indicators (DDT GFN)?

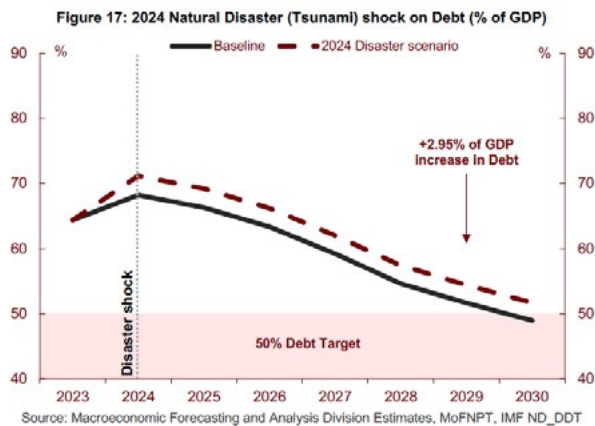


IMF | Institute for Capacity Development

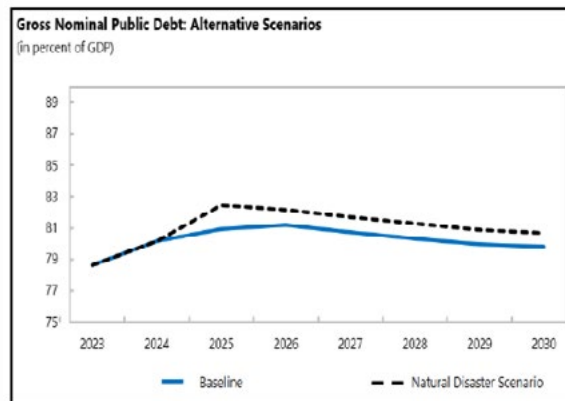
21

How to calibrate natural disaster scenarios (ND_DDT)?

Seychelles



Mauritius



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How to...

- Use the DDT with **two components of the primary balance** (oil and non-oil; pension and non-pension; revenues and expenditures) (Mauritania)?
- Use the DDT with **indexed debt** (Uruguay)?
- Add **fiscal multipliers** to adjustment scenarios (Uruguay)?

4. Beyond the DDT: Debt sustainability

What is debt sustainability?

- Sturzenegger and Zettelmeyer, Debt default and Lessons from a Decade of Crises (2006):
 - ✓ “Debt sustainability is one of the most **used and abused** concepts in recent discussions on preventing and resolving sovereign debt crises. [...It] is an **art** rather than a science, and involves a large number of alternative methodologies.”

Definition used at the IMF

The IMF uses this definition for debt sustainability:

In general terms, public debt can be regarded as sustainable when the **primary balance** needed to **at least stabilize debt** under both the **baseline and realistic shock scenarios** is **economically and politically feasible**, such that the **level of debt** is consistent with an **acceptably low rollover risk** and with preserving **potential growth at a satisfactory level**.

LA DEUDA NO ES SOSTENIBLE BAJO SUPUESTOS REALISTAS (CONT.)

NINGÚN SUPERÁVIT PRIMARIO PLAUSIBLE PUEDE ESTABILIZAR LA TRAYECTORIA DE LA DEUDA EN LAS CIRCUNSTANCIAS ACTUALES

$$\begin{aligned} \text{Resultado primario estabilizador de la deuda (RPED)} &= (r-g)*d \\ \text{Donde} & \\ r \text{ (tasa de interés efectiva real sobre deuda existente)} &= 5,5\% \\ g \text{ (tasa de crecimiento real del PBI a mediano plazo)} &= 2,0\% \\ d \text{ (stock de deuda como \% del PBI)} &= 89,0\% \end{aligned}$$

Resultado primario estabilizador de la deuda dados distintos valores de g

Crecimiento	RPED
1,0%	4,0%
1,5%	3,6%
2,0%	3,1%
2,5%	2,7%
3,0%	2,2%

Ninguno de estos niveles objetivo de resultados primarios estabilizadores de deuda son política y socialmente alcanzables

*Sujeto a una tasa de refinanciación real del 7% para toda la deuda en moneda extranjera, una tasa de refinanciación real del 3,5% para la deuda con instituciones financieras internacionales y una tasa de refinanciación real del 2% para el resto de la deuda en pesos

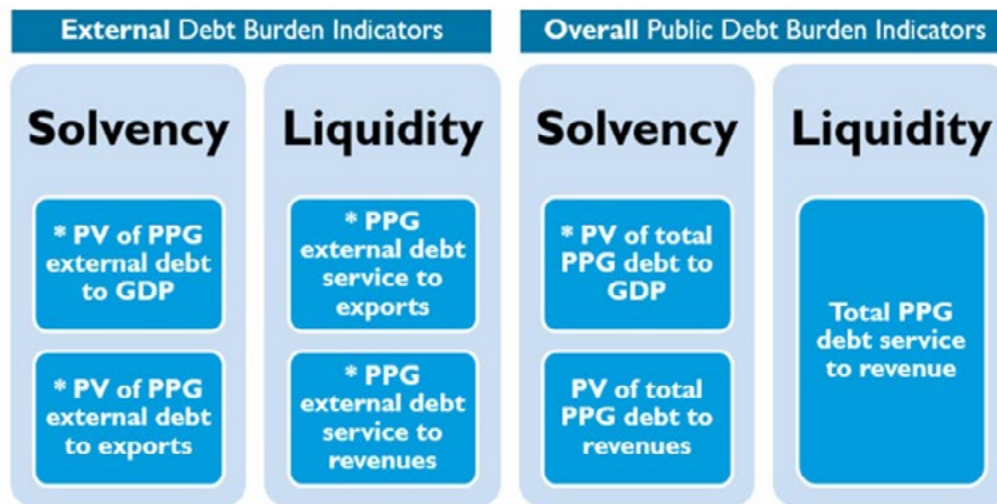
Fuente: Ministerio de Economía

IMF DSA (Sovereign Risk) frameworks

- In practice,
 - ✓ if debt burden **indicators** are above the corresponding **threshold**, this signals risk of debt distress (but signals can be overruled by **judgment**).
- IMF frameworks:
 - ✓ IMF-WB Debt Sustainability Framework for Low Income Countries (**LIC DSF**): For countries that are eligible for the **concessional lending** facilities.
 - ✓ Sovereign Risk and Debt Sustainability Framework for Market-Access Countries (**MAC SRDSF**): For other countries.

a. LIC DSF

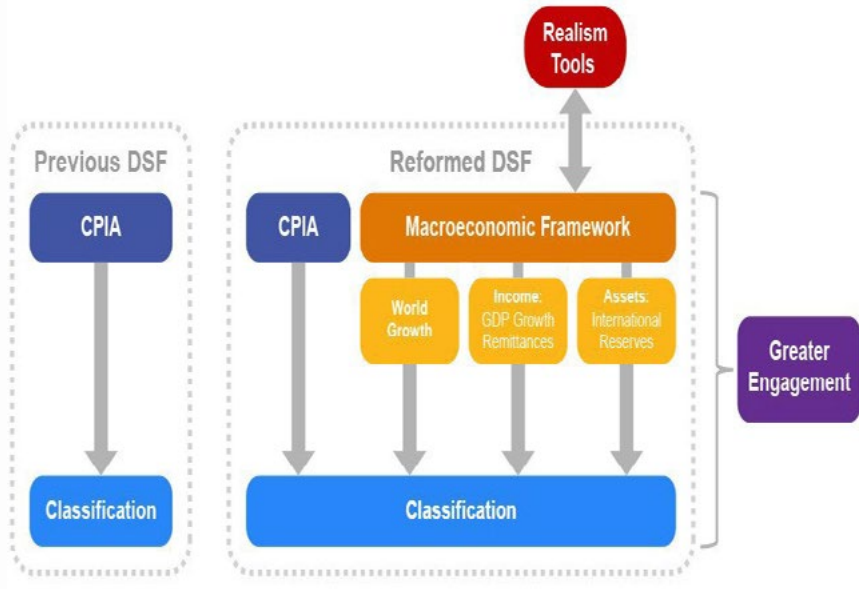
Main debt burden indicators in the LIC DSF



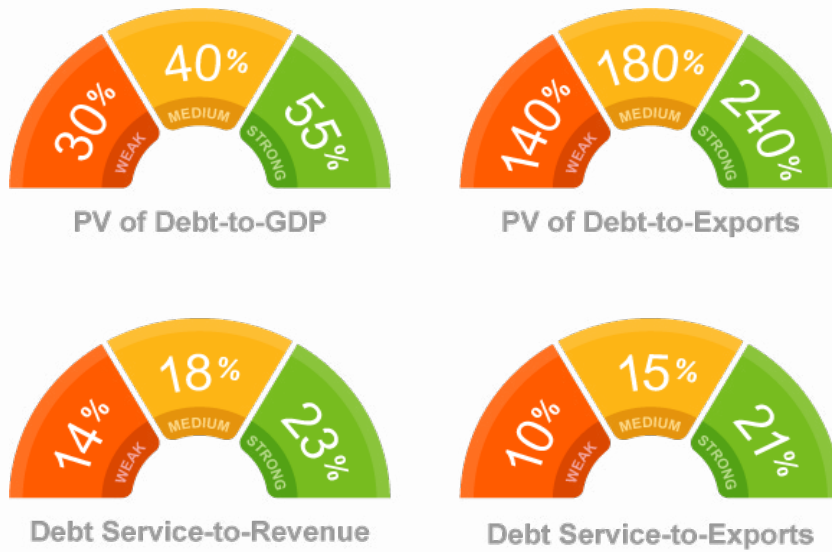
* Indicators that feed into the mechanical risk rating.

The PV of Public debt is calculated as the sum of the PV of external public debt plus the nominal value of public domestic debt.




Debt-carrying capacity in the LIC DSF



External-debt thresholds in the LIC DSF



Mechanical signals in LIC DSF

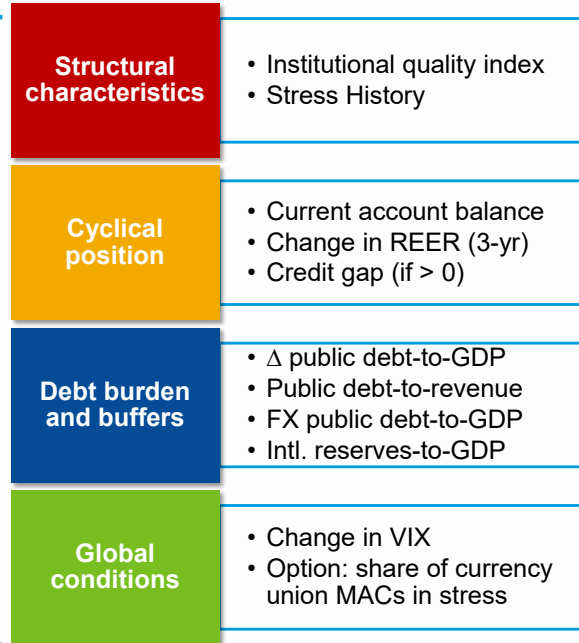
		Breaches under Baseline scenario (number of debt indicators)	Breaches under Shock scenario (number of debt indicators)
	Low	0	0
	Moderate	0	1+
	High	1+	1+

- 1-year breaches are automatically disregarded

b. MAC SRDSF

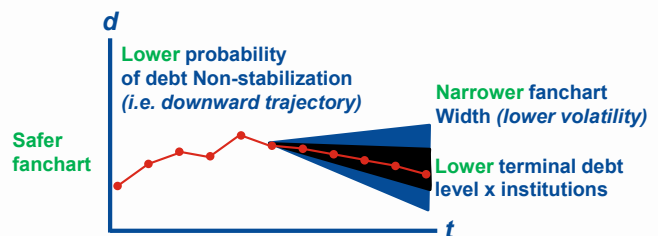
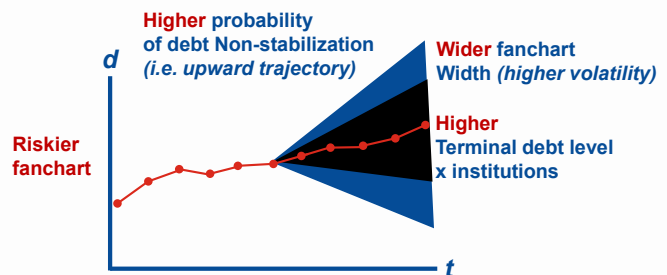
a. Near-term assessment

- A **logit model** to act as an **Early Warning System**:
- **Probability of sovereign stress** in the next 1-2 years
- Only for countries **not currently in stress**
- **Historical data**



b. Medium-term solvency risk: Debt fan charts

- **Overlays the baseline on the historical fanchart** as a realism diagnostic:
 - If baseline above lower historical fanchart region, a baseline-centered fanchart is produced.
 - Otherwise, a **non-centered fanchart** is produced.
- **Debt fanchart index:**
 1. Probability of debt non-stabilization.
 2. Width of fanchart.
 3. Terminal (t+5) debt level x institutions index.



c. Medium-term liquidity risk: GFN

The GFN Financeability Index is the key output from the module

Average GFN-to-GDP ratio in the baseline

This continues to be a critical indicator of potential vulnerability.

Higher financing needs imply higher **liquidity risks**.

Users are now asked to enter assumptions on financing by creditor group:

- Central bank.
- Domestic commercial banks.
- Other domestic creditors.
- External official creditors.
- External private creditors.

Initial bank claims on the government

This metric is an indicator of the banking system's capacity to absorb public debt.

Banks tend to be a stable source of financing when conditions become stressed.

If bank claims are already high, it implies higher risk because it suggests that the banks do not have much **space to provide further financing**.

Change in bank claims on the government in stress

Higher financing needs (for the banking system especially) result from:

- Economic and fiscal **shocks**.
- Maturity shortening.
- Foreign private investor exit.

The change in banks' claims (in percent of assets) is calculated. Higher changes imply higher risk.

The metric can be elevated by a small banking system or reliance on risky foreign private investors.

Thank you!

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Attachment 17

Presentation Slides: World Bank: Best Practices for Debt Management, Ms. Lilia Razlog, Senior Debt Specialist, World Bank



Debt Management and Debt Transparency

Global Macro and Debt Unit, World Bank
December 2025

Official Use Only

➤ Overview



- Sound debt management practices
- Benefits of debt transparency
- New portfolio risks
- Debt management TA highlights

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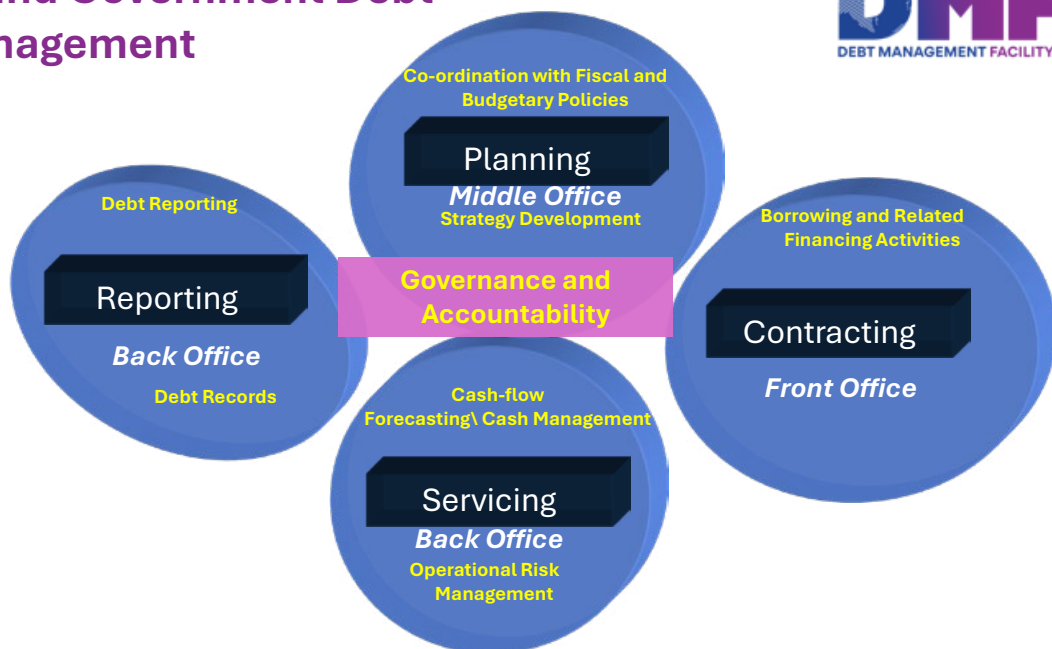


Debt Management

The process of establishing and executing a strategy to raise funds according to the government’s goals while minimizing the costs subject to prudent risk levels

3
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Sound Government Debt Management



Official Use Only

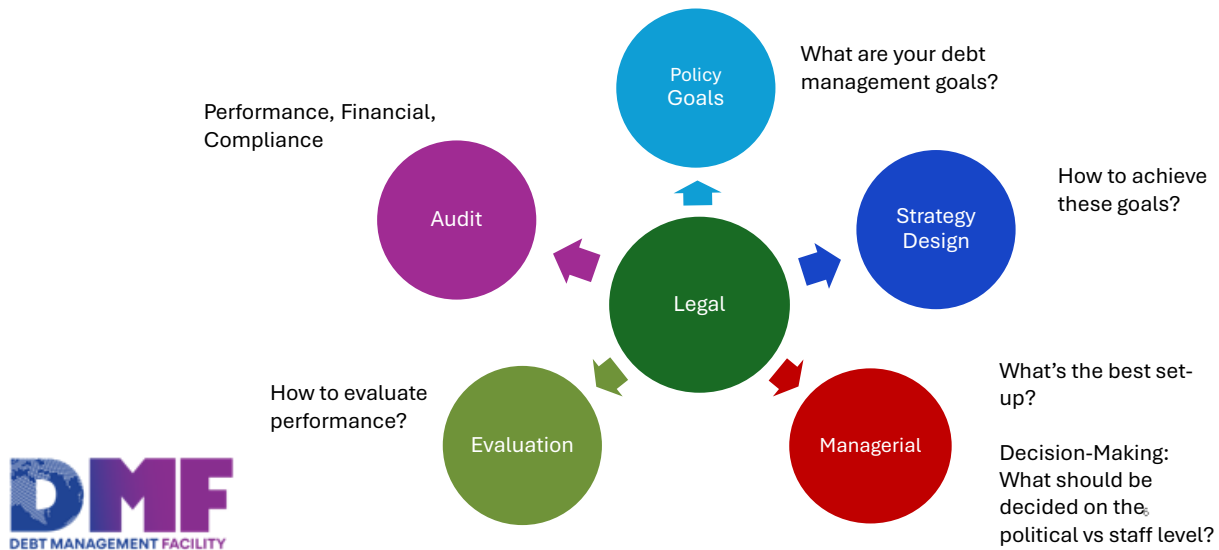
Debt Management Governance Framework



In the context of government debt management, the term “governance” refers to the legal and managerial structure that shapes and directs the operations of government debt management. It also includes accountability aspects related to audits and transparency.

5
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Key Elements of Debt Management Governance Structure



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Organizational Structure

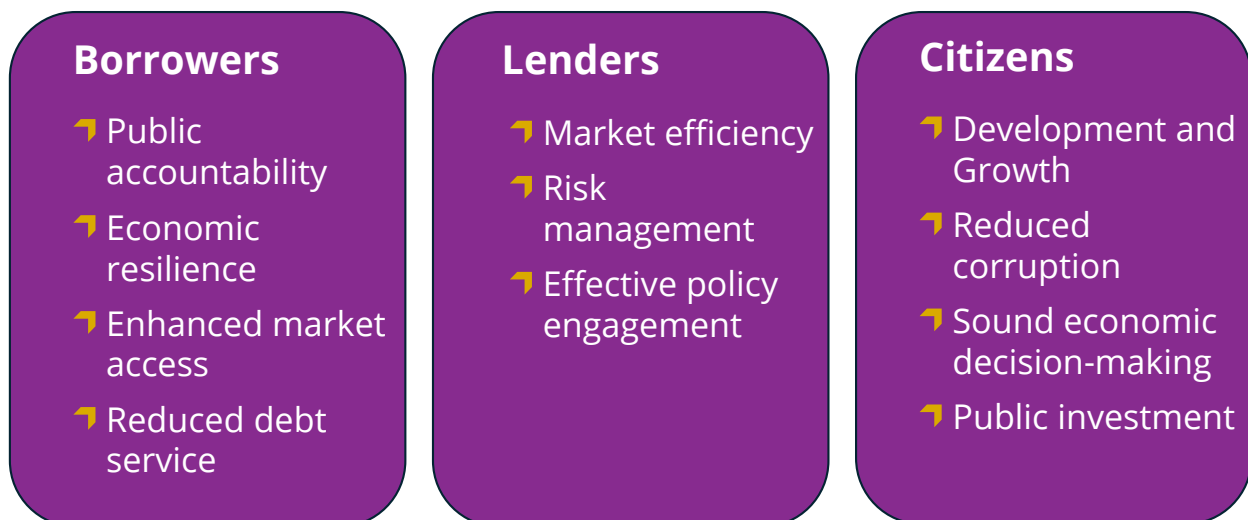


Debt management has become more complex over time: new instruments, ever-changing market, guarantees, linkages with public financial management
 Need for having a unit dedicated to DeM



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Benefits of Debt Transparency?

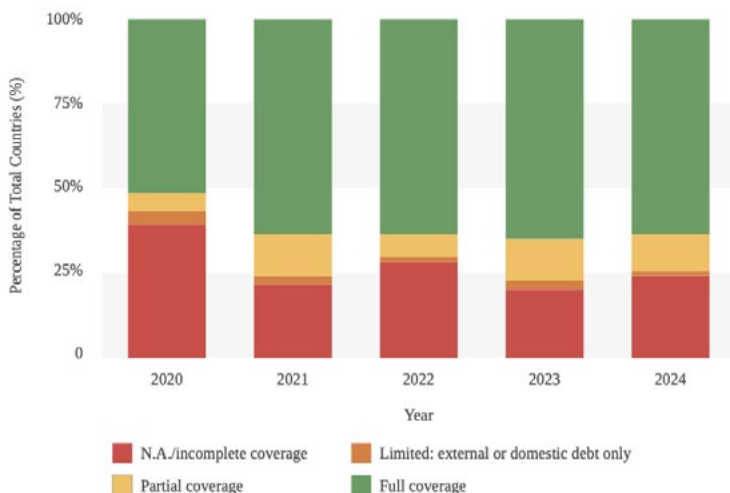


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More Countries Now Publish High-Level Debt Data

Instrument Coverage Trends Across Years



- Share of LICs not publishing debt data **declined from 40%** → **<25%** (mostly fragile and conflict-afflicted states)
- 58% of countries** now publish **Medium-Term Debt Strategies (MTDS)**
- 80% of countries** that publish debt data now **include external, domestic, and guaranteed debt**

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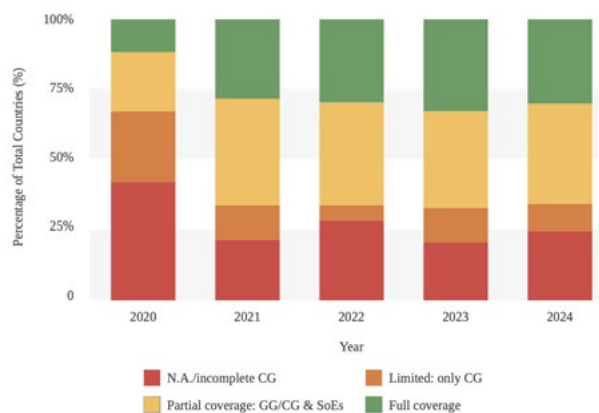
Major Gaps in the Data Persist



- Subnational, SOE, and contingent liabilities (CLs)** are rarely reported

- Coverage is often limited to central government debt
- Contract-level disclosure is rare, complicating accounting of CLs and collateral
- Less than 20% of low-income countries produce fiscal statement or CLs analysis

Sectoral Coverage Trends Across Years



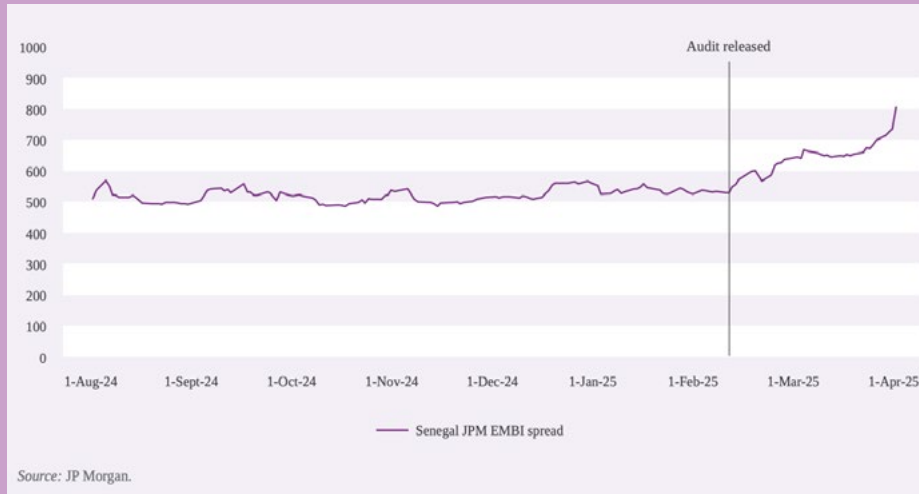
Source: WB's heatmap.

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➤ Hidden Debts → Sudden Crises



Senegal Sovereign Spreads Before/After Audit Release



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Senegal Case Showcases Drivers of Debt Opacity

➤ Debt Management Institutions

- Fragmentation of debt management functions, coupled with poor data-sharing mechanisms and limited institutional oversight

➤ Debt Management Legal Frameworks

- Multiple authorities with authorities to borrow

➤ Debt Management IT Systems

- Debt systems with incorrect computation methods and instruments not properly captured

➤ Debt Management Capacity

- Limited debt management capacity and high turn-over

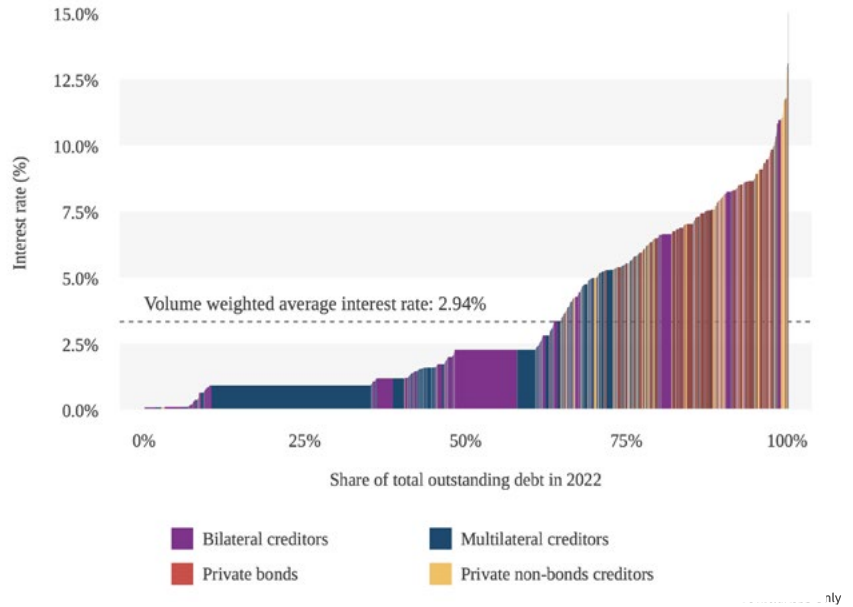


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Importance of Loan-Level Disclosure

Breakdown of debt with interest rates exceeding 5% by creditor:

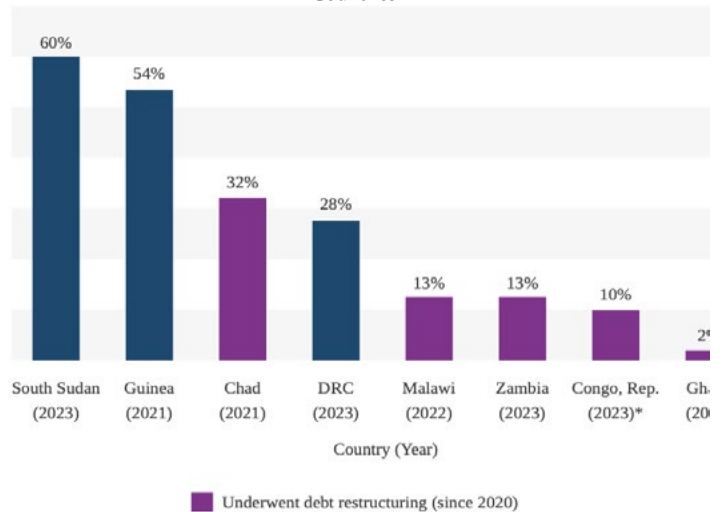
- Official Sector – 35%
- Non-Bond Private – 21%
- Bonds – 44%



Collateralized Lending is on the Rise

- 5 of 9 recent African debt restructurings **involved collateralized debt**
- Collateralized loans may:
 - Elevate country risk premia
 - Strain public financial management systems
 - Complicate or delay restructurings
 - Violate MDBs 'negative pledge clauses'

Collateralized Share of External Public Debt in Selected Sub-Saharan Countries



e: Authors, based on IMF Staff Reports using latest figures reported under the Debt Limits Policy. The Republic of Congo figures only cover oil-prepurchase agreements.

Private Placements

- Increasingly used by LICs, as they offer flexibility and faster execution
- Confidential terms, limited disclosure requirements
- Despite that, often included in indexes
- May be collateralized, subordinating other creditors

Domestic Debt

- Disclosure standards still weak, particularly for non-marketable debt and arrears
- Can enable off-budget borrowing and hidden arrears that distort fiscal statistics
- Marketable debt: issuance transparency and communication suboptimal
- No international database



Recommendations For Borrowers:

- Adopt legislative and regulatory reforms to help ensure transparency in loan contracts.
- Consent to the publication of loan-level data through the World Bank's Debtor Reporting System.
- Strengthen debt authorization procedures to ensure the oversight of new borrowing, particularly the non-standard one (e.g., collateralized loans)
- Expand the coverage and improve timeliness of public debt reports



For Development Partners/IFIs

- Support debt portfolio analysis and promote third-party financial audits
- Develop a methodology for periodical reconciliation of fiscal/budget data, debt service, and external account statistics
- Scale up technical assistance
- Accelerate development of a platform for official loans repository and automated reconciliation of borrower and creditor records
- Develop a new tool to assess key transparency dimensions of the national legal frameworks on an annual basis.

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DMF in Small States

Currently, 26 small states are eligible for DMF support.

- By end-June 2025, 111 technical assistance activities supported by the DMF were implemented in 21 small states.
- The technical assistance were concentrated in DeMPA assessment (30 TAs), debt management strategy design (24), reform plan (23) and management of contingent liabilities and fiscal risks (9).

Belize	Fiji	Maldives	St. Lucia
Bhutan	Gambia, The	Marshall Islands	St. Vincent and the Grenadine
Cabo Verde	Grenada	Micronesia, Fed, Sts.	Timor-Leste
Comoros	Guinea-Bissau	Samoa	Tonga
Djibouti	Guyana	Sao Tome and Principe	Tuvalu
Dominica	Kiribati	Solomon Islands	Vanuatu
Eswatini	Lesotho		



Use Only

Seventeen technical assistance activities were undertaken:

Fiji: MTDS (2022)

Samoa: DeMPA (2010, 2025), Reform Plan (2012, 2014)

Solomon Islands: DeMPA (2019), Reform Plan (2010), MTDS (2021)

Timor-Leste: Reform Plan (2014)

Tonga: Reform Plan (2012), MTDS (2014, 2021), Debt reporting (2024), CL&FR management (2025)

Tuvalu: CL&FR management (2024)

Vanuatu: DeMPA (2014), Institutional framework (2023)



THANK YOU!

<https://www.dmfacility.org/>

[worldbank.org/debt](https://www.worldbank.org/debt)



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Attachment 18

Presentation Slides: A Simplified DSA Simulation Model, Ms. Georgina Conway and Ms. Stefania Pozzi, Palau and RMI's Resident Economist under the ADB-supported TA-10071-REG

ADB RETA-10071 – Second Sub-Regional Workshop

The Public Debt Dynamics Tool (DDT)

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



Structure

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau



1. Introduction: Why Debt & Monitoring Matters
2. Key Debt Concepts
3. What Drives Debt?
4. Debt Formula
5. The Public Debt Dynamics Tool
6. Interactive Session and Scenarios (split into groups)



Why Public Debt Matters

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- ✓ Enables governments to invest in long-term development even when revenues are limited
- ✓ Finances infrastructure, human capital, and productivity-enhancing projects
- ✓ Supports essential public spending during economic downturns or shocks (stabilization role)
- ✓ Helps drive economic diversification, innovation, and private-sector development
- ✓ Builds fiscal credibility and strengthens financial markets through responsible borrowing



Why Public Debt Matters

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- **But:** Excessive or poorly managed debt threatens fiscal stability and development
- **Risks of mismanaged debt:**
 - Debt distress and repayment difficulties
 - Crowding out private investment
 - Loss of investor confidence
 - Fiscal instability



Why Debt Monitoring & Analysis Matters

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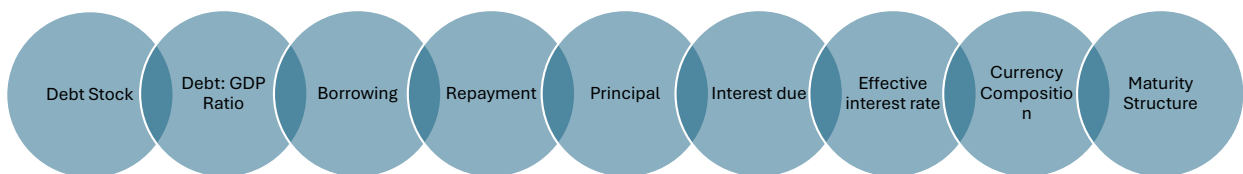


- ✓ Detects rising risks early
- ✓ Ensures borrowing remains sustainable
- ✓ Informs budgeting, fiscal strategy, and policy decisions
- ✓ Strengthens credibility with international partners (IMF, World Bank, ADB)
- ✓ Supports better medium-term planning and debt management
- ✓ Helps reduce borrowing costs over time
- ✓ Allows early identification and management of debt distress risks



Key Debt Concepts

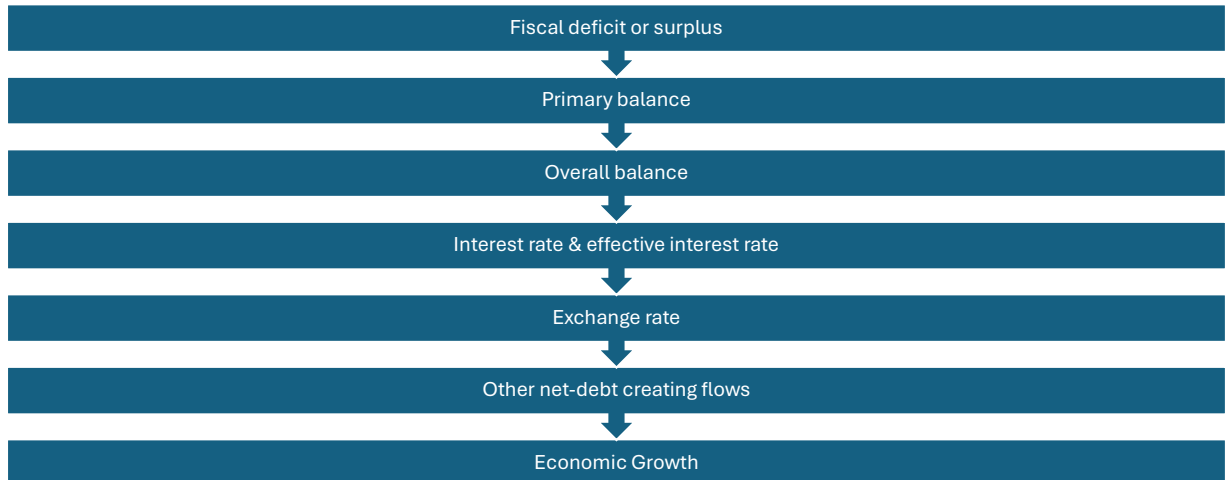
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What Drives Debt?

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Fiscal Deficits & Balances

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- **What the fiscal balance is**
- Fiscal balance = Government revenues – Government expenditures
- Surplus reduces debt; deficit increases debt
- Deficits require borrowing → directly raises the public debt stock

- **Primary vs overall balance**
- **Primary balance** excludes interest payments (revenues – non-interest spending)
- Shows fiscal stance before accounting for past debt
- Primary surplus lowers debt; primary deficit raises it

- **Overall balance** includes interest payments
- **Why it matters**
- Fiscal discipline (containing spending, raising revenues) is one of the strongest drivers of debt outcomes



Interest Rates & Exchange Rates

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•How interest affects debt

- When interest rates grow faster than nominal GDP, debt rises—even without new borrowing
- Higher borrowing costs mean more revenue must go to debt service

•Key indicators

- Effective interest rate = interest payments relative to outstanding debt

•Policy implications

- Lower borrowing costs (concessional loans, strong creditworthiness) support debt stability

•How Exchange Rates impact debt

- Less relevant for RMI and Palau due to limited foreign-currency debt
- Crucial for countries with significant external debt

•How it affects debt

- Currency depreciation increases the local-currency value of foreign-currency debt
- Raises debt service costs

•Policy takeaway

- Managing exchange-rate risk (borrowing in domestic or stable currencies) is essential for countries with FX debt exposure



Other Net-Debt-Creating Flows

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• What they are

- Debt-relevant transactions not captured in the budget
- Can increase debt without appearing in the fiscal deficit

• Examples

- Borrowing to acquire financial assets
- Recognition of arrears
- Calling of contingent liabilities (e.g., SOE defaults on guaranteed loans)
- Debt relief operations

• Contingent liabilities & guarantees

- Uncalled guarantees remain off-balance sheet until triggered
- Original debt belongs to SOE/borrower unless the guarantee is called
- Strong monitoring and disclosure essential to avoid “hidden debt”



Economic Growth

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- **How growth affects debt**
- Higher GDP growth lowers the debt-to-GDP ratio (denominator grows faster)
- Slower growth makes debt ratios worsen even if borrowing stays constant
- **Policy implications**
- Growth-enhancing policies—investment in infrastructure, human capital, and private sector development—are central to long-term debt sustainability



Debt Formula

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$$\text{Debt}_{(t)} = \text{Debt}_{(t-1)} - \text{Primary Balance}_{(t)} + \text{Interest Expense}_{(t)} + \text{Other Flows}_{(t)} + \text{Valuation Effect}_{(t)} + \text{Stock-Flow Adjustment}_{(t)}.$$



Debt Formula

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$$\text{Debt-burden indicator} = \frac{\text{Debt burden}}{\text{Repayment capacity}}$$



The DDT

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- The Debt Dynamics Tool (DDT) is an IMF–World Bank tool for projecting public debt.
- Uses the evolution of the debt-to-GDP ratio as the core projection metric.
- Simulates baseline and alternative scenarios.
- Allows adjustments to: GDP growth, interest rates, exchange rates, fiscal balance, and other macro-fiscal inputs.
- Supports policy dialogue, fiscal planning, and testing of policy scenarios.
- Helps assess: “Given current debt, what fiscal adjustment is needed to reach X% debt-to-GDP in Y years?”
- The projection formulas mirror the theory covered earlier: debt dynamics depend on last year’s debt stock and a set of macro-fiscal variables.



Key Inputs

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The tool only needs the initial debt stock (d_{t-1}) and **macro-fiscal variables**, including:

- I. Share of foreign-currency debt on total debt (α_t)
- II. Effective interest rates on foreign debt (i_t^f) and local-currency debt (i_t^d)
- III. Real GDP growth (g_t)
- IV. GDP deflator inflation (π_t)
- V. Primary balance (pb_t)
- VI. Other debt-creating flows (of_t)
- VII. End-of-period and average exchange rates (e_{teop} , e_{tav})
- VIII. Stocks of uncalled guarantees (local & foreign currency, if included)
- IX. Foreign GDP deflator inflation (optional)



Key Inputs

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- **DDT structure**
- **Yellow tabs:** data inputs and basic country parameters
- **Blue tabs:** standardized tables & figures (results)
- **Green tabs:** model calculations

- **Workflow**
- Start in the *Readme* worksheet → select basic inputs.
- Fill the *Input – Data* sheet with **10 years of historical data** + projections for all required variables.
- Baseline projections use last-year data, but historical data enable full functionality.
- Projection period defaults to **12 years** (can be extended).



Outputs

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- **Baseline public debt projections**
- Reported in the **Output–Baseline** worksheet.
- Linked directly to calculations in the **Baseline** worksheet.
- **Visual outputs:**
- Graph of **debt-creating flows**, showing contribution of each factor.
- Light-blue “Realism and Fiscal Adjustments” box showing realism checks and needed fiscal adjustments.



Outputs

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- **Output tables include:**
- **Debt projections & economic indicators:** real GDP growth, inflation, effective interest rate.
- **Contributions to debt changes:**
 - interest-growth dynamics
 - exchange rate effects
 - GDP growth
 - primary balance
 - other net-debt-creating flows
 - stock-flow adjustments
 - uncalled guarantees
- The **residual** term captures differences not explained by identified drivers—should be minimized by properly classifying debt-creating flows.



Interactive Session

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- Split into groups
- At least 2/3 laptop needed per group
- Work on the DDT (Excel file) to fill the Presentation and then present during the restitution session

PALAU	RMI
BASELINE	BASELINE
Additional Borrowing each year	Loans for hospitals/ports over 1 year
Additional Borrowing + CSPP	Loans for hospitals/ports over 5 years
Additional Borrowing + COVID-28	Fisheries collapse: fish migrates east, loining plant closes, drought in the north



PAL

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THANK YOU!



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Attachment 19

Presentation Slides: Features of Social Security Programs, Mr. Kevin O’Keefe, GSUSA Economist

ADB RETA-10071 – Second Sub-Regional Workshop

Features of Social Security Programs

Kevin O’Keefe

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



OUTLINE

FSM

RMI

PAL

- Social Security Systems and Characteristics
- Key Trends in Social Security Reform
- Pension Plans and Types:
 - Defined Benefit (DB)
 - Defined Contribution (DC)
- Open Discussion

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2



Social Security Systems and Characteristics



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- We will learn about the (fairly minor) differences between FSMSSA, MISSA, and ROPSSA from representatives of each system
 - All three were derived from the Trust Territory system
 - The systems have “drifted” apart over the years
 - RMI and FSM have “reformed for sustainability” while Palau needs reform to avoid collapse of its Trust Fund
- But first a bit about the US SS system for context



Social Security Systems and Characteristics



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Using the US Social Security Administration as a non-exemplary but typical “social insurance” system:

- The main types of program benefits are:
 - Retirement benefits—formula-based if minimum qualifications met
 - Disability benefits—SSDI based on prior work history
 - Survivor benefits—based on deceased worker’s earnings record
 - Family benefits—for spouses or dependent children of a retirement or SSDI beneficiary
- [Supplemental Security Income (funded by US budget)]



Social Security Systems and Characteristics



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How does the US SS system provide “progressive” social insurance benefits?

- Through the use of “bend points” in the benefit formula:
 - Each quarter of earnings is credited and contributions are the same 6.2% percentage for all earners (up to an annual cap); however, in 2025:
 - Monthly earnings up to \$1,226 are credited to replace 90% in retirement
 - Monthly earnings up to \$7,391 are credited to replace 32% in retirement
 - Monthly earnings above \$7,391 are credited to replace 15% in retirement
 - Capped at \$14,675 monthly (\$176,100 annually)
 - Primary Insurance amount is calculated from inflation-adjusted index of highest 35 earning years



Social Security Systems and Characteristics



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The outlook for the US SS system:

- On current policies, the Trust Fund will be “broke” in ~2033
- At that time current contributions will only cover \$0.77 of every \$1.00 of promised benefits
- That projected “under-funding” persists for 12-15 years before reaching full coverage again
- 1983 was the last reform for sustainability, but only pushed the problem forward ~4 decades
- Longevity risk and the “Baby Boomer” bubble not fully addressed



Key Trends in Social Security Reforms



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- **Key Threats to Social Insurance Systems globally include:**

- > Demographic shifts, especially longevity
- > Economic cycles, especially severe labor effort reductions
- > Administrative and structural challenges
- > Political inaction



Key Trends in Social Security Reforms



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Major categories of reform include:

- **Promoting universal social protection:** Expanding social protection to cover the entire population and ensuring access to comprehensive benefits across the life course.
- **Extending coverage:** Creating programs to include hard-to-reach groups, particularly informal workers who are often excluded from traditional social security systems.
- **Improving financial sustainability:** Reforming existing systems to ensure long-term viability, often by adjusting contribution rates, retirement ages, and benefit formulas.



Pension Plans: DB vs. DC—Risk

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	Defined Benefit—DB Plan	Defined Contribution—DC Plan
Risk	Employer bears investment and longevity risk; sometimes underwritten by government	Employees bear the investment and longevity risk; default investment can be age-based allocation funds

The main trade-off is **risk versus certainty**:

- defined benefit (DB) plans offer a guaranteed income stream in retirement, shifting investment and longevity risks to the employer;
- defined contribution (DC) plans put the investment risk and reward on the employee, providing more portability but an uncertain retirement income.



DB vs. DC—Benefits & Funding

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	Defined Benefit—DB Plan	Defined Contribution—DC Plan
Benefits	Formula-driven monthly payment for life; typically based on years of service and late or full career earnings	No vesting for employee contributions and often zero or short periods for employer contributions
Funding	Employee & Employer contributions determined by formula (goal is sustainability)	Employee contributions may be fixed or flexible; employer contributions mandated or as a match with a cap

DB vs. DC—Ownership: Vesting & Liability

FSM RMI PAL

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	Defined Benefit—DB Plan	Defined Contribution—DC Plan
Ownership & Vesting	Vesting periods to qualify for benefits can be long (e.g. 10 years); non-vested employees receive return of employee contributions	No vesting for employee contributions and often zero or short periods for employer contributions
Ownership & Liability	Under US accounting (GAAP) pension plans are reported on government or corporate balance sheets [but not SS systems]	Under US accounting (GAAP) DC plans are held “off balance sheet” for government and corporations

DB vs. DC—Investment Management & Portability

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	Defined Benefit—DB Plan	Defined Contribution—DC Plan
Investment Management	Managed by or for the employer, usually with a Board of Trustees directing a pool of investments through a financial institution (fiduciary)	Employees make investment choices from a list of available choices (narrow or broad) offered through a financial institution (fiduciary)
Portability	Generally, not portable	Generally, portable (with some constraints)

Open Discussion

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- What are some pros and cons of a Defined Benefit system? ... of a Defined Contribution system?





Attachment 20

Presentation Slides: Marshall Islands Social Security Administration (MISSA), Mr. Bryan Edejer, Administrator, MISSA



MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION (MISSA)

YOU MIGHT LEARN SOMETHING TODAY!

Presented by: Bryan Edejer, Administrator

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A “DEFINED BENEFIT” (DB) RETIREMENT PROGRAM

AN INITIAL SOCIAL SECURITY ACT WAS PASSED IN 1987. IN 1991, THE 1ST ACT WAS AMENDED TO CREATE MISSA AND THE RETIREMENT FUND.

- MISSA IS A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS (RMI) THAT AIMS TO PROVIDE ITS PEOPLE **PENSION BENEFITS, SECURITY BENEFITS**, AND SUPPORT FOR THE RETIREES, THE DISABLED AND LIVING IMMEDIATE FAMILY MEMBERS OF DECEASED WORKERS.
- **DB PLAN OFFERS GUARANTEED INCOME/SUPPORT TO A WORKER (WAGE EARNER) UPON RETIREMENT. UNLIKE THE DEFINED CONTRIBUTION PLAN, THE WAGE EARNER’S BENEFITS ARE DEPENDENT ON EMPLOYEE’S AND EMPLOYER’S CONTRIBUTIONS ALONG WITH ANY INVESTMENT GAINS OR LOSSES.**

Presented by: Bryan Edejer, Administrator

Defined-Benefit Plan
(in: ʻṚṚ ḄṚ ḄṚ ḄṚ ḄṚ)
An employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history.

Defined Contribution Plan
(in: ʻṚṚ ḄṚ ḄṚ ḄṚ ḄṚ)
A retirement plan funded by employees and their employers that doesn't promise a specific amount.

12/11/25 2

DB PLAN REQUIRES EMPLOYEE'S AND EMPLOYER'S CONTRIBUTIONS

EMPLOYEE CONTRIBUTES 8%

EMPLOYER CONTRIBUTES 8%



Presented by: Bryan Edejer, Administrator

12/11/25

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TYPES OF SOCIAL PROTECTION BENEFITS

- ❑ **RETIREMENT INSURANCE BENEFIT (RE):** A WORKER OR A SELF-EMPLOYED (WAGE EARNER) WORK MUST HAVE ATTAINED 63 YEARS OF AGE TO ENROLL. THE WORKER MUST HAVE BEEN FULLY AND CURRENTLY INSURED AFTER EARNING AT LEAST 38 QUARTERS (ABOUT 9.5 YEARS OF EMPLOYMENT) TO BE ELIGIBLE.
- ❑ **DISABILITY INSURANCE BENEFIT (DI):** AN APPLICANT MUST HAVE BEEN PHYSICALLY AND MENTALLY IMPAIRED AS MEDICALLY CONFIRMED AND EXAMINED BY MISSA'S MEDICAL EXAMINER IN ORDER TO START DRAWING FROM THE DI PLAN.
- ❑ **SURVIVING SPOUSE BENEFIT (SP):** A WIDOW OR A WIDOWER MUST HAVE BEEN THE SPOUSE OF THE DECEASED WAGE EARNER. THE DECEASED WORKER MUST HAVE BEEN FULLY AND CURRENTLY INSURED.
- ❑ **DEPENDENT CHILD BENEFIT (DC):** A CHILD MUST HAVE BEEN A DEPENDENT OF THE DECEASED WAGE EARNER (WE) TO BE CONSIDERED BY THE DC PROGRAM. THE DECEASED WAGE EARNER MUST HAD FULLY AND CURRENTLY INSURED OR HAD EARNED AT LEAST 38 QUARTERS OF COVERAGE IN ORDER FOR THE CHILD TO AVAIL THE MONTHLY BASIC BENEFIT.
- ❑ **LUMP-SUM (FOR LIVING OR DEATH):** THE LUMP SUM PAYMENT IS MADE AVAILABLE WHEN WAGE EARNER HAS REACHED HIS 63RD BIRTHDAY AND REACHED LESS THAN 38 QUARTERS OF COVERAGE. THE LUMP SUM PAYMENTS ARE DETERMINED AT 80% OF THE WAGE EARNER'S "LIFE-TO-DAY" PAID CONTRIBUTION.

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12/11/25

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*FULLY INSURED-38 QTRS. OF COVERAGE
*CURRENTLY INSURED AT LEAST 6 QTRS. DURING THE 40 QUARTERS PERIOD

RETIREMENT AGE, MEMBERSHIP AND DISBURSEMENT.



The age for retirement in RMI now is 63



Plans	Enrollement	in %
RE	1,923	44%
SP	1,497	35%
DC	606	14%
DD	71	2%
DI	225	5%
Total	4,322	100%

*Figures are as of 12/6/2025

DISBURSEMENT	
Allocations	Amount (in \$\$)
Monthly	1,806,423
Yearly	21,677,079

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Challenges



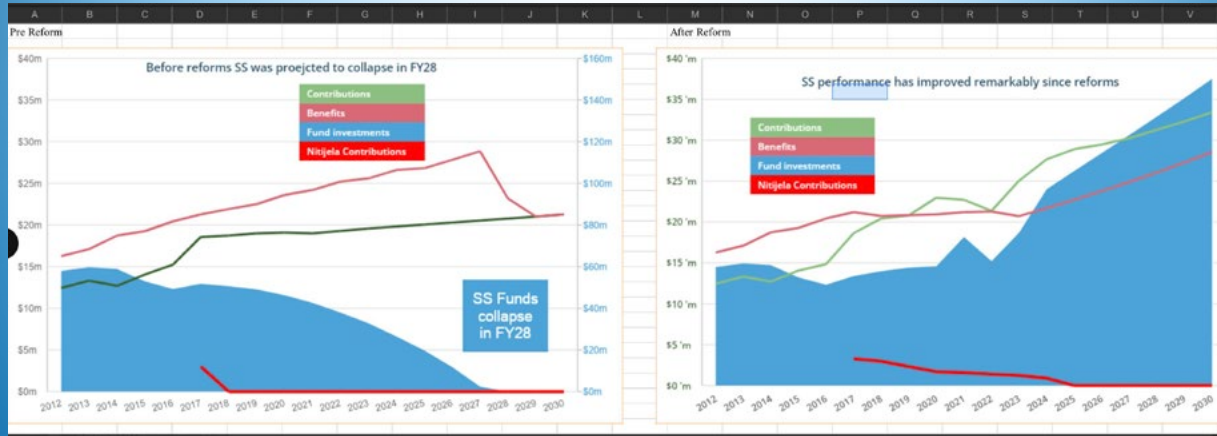
- BETWEEN 2011 TO 2016, THE RETIREMENT FUND (RF) HAD BEEN RUNNING DEFICITS. THE CONTRIBUTIONS COLLECTED WERE INADEQUATE TO MEET THE PAY-OUT OBLIGATIONS OF THE RF.
- IN THE SAME PERIOD, THE ADMINISTRATION WAS FORCED TO WITHDRAW A TOTAL SUM OF \$23,000,000 FROM ITS "OFF-SHORE" INVESTMENTS TO COVER FOR THE OPERATIONAL SHORTFALLS. THE LAST WITHDRAWAL WAS IN DECEMBER 2016.
- A STUDY IN 2017, BASED ON TOTAL ASSETS, INDICATED THAT THE RF WOULD DEplete TO THE GROUND BY 2028.

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CONTINUATION OF THE CHALLENGES



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REFORM TO THE RETIREMENT FUND (RF) IN MARCH 2017

- **DISMANTLED THE EARLY RETIREMENT PLAN (55 YRS. WITH 80 QTRS. COVERAGE)**
- **INCREASED THE RETIREMENT AGE TO 61 (TO BE INCREASED EVERY OTHER TWO YEARS UNTIL IT REACHES 65 YRS. OF AGE)**
- **PUMPED UP THE EMPLOYEE'S AND EMPLOYER'S CONTRIBUTION RATE BY 1% (FROM 7% TO 8%)**
- **RAISED THE COVERED EARNINGS FROM \$5,000 TO \$10,000 PER QUARTER**
- **REDUCED BASIC BENEFIT (BB) BY 5% TO 10%**
- **SET THE MAXIMUM MONTHLY BB TO \$1,200**
- **THE MAXIMUM EARNINGS TEST (ET) INCREASED BY 59% (FROM \$388.88 TO \$944.44/MONTH) FOR THOSE WHO ARE WORKING AND COLLECTING \$\$ FR. THE RF BEFORE THEIR FULL RETIREMENT**

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The reform includes changing the retirement age to include the following:

- (b) A fully insured worker or self-employed worker, upon his attainment of:
 - (i) age sixty (60) prior to March 6, 2017;
 - (ii) age sixty one (61) by March 6, 2017;
 - (iii) age sixty two (62) by January 1, 2019;
 - (iv) age sixty three (63) by January 1, 2021;
 - (v) age sixty four (64) by January 1, 2023;
 - (vi) age sixty five (65) by January 1, 2025,

However, in 2021, the RMI Legislature further amended the law to cap the retirement age at 63.

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RECENT VALUATION AS OCTOBER 1ST 2024

Valuation Date:	October 1, 2021	October 1, 2024 (4.50%)	October 1, 2024 (5.50%)
Accrued Liability			
Workers Earning Benefits	\$136,280,000	\$144,207,000	\$123,593,000
Retirees, Spouses, Children and Disabled Workers Receiving Benefits	194,099,000	182,829,000	170,432,000
Fully Insured Inactive Workers Entitled to a Benefit	<u>62,946,000</u>	<u>106,240,000</u>	<u>95,092,000</u>
Total Accrued Liability	\$393,325,000	\$433,276,000	\$389,117,000
Market Value of Assets	<u>(104,167,000)</u>	<u>(122,763,000)</u>	<u>(122,763,000)</u>
Unfunded Accrued Liability	\$285,158,000	\$310,513,000	\$266,354,000
Funded Ratio	26%	28%	32%
Normal Cost	\$4,099,000	\$6,992,000	\$5,607,000
Asset Return	15.95%	%	%
Valuation Interest Rate	4.50%	4.50%	5.50%

Presented by: Bryan Edejer, Administrator

Year	Total Workers		Accrued Liability	Assets	Funded Status
	Number	Payroll			
2011	11,899	75,713,337	287,327,000	64,986,000	23%
2013	9,981	81,487,087	323,640,000	72,988,000	23%
2014	9,400	86,752,000	442,510,000	72,367,000	16%
2017	9,394	80,276,000	415,162,000	72,715,000	18%
2018	10,059	98,063,000	431,674,000	79,265,000	18%
2021	9,029	94,393,000	393,325,000	104,167,000	26%
2024	10,372	118,716,289	389,116,991	122,763,000	32%
2025	8,985	108,346,882	391,560,438	120,147,000	31%
2026	7,414	97,978,100	392,743,584	115,221,000	29%
2027	6,535	92,453,201	393,471,085	107,761,000	27%
2028	6,069	87,911,304	393,615,242	98,450,000	25%
2029	5,620	83,289,396	392,915,922	87,324,000	22%
2030	5,198	78,942,347	391,442,349	74,390,000	19%
2031	4,796	74,998,778	389,147,736	59,602,000	15%
2032	4,430	70,846,591	386,246,656	43,174,000	11%
2033	4,080	66,600,644	382,706,817	25,001,000	7%
2034	3,740	62,580,979	378,286,348	4,802,000	1%
2035	3,430	58,745,614	373,117,696	(17,315,000)	-5%
2036	3,144	54,890,779	367,267,059	(41,302,000)	-11%
2037	2,870	51,304,641	360,765,708	(67,185,000)	-19%
2038	2,622	47,318,126	353,783,410	(94,815,000)	-27%
2039	2,372	43,804,889	346,069,024	(124,543,000)	-36%

PROPOSED CHANGES TO IMPROVE THE RF

- AMEND SECTION 156 OF THE SOCIAL SECURITY ACT 1990 (SSA) TO ALLOW MISSA TO OFF-SET A RETIREE'S DEBTS (NOT LESS THAN 40% AND NOT MORE THAN 70%).
- AMEND SECTION 103(CC) OF THE SSA TO DISMANTLE THE MINIMUM BASIC BENEFIT AMOUNT FROM \$128.99 TO ALLOW "ACTUAL" BENEFIT CALCULATED BELOW THE EXISTING BB.

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Attachment 21

Presentation Slides: FSM Social Security Administration (FSMSSA), Mr. Leon Panuelo, Jr., Administrator, FSMSSA

FEDERATED STATES OF MICRONESIA SOCIAL SECURITY ADMINISTRATION



Outline

- Overview of the FSM Social Security Administration or System in terms of:
 - Enabling Law & System's Objective (Purpose);
 - Type of Plan (DB) & Funding Source(s);
 - Eligibility Definitions, Benefit Types, and Miscellaneous Statistics;
 - Financial Snapshot – CY2021 to 3QCY2025;
 - CFM Subsidies, Investment Drawdowns and Investment Fund Levels;
 - Social Security Delinquent Taxes
- Actuarial Assessments or Valuations (As of January 1st for 2021 & 2023)
 - Funded Status, Total Accrued Liability, and Unfunded Accrued Liability;
 - Cash Flow Projection
- Past and Current Reforms Under Consideration
 - Since 2020
- Q&A





Establishment, Objective (Purpose), and Administration

- The FSMSSA is a successor of the former TT Social Security System, which was established by FSM Public Law No. 2-74 and codified under Title 53 of the FSM Code, and began its full operation on January 1, 1988.
 - Purpose – to effect economy and efficiency in the fields of government and business by providing a means whereby employees may be ensured a measure of security in their old age and given an opportunity for leisure without hardship and complete loss of income, and, further to provide survivors insurance for wage earners and their dependents; **Key take away: Benefits were not meant to replace salaries;**
 - Administer by a six-member Board of Trustees comprise of one representative from each of the FSM states (Chuuk, Pohnpei, Yap and Kosrae), one representative from the National Government, and Administrator as an Ex officio member.



FSMSSA... A Defined Benefit Plan

- As a defined benefit plan, the FSM Social Security System's design, as mandated by law, is to have the current working force pay for the current benefits. That is a "pay-as-you-go" system, primarily funded through payroll taxes at an equal share of 7.5% for both employer and employee (combined rate of 15%).
- Controls are put into place by law that determine who is eligible for benefits, how much they are eligible for and conditions and requirements for continued eligibility.



Eligibility Definitions

Fully insured

- Retirement & Survivors – 50 quarters of coverage and \$2,500 in contributions
- Disability – 45 quarters of coverage and \$1,500 in contributions

Currently insured – to have earned at least 20 quarters of coverage within the 25-quarter period immediately preceding death or disability.



FSMSS Benefits

Benefit Type	Eligibility Requirement	Insured Status	Supporting Documents Required
Retirement	<ul style="list-style-type: none"> • Attained age 60 	Fully Insured	At least two evidences of birth, dated 5 years or more <ul style="list-style-type: none"> • Birth Certificate • Passport or etc.
Surviving Spouse	<ul style="list-style-type: none"> • Spouse who lived w/ wage earner until death • Not working and • Still widowed 	Fully Insured	<ul style="list-style-type: none"> • Death Certificate • Marriage Certificate • Employment Termination Action/Notice
Surviving Child(ren)	<ul style="list-style-type: none"> • Natural or adopted child of wage earner • Dependent child • Not working • Not married • In school if over age 18 	Fully Insured or Currently Insured	<ul style="list-style-type: none"> • Birth Certificates • If adopted: <ul style="list-style-type: none"> – Adoption Decree – Proof of economic dependency
Disability	<ul style="list-style-type: none"> • Medical fact – claimant has the claimed disability • Disability has lasted for at least three full calendar months, and expected to result in death, or to last no less than 12 months • Stopped working • Recommendation of allowance by Disability Examiner 	Both Fully and Currently Insured	<ul style="list-style-type: none"> • Disability Report Form • Current medical records • Termination Action/Notice



FSMSS Benefits – Cont.

Benefit Type	Eligibility Requirement	Insured Status	Supporting Documents Required
Payment to Foreign Citizens	<ul style="list-style-type: none"> • Attained age 60 	Fully Insured	<ul style="list-style-type: none"> • At least two evidences of birth, dated 5 years or more <ul style="list-style-type: none"> - Birth Certificate - Passport or etc. • Termination Action • Proof of cessation of residency
Optional Lump Sum	<ul style="list-style-type: none"> • Attained age 60 • Resided in the FSM for at least 1 year preceding their applications for these benefits, and have either resided in the FSM for no less than 10 years total, or who were born in the FSM 	Not Fully Insured	<ul style="list-style-type: none"> • At least two evidences of birth, dated 5 years or more <ul style="list-style-type: none"> - Birth Certificate - Passport or etc. • Immigration record
Regular Lump Sum	<ul style="list-style-type: none"> • Spouse, children, parents or next of kin 	Fully Insured, Currently Insured or None	<ul style="list-style-type: none"> • Death Certificate • Marriage Certificate • Birth Certificates • Proof of next of kin



Benefit Formula

The Retirement, Survivors and Disability Benefits are being calculated on an annual basis of 16.5% of the first \$10,000 of cumulative covered earnings, plus 3% of cumulative covered earnings in excess of \$10,000 but not in excess of the next \$30,000, plus 2% of cumulative covered earnings in excess of \$40,000 but not in excess of the next \$262,500, plus 1% of cumulative covered earnings in excess of \$302,500:

Total Taxable Wages:						
10,000.00	X	16.5%		1,650.00		
30,000.00	X	3%		900.00		
262,500.00	X	2%		5,250.00		
57,500.00	X	1%		575.00		
				8,375.00	divided by 12 =	\$697.92

Note: Current retirement is 50% of calculated benefit so in this scenario, the monthly retirement benefit is \$348.96.



Earnings Test

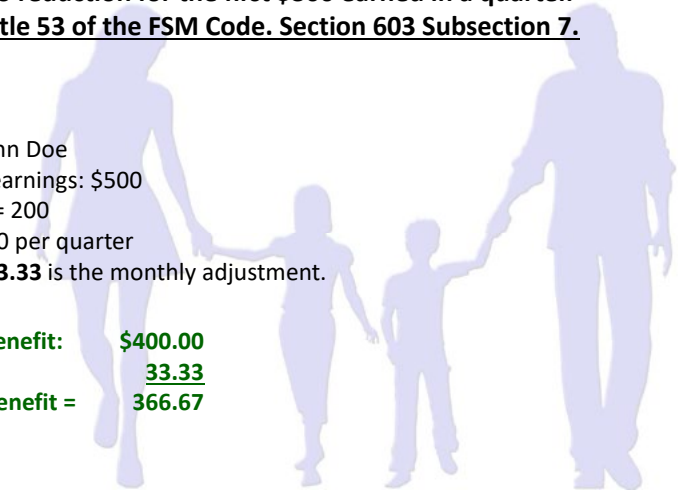
Earnings test: an individual who receives a retirement, or survivor benefit and works in covered or non-covered employment shall have his quarterly benefit reduced by one dollar for each two dollars earned in a quarter, except there shall be no reduction for the first \$300 earned in a quarter.

Source: Title 53 of the FSM Code. Section 603 Subsection 7.

Example

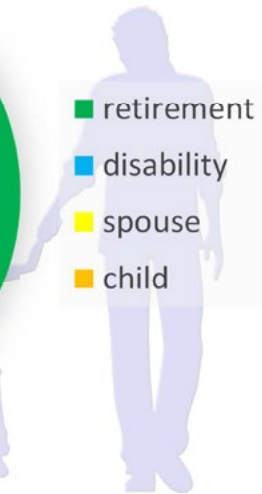
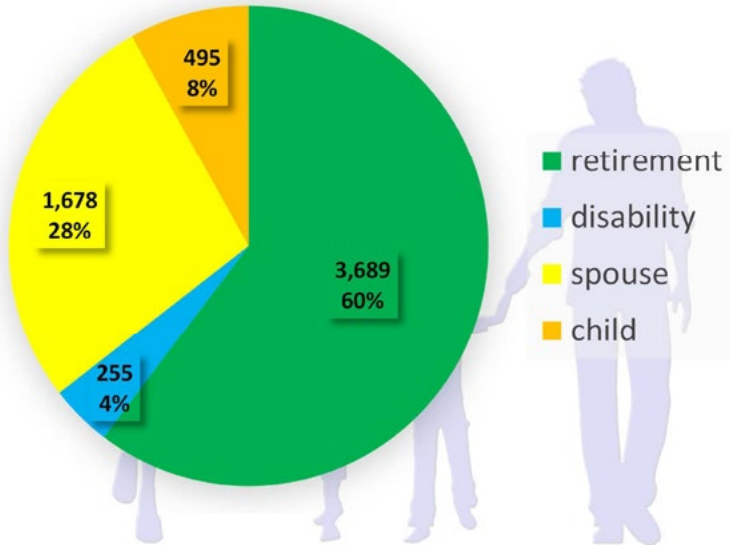
Retiree: John Doe
 Quarterly earnings: \$500
 $500 - 300 = 200$
 $200 / 2 = 100$ per quarter
 $100 / 3 = \$33.33$ is the monthly adjustment.

Monthly benefit:	\$400.00
less ET adj.	<u>33.33</u>
adjusted Benefit =	366.67



Miscellaneous Statistics

Total Beneficiary Count – 6,117
 Total Monthly Payout - \$1,930,666



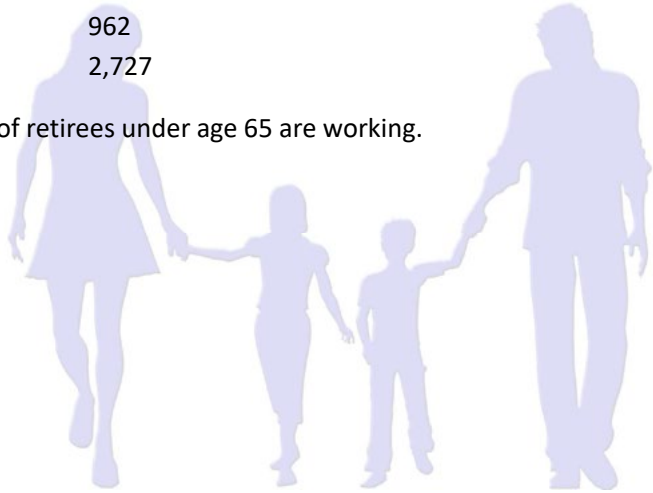


Miscellaneous Statistics – Cont.

Total Number of Retirees – 3,689

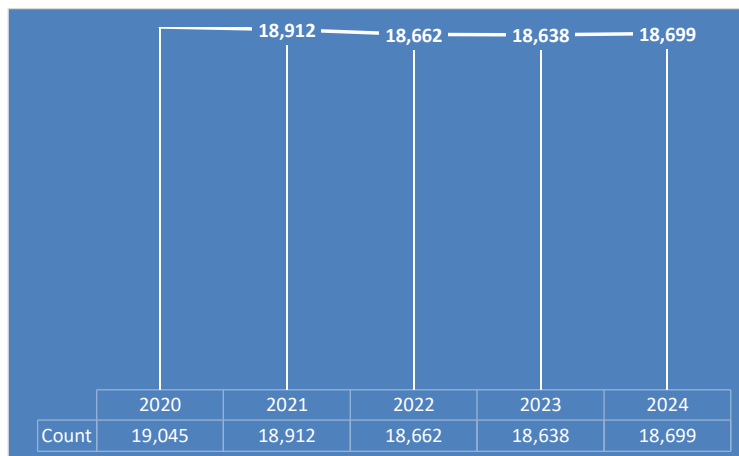
Type	Count
RE <age 65	962
RE >age 65	2,727

598 or **62%** of retirees under age 65 are working.



Miscellaneous Statistics – Cont.

Wage Earner Counts (2020 - 2024)



FSM Total Population – 102,843 (2010 census)



Financials – CY2021 to 3QCY2025

	01/25 -09/25	2024	2023	2022	2021
Total Contributions	20,955,987	26,289,866	23,183,679	21,083,840	20,722,518
<i>Government</i>	<i>11,682,829</i>	<i>14,613,882</i>	<i>12,126,910</i>	<i>11,123,796</i>	<i>10,688,014</i>
<i>Private</i>	<i>9,273,158</i>	<i>11,675,984</i>	<i>11,056,769</i>	<i>9,960,044</i>	<i>10,034,504</i>
Benefits	18,433,507	26,178,114	25,493,999	23,687,079	22,870,218
Admin Expenses	1,288,645	1,735,530	1,321,594	1,133,902	1,042,379
Appropriation from NG	2,000,000	2,000,000	2,500,000	1,000,000	1,000,000
Investment drawdown	-	500,000	1,500,000	2,400,000	3,000,000

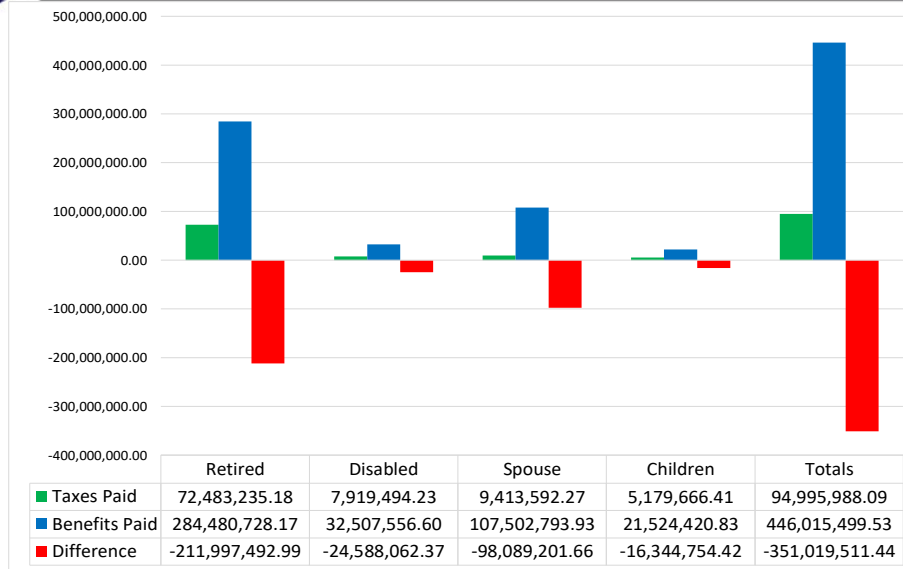


Breakdown of Benefit Payments

	2021	2022	2023	2024	01/25 – 09/25
Retirement	15,147,738.16	15,964,345	17,702,240	18,173,335	13,094,983
Disability	1,737,899.69	1,694,980	1,599,151	1,547,345	1,086,925
Surviving Spouse	5,297,015.63	5,308,734	5,395,530	5,567,532	3,637,277
Surviving Children	567,204.31	477,913	517,937	516,378	362,229
Lump Sum	148,890.41	268,523	248,649	271,527	194,630
Foreign Retirement	89,722.36	38,615	106,958	134,526	124,594
Foreign Survivor	5,558.90	10,710	8,131	32,992	11,461
Prior Years	-123,811.94	-76,740	-84,596	(65,521)	(78,592)
Total	22,870,217.52	23,687,079	25,494,000	26,178,114	18,433,507



Taxes Paid Vs. Benefits Paid



82% of all current beneficiaries have exhausted their contributions.



Biennial Survey

1. Must be properly filled out i.e. retirees must complete section for retirement etc.
2. Must be notarized.
3. Must be accompanied by proof of employment status if under age 70.
 - W-2 forms
 - Tax clearance
 - Tax filing (can be used as proof of unemployment if listed as dependent)
 - US Social Security Wage History
 - Doctor’s attestation that beneficiary is unable to work if receiving Disability
 - Other documents deemed acceptable depending upon circumstances.

Note: Retirees aged 65 and over will receive 50% of their calculated benefits if working or unable to provide proof of employment status.

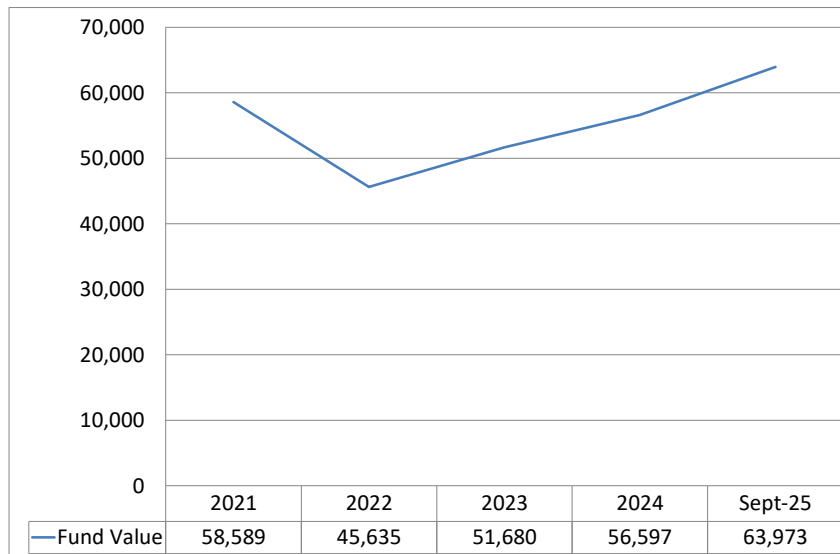


CFSM Subsidies and Investment Drawdown

Year	Subsidy	Drawdown
2003	None	1,000,000
2004	None	None
2005	None	750,000
2006	None	1,250,000
2007	None	2,900,000
2008	None	1,400,000
2009	500,000	3,000,000
2010	1,195,000	2,000,000
2011	1,200,000	500,000
2012	1,200,000	1,000,000
2013	1,000,000	1,000,000
2014	1,000,000	1,000,000
2015	1,000,000	2,500,000
2016	2,000,000	2,000,000
2017	1,000,000	None
2018	1,000,000	3,000,000
2019	1,000,000	2,000,000
2020	1,000,000	3,000,000
2021	1,000,000	3,000,000
2022	1,000,000	2,400,000
2023	3,000,000	1,500,000
2024	2,500,000	500,000
2025	2,000,000	None
Total	35,700,000	22,595,000



Investments – Fund Performance





Active vs. Inactive Delinquent Employers

State	(Overall)	(Closed/Inactive/Write-Off)	%	Active
Chuuk	2,063,201.50	1,446,670.47	70.1%	616,531.03
Pohnpei	3,763,932.07	1,830,027.90	48.6%	1,933,904.17
Kosrae	409,035.15	161,459.41	39.5%	247,575.74
Yap	1,141,472.03	484,677.38	42.5%	656,794.65
Total	7,377,640.75	3,922,835.16	53.2%	3,454,805.59



Social Security Tax Rates Comparison

	Employee	Employer	Total
FSM	7.5%	7.5%	15%
Palau	7%	7%	14%
Marshall Islands	8%	8%	16%
United States	6.2%	6.2%	12.4%
Fiji	8%	10%	18%
Kiribati	7.5%	7.5%	15%
Papua New Guinea	6%	8.4%	14.4%



Actuarial Assessments (As of January 1st)

	As of January 1	
	2023	2020
Workers Earning Benefits	133,471,000	132,347,000
Retirees, Spouses, Children, and Disabled Workers Receiving Benefits	170,296,000	166,629,000
Fully Insured Inactive Workers Entitled to a Future Benefit	67,348,000	60,896,000
Total Accrued Liability	371,115,000	359,872,000
Assets at Market Value	50,197,000	55,427,000
Unfunded Accrued Liability	320,918,000	304,445,000
Funded Ratio (Market Value)	13.50%	15.40%



Actuarial Cash Flow Projection

Year	Beginning Market Value of Assets	Expected Contributions	Expected Benefit Payments and Expenses	Ending Market Value of Assets
2023	50,197,000	21,615,000	27,403,000	\$47,724,000
2024	47,724,000	22,209,000	27,069,000	46,037,000
2025	46,037,000	22,820,000	26,925,000	45,013,000
2026	45,013,000	23,448,000	26,878,000	44,616,000
2027	44,616,000	24,092,000	26,988,000	44,743,000
2028	44,743,000	24,755,000	27,614,000	44,918,000
2029	44,918,000	25,436,000	28,361,000	45,037,000
2030	45,037,000	26,135,000	29,203,000	45,016,000
2031	45,016,000	26,854,000	30,148,000	44,760,000
2032	44,760,000	27,592,000	31,043,000	44,323,000
2033	44,323,000	28,351,000	31,847,000	43,809,000
2034	43,809,000	29,131,000	32,886,000	42,991,000
2035	42,991,000	29,932,000	34,080,000	41,710,000
2036	41,710,000	30,755,000	35,125,000	40,109,000
2037	40,109,000	31,601,000	36,125,000	38,237,000
2038	38,237,000	32,470,000	37,183,000	36,038,000
2039	36,038,000	33,363,000	38,366,000	33,386,000
2040	33,386,000	34,280,000	39,417,000	30,409,000
2041	30,409,000	35,223,000	40,692,000	26,880,000
2042	26,880,000	36,191,000	41,800,000	22,960,000

Assumptions:

1. Annual increase in total contributions: 2.75%
2. Annual increase in administrative expenses: 2.75%
3. Annual increase in contributions: None



Making Changes, 2000 to Now

1. 2000
 - Increased tax rate to 6%
2. 2003
 - Introduced retroactive limits to benefits, 12 months for retirement and survivors and 24 months for disability
3. 2005
 - Increased taxable wage base from \$3,000 to \$5,000
4. 2006
 - Paid foreigners lump sum benefits equal to contributions
 - Created voluntary contributions program (local and abroad)
5. 2007
 - Introduced minimum contribution requirements (\$2,500 for retirement and survivors and \$1,500 for disability)
 - Introduced fourth tier to benefit formula to counteract increasing benefits
6. 2008
 - Increased quarterly taxable wage base from \$5,000 to \$6,000



Making Changes, 2000 to Now

7. 2009
 - Modify language in the law to give FSMSSA more options and authority in collecting delinquent taxes
 - Change investment law to allow Triple B bonds
 - Allow international investments through ADRs
8. 2010
 - Increased quarter requirement for retirement and survivors to 50 (*\$6.2 million decrease to UAL*)
 - Increased quarter requirements for disability to 45 (*\$1 million decrease to UAL*)
 - Reinstated currently insured status as a requirement for disability (*\$16.4 million decrease to UAL*)
 - Increased tax rate to 7% (*annual collections increased by \$1,771,610.64*)
9. 2011
 - 50% to retirees from age 60 to 64 (*\$28.5 million decrease to UAL*)



Making Changes, 2000 to Now

10. 2013
 - Tax rate increased to 7.5% (*annual collections increased by \$2,748,634.12*)
 - Quarterly taxable wage base increased to \$7,000
11. 2018
 - Quarterly taxable wage base to increase to \$8,000
12. 2022
 - Congress passed Public Law 22-166 to allow retirees age 65 and over to receive 50% of their calculated benefit while they continue working. The law also changed the amount of optional lump sum benefit from 4% of cumulative covered earnings to total employee taxes paid.
13. 2023
 - Quarterly taxable wage base increased to \$9,000 (expected to increase to \$10K on October 1, 2028).



Voluntary Contributions

1. Self employed persons with annual GRT < than \$10,000
2. Citizens working outside of FSM, Palau & Marshall Islands.

P.L. 14-86, Section 903 (1) & (2)

Effective date: January 1, 2007

- Wages: fixed at \$5,000 per year or \$1,250 per quarter
- Tax Rate :15%
- No Penalty Charge
- No Interest Charge
- Due Date: Within 60 days after the year ends (payment of multiple years not allowed)

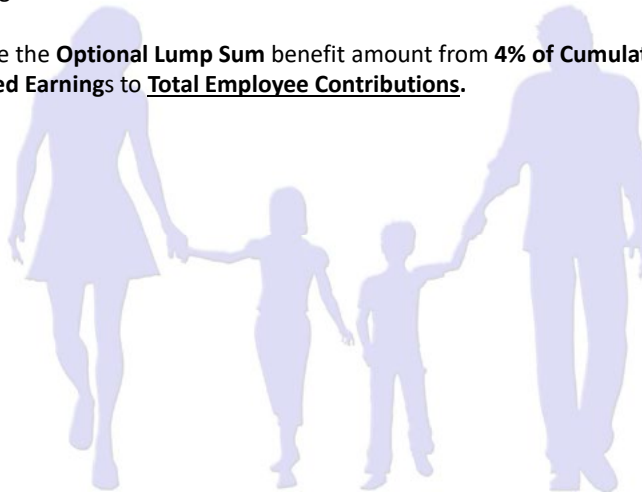
Annual Tax: \$5,000 X 15% = \$750

Quarterly Tax: \$1,250 X 15% = \$187.50



Public Law 22-166

1. Allow retirees age 65 and older to work without the application of the earnings test.
2. Change the **Optional Lump Sum** benefit amount from **4% of Cumulative Covered Earnings** to **Total Employee Contributions**.



Proposed Investment Amendment

The FSMSSA has submitted proposed changes to the social security investment law that would lift restrictions to allow for investment into more asset classes and even locally. The proposed legislation was modeled after the FSM Trust Fund law.

1. (NEW) Development of Comprehensive Investment Guidelines (53 FSMC § 1002(2), § 1006(3)(a)) The Board must establish written investment guidelines addressing strategic asset allocation targets, risk management requirements, liquidity management, performance benchmarks, permitted/prohibited practices, and investment manager selection procedures.
2. (NEW) Annual Guidelines Review Process (§ 1006(3)(c)) The Board must implement a system to review and update investment guidelines annually, considering capital market changes, the System's financial condition, and actuarial projections.
3. (ENHANCED) Service Provider Contract Updates (§ 1006(4)(b), § 1005(6), § 1004(6)) All investment service providers must acknowledge fiduciary duties in writing and agree to comply with new Board-established guidelines.
4. (NEW) Strategic Asset Allocation Development The Board must determine target percentage distributions among major asset classes based on investment objectives, risk tolerance, and time horizon (§ 1006(1)(e)).
5. (ENHANCED) Risk Management Framework Implementation of diversification requirements, concentration limits, and credit quality standards to minimize large losses while achieving investment objectives (§ 1006(2)(b)(ii), § 1006(3)(b)).
6. (NEW) Performance Monitoring System Establishment of benchmarks and evaluation criteria for measuring investment performance against objectives (§ 1006(3)(a)(iv))
7. (NEW) Investment Consultant Engagement for Guidelines Development (§ 1004(6)) The investment consultant must assist in developing, implementing, and monitoring the comprehensive investment guidelines, including recommendations on strategic asset allocation and risk management practices.
8. (ENHANCED) Monitoring and Oversight Procedures Implementation of systems to oversee delegated investment managers and ensure compliance with Board-established guidelines (§ 1006(4)(a))

END

Mesulang, Kommol tata, and KAMORALE from the FSM Group!

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Attachment 22

Presentation Slides: Republic of Palau Social Security Administration (ROPSSA), Mr. Heflin Bai, Chairman, ROPSSA



Republic of Palau Social Security Administration

Hefflin Bai
Chairman, Board of Trustee

Republic of Palau Social Security Administration



- Institutional Overview and Organizational Structure
- Employer Services
- Members Services
- Financial Overview
- BOT Recommendations for Reforms Under Consideration

ROP Social Security Administration

Institutional Overview and Organizational Structure



- **July 1, 1968**
 - 1968 Social Security Act of the Trust Territory of the Pacific Islands
- **May 28, 1987**
 - Establishment of Palau Social Security System
- **Title 41 PNCA: Social Security**
- **5 board members**
 - Provide governance
 - Appoints Administrator
- **SSA Administrator**
 - Oversees day-to-day operations
 - Serves as an ex-officio Board member



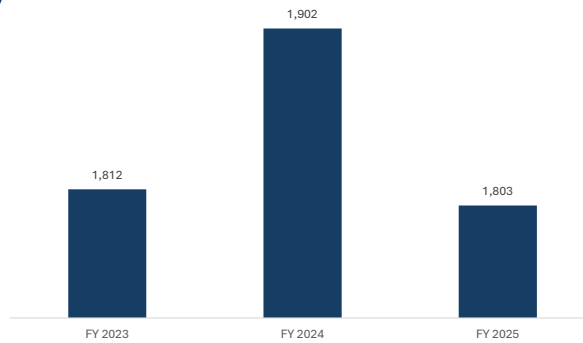
Employer Services

- Social Security Numbers
- Employer Identification Numbers
- SS Contributions
- Business Auditing

Employer Services



Active Businesses



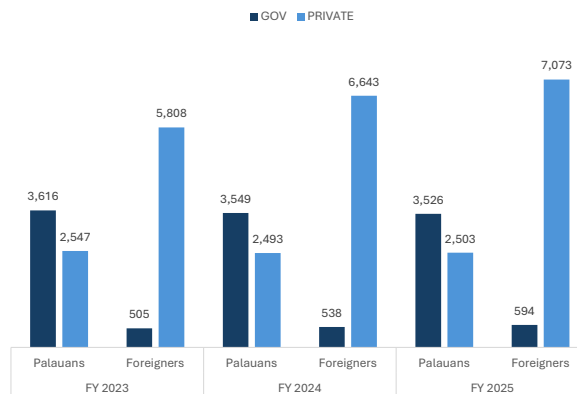
Total Businesses

FY 2023	1,812
FY 2024	1,902
FY 2025	1,803

Employer Services



Combined Workforce Distribution



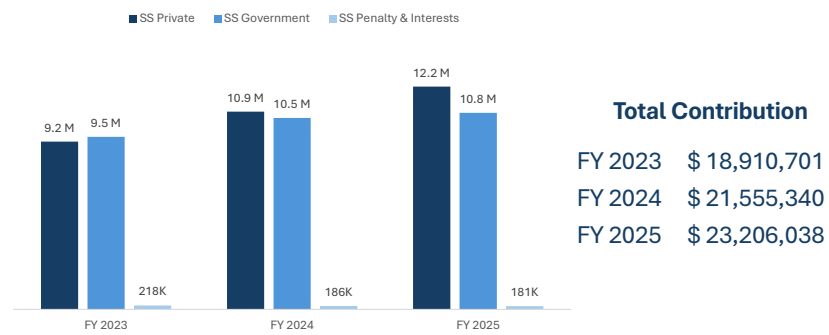
Total Employees

FY 2023	12,476
FY 2024	13,223
FY 2025	13,696

Employer Services



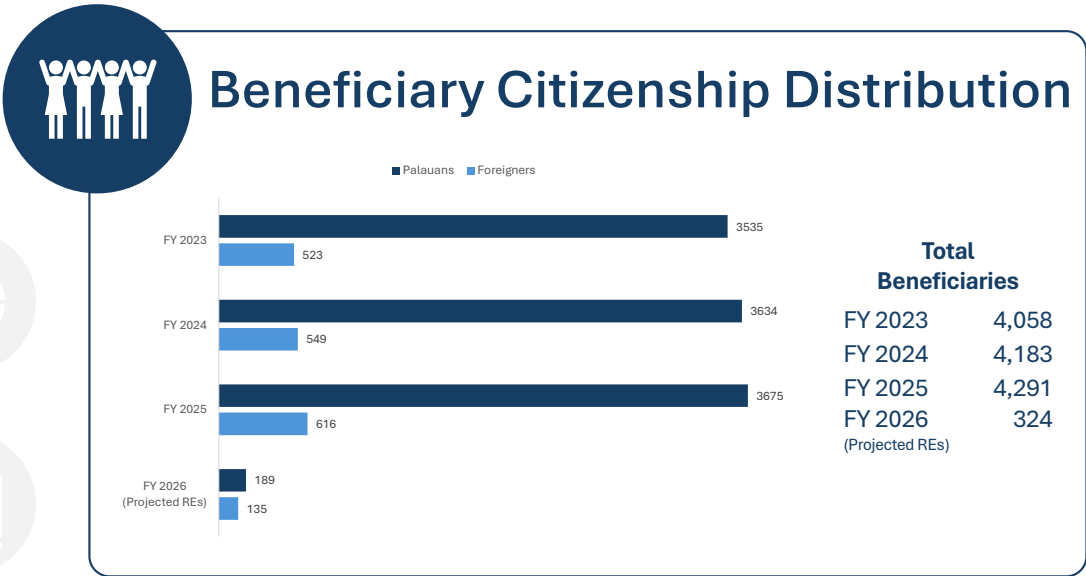
Social Security Contributions



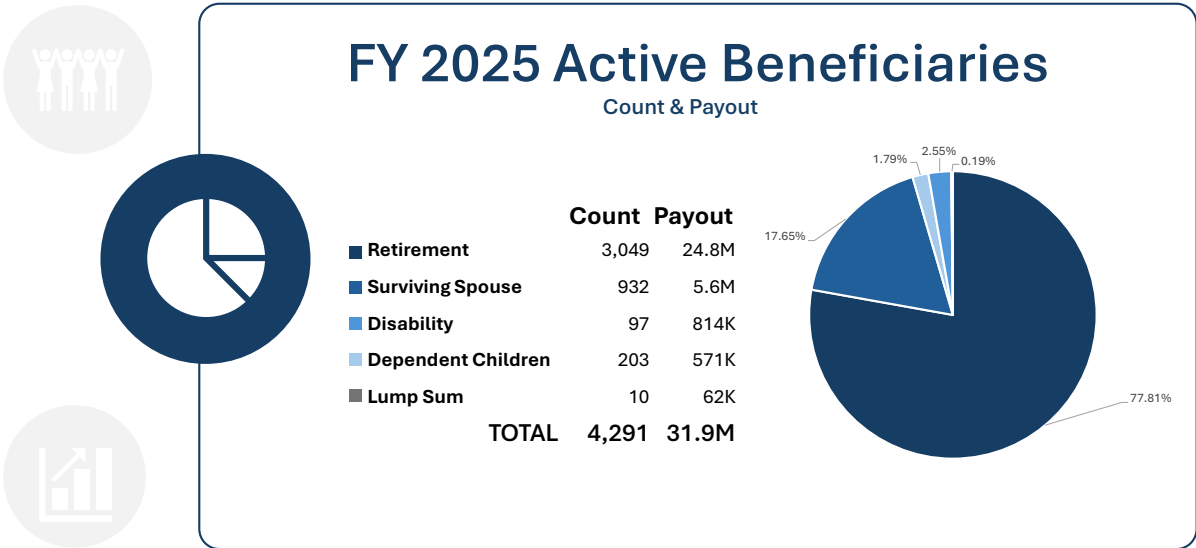
Member Services

- SS Benefits
 - Claims
 - Allotments/Adjustments
 - Claim Auditing

Member Services



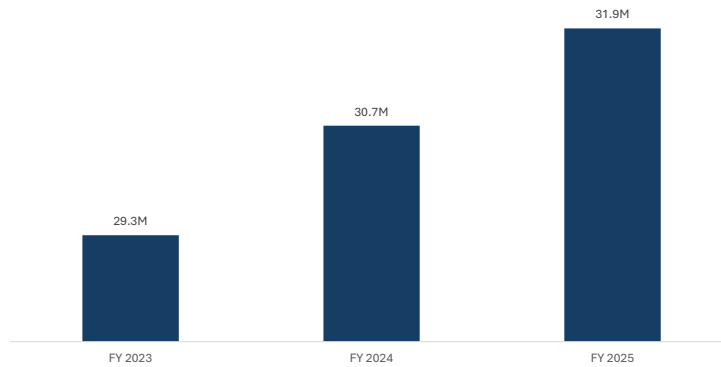
Member Services



Member Services



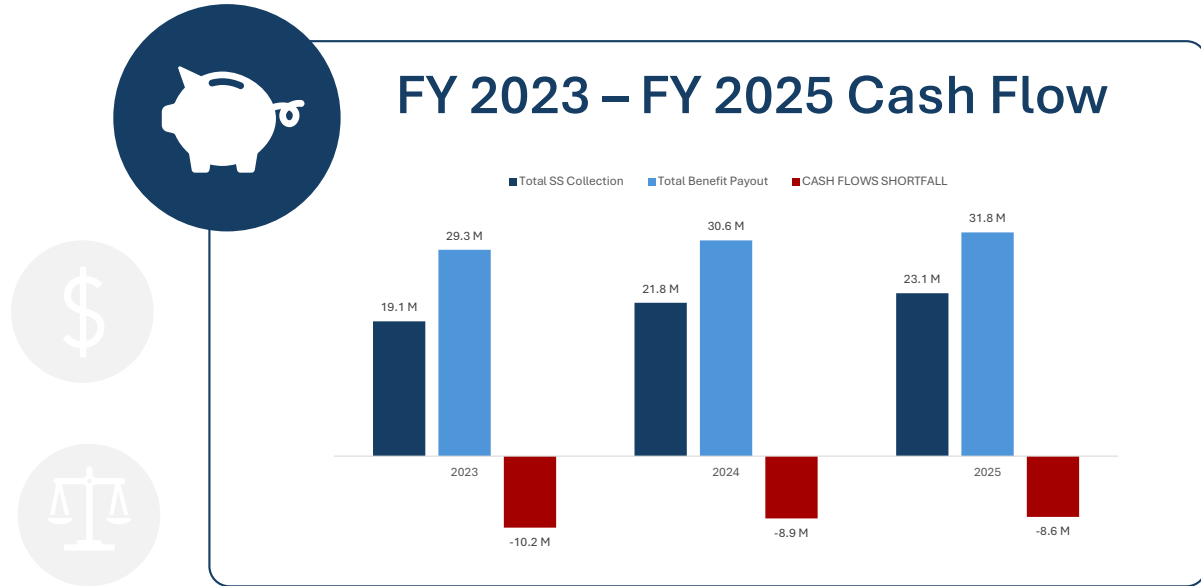
Benefit Payout (FY 2023 – FY 2025)



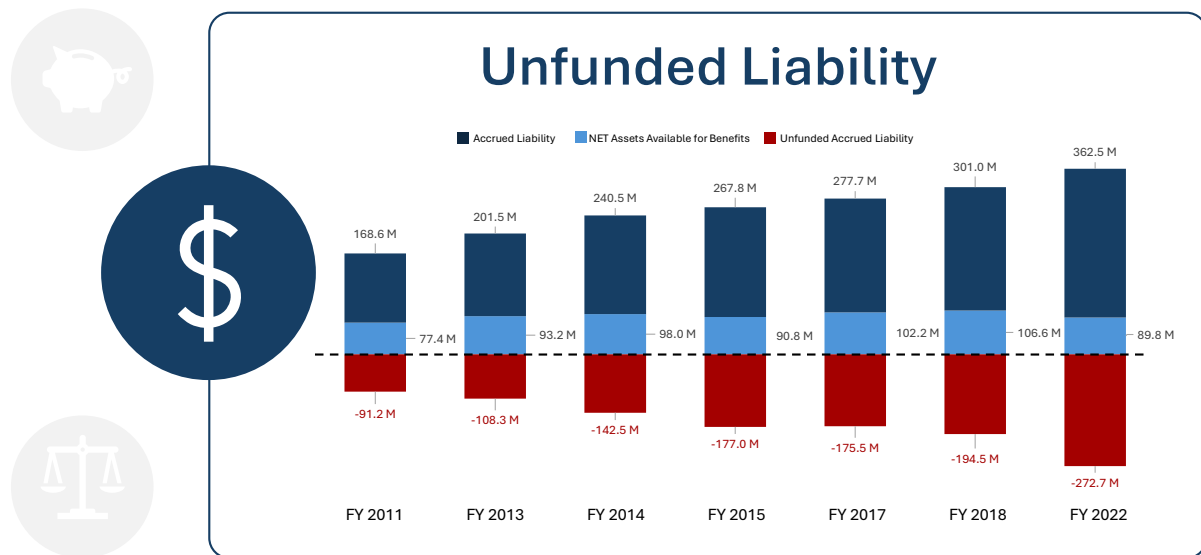
Financial Overview

- Cash Flow
- Fund Valuation
- Unfunded Liability
- Funded Ratio

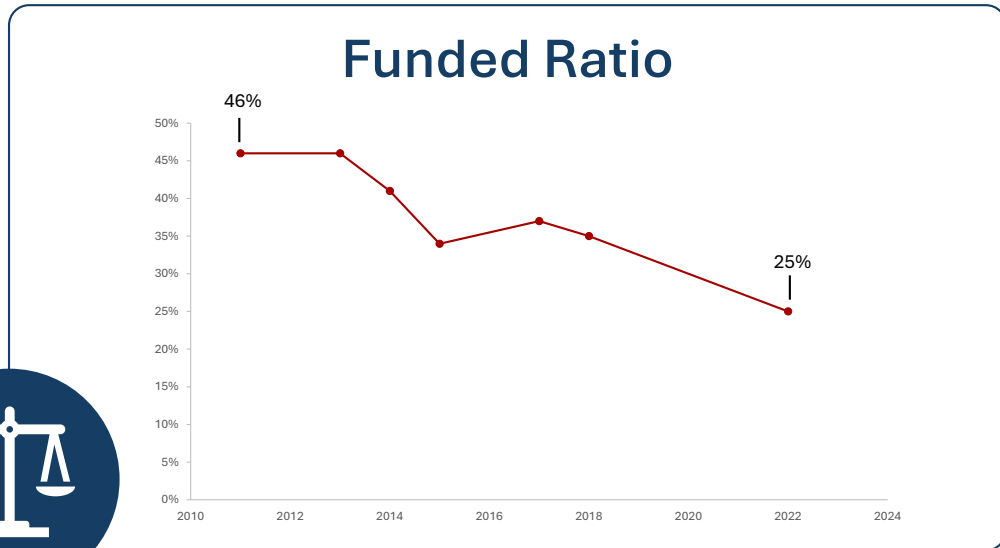
Financial Overview



Financial Overview



Financial Overview



BOT Recommendations for Reforms Under Consideration

Office policies and procedures

	Current	Under Consideration
RE Benefit	Highest benefit: \$1,711.55	Cap monthly RE benefit at \$1,200
Required # of quarters	38 quarters	80 quarters
Employer Share	7%	9%
Employee Share	7%	No change
Exit tax	No exit tax	30% exit tax
Dual Benefits	100% RE Benefit 60% SP under 60 yrs. Old, 100% SP over 60 yrs. Old.	100% RE Benefit 60% all SPs.

BOT Recommendations for Reforms Under Consideration

Law revisions

Current	Under Consideration
	Amend Title 41 PNCA § 701(b) To allow national government to provide financial assistance during economic hardship.
	Authorize \$50M in funding from the COFA Trust Fund over five years.
	Allocate \$1M annually from the Digital Residency and Shipping Registry programs
RPPL 9 – 35 RPPL 10 – 8 RPPL 10 - 21	Revert Title 41 PNCA § 741: Self-Employed to earlier statutory language.



THANK YOU!
Questions or comments?



www.ropssa.pw



(680) 488-2457/1823



administration@ropssa.pw

23

Attachment 23

Presentation Slides: Palau Civil Service Pension Plan (CSPP), Mr. Elliot Udui, Administrator, CSPP



ROP, Civil Service Pension Plan

P.O. BOX 1767
NGERBECHED, KOROR 96940

ROP, Civil Service Pension Plan Overview

- CSPP is a defined benefit, cost sharing multi-employer plan providing retirement and other benefits to employees, their spouses and their dependents.
- Established on October 01, 1987 through RPPL 2-26.

PLAN MEMBERS:

- Palauans employed by the following-
 - National and State Governments, all Member Agencies (Boards, Commissions, Authorities & Public Corporations)
 - Includes all full time, part time, seasonal, contract, etc.

ROP, Civil Service Pension Plan Overview

TYPES OF RETIREMENT & OTHER BENEFIT:

- **Normal Retirement** - Sixty (60) Years of Age; Five Years of Service
- **Disability Retirement** – Ten (10) Years of Service; 2 Doctor Recommendation
- **Pre-Retirement Survivor Benefit** – Monthly annuity determined as the Actuarial Equivalent of the Member’s Present Value of Accrued Benefit earned by the Member.

SIGNIFICANT CHANGES IN 2013 (RPPL 9-2):

- Abolishment of Early Retirement - 30 Years of Service
- Maximum annual benefit of \$30,000 (\$2,500/month)
- Accrued Benefit Value

3

ROP, Civil Service Pension Plan Rates & Calculations

CONTRIBUTION RATE:

- 12% (Employee 6%/Employer 6%)
- As of November 2025 – 3,232 contributing members

BENEFIT CALCULATION:

- **Simple Monthly Retirement Calculation:**
 $(.02 \times \text{Average Annual Salary} \times \text{Membership Service})/12$
- **Average Annual Salary** = Average of the highest three consecutive Fiscal Years of compensation received by a Member during his most recent ten full Fiscal Years of service
- **Membership Service** = Total number of Fiscal Years of service
- As of November 2025 – 1,868 beneficiaries

4

ROP, Civil Service Pension Plan

Other Benefits/Services

Pre Retirement Death Benefit:

- Value of Accrued Benefit at the time of death
- Spouse, dependents or estate

Contribution Refund:

- Employees with less than 15 years of service
- Employee share only
- Disbursed 6 x annually (Average \$630,000)

5

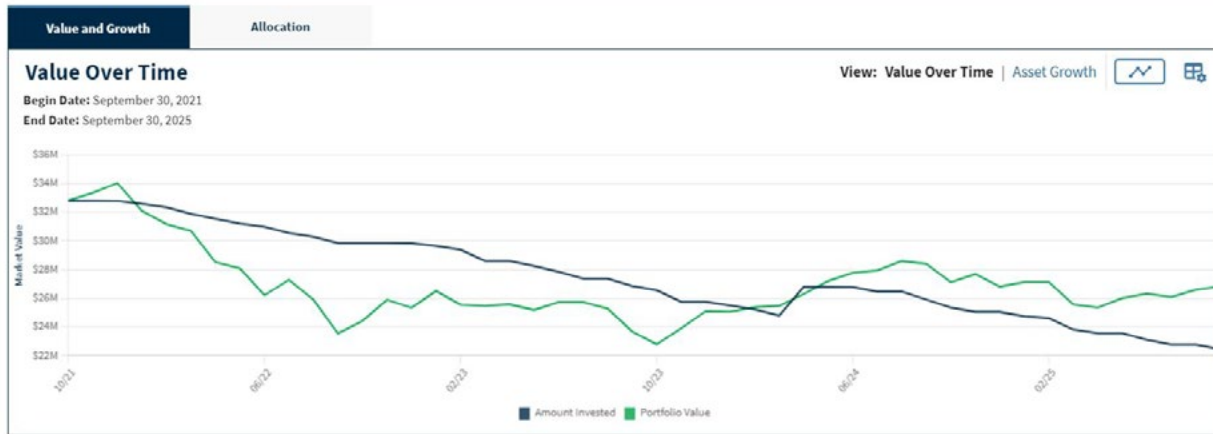
ROP, Civil Service Pension Plan

Benefits, Contributions & Appropriations

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Benefit Payout	\$10,302,827	\$10,738,593	\$11,252,105	\$11,798,045	\$12,018,151
Contribution Refund	<u>378,430</u>	<u>543,223</u>	<u>645,742</u>	<u>859,864</u>	<u>704,957</u>
	\$10,681,257	\$11,281,816	\$11,897,847	\$12,657,909	\$12,723,108
Contribution Revenue	\$7,287,166	\$7,024,865	\$7,620,030	\$7,886,218	\$8,080,204
ROP Appropriation	3,046,803	344,260	2,060,064	4,006,570	1,081,948
Investment Drawdown	<u>1,600,000</u>	<u>2,920,000</u>	<u>2,360,000</u>	<u>610,000</u>	<u>3,435,000</u>
	\$11,933,969	\$10,289,125	\$12,040,094	\$12,502,788	\$12,597,152

6

Investments Overview



Portfolio Balance as of	09/30/2021	09/30/2022	09/30/2023	09/30/2024	09/30/2025
	32,767,850	23,479,413	23,635,635	28,368,198	26,771,975

7

Recent Actuarial Assessment

Unfunded Actuarial Accrued Liability:

	As of October 1	
	2021	2019
Actuarial Accrued Liability (AAL)	\$199,026,734	\$208,684,849
Assets at Market Value	<u>35,668,671</u>	<u>27,758,747</u>
Unfunded Actuarial Accrued Liability	\$163,358,063	\$180,926,102
Funded Ratio (Market Value)	18%	13%

Source: CavMac Actuarial Valuation as of October 01, 2021

8

Moving Forward

Proposed Reforms/Changes to Legislation

➤ With ADB & Callund Consulting:

- Defined Contribution Plan for non-vested members (less than 15 years)
- Part DB/Part DC for vested members (15+ years) and a decrease to the annuity factor
- Increasing the National Retirement Age from 60 years to 63-65 years of age

➤ With the OEK:

- Gradual increase of **Employer Contribution** rate from 6% to 10% over several years
- Lowering the annuity factor from 2%

9

Questions?

*Thank
You!*

10



Attachment 24

Presentation Slides: Social Security and Pension Program Reform Options, Mr. Kevin O’Keefe, GSUSA Economist

ADB RETA-10071 – Second Sub-Regional Workshop

Modeling Social Security Reform Options: Palau Case Study

Kevin O’Keefe

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



Variables for ROPSSA Reform—shown in red

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

ROPSSA modeling program		Model variables in red ==>
Benefit Indexation		0.00%
Contribution Rate		7.00%
Base benefit credit		\$5,000
Scaling factor		90%
\$0	\$250,000	0.90%
\$250,000	\$375,000	0.68%
\$375,000	\$500,000	0.45%
	>\$500000	0.23%
Retirement age		60
Work Years for full benefit		35
PGST rate "equivalent"		0.0%
	FY25 subsidy = \$	-
		Reset

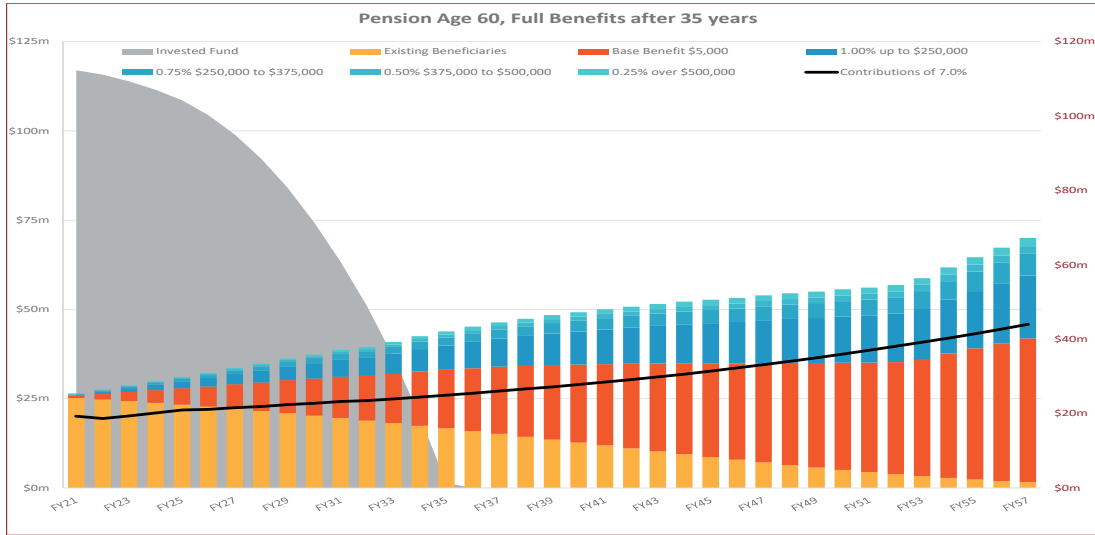
2nd Sub-Regional Workshop



Model baseline—based on current values/policy @ 2023

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

3



Work in 3 Groups to use the Model to “Solve”

Ready, set, GO!

Second Sub-Regional Workshop
December 8-12, 2025 | Koror, Palau

4



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Attachment 25

**Presentation Slides: Social Protection,
Mr. Ning Fu, Senior Economist, and
Mr. Vincenzo Vinci, Social Protection
Specialist, World Bank**

Social Protection Overview and World Bank's engagement in RMI

Ning Fu, Senior Economist
Vincenzo Vinci, Social Protection Consultant

12 December 2025

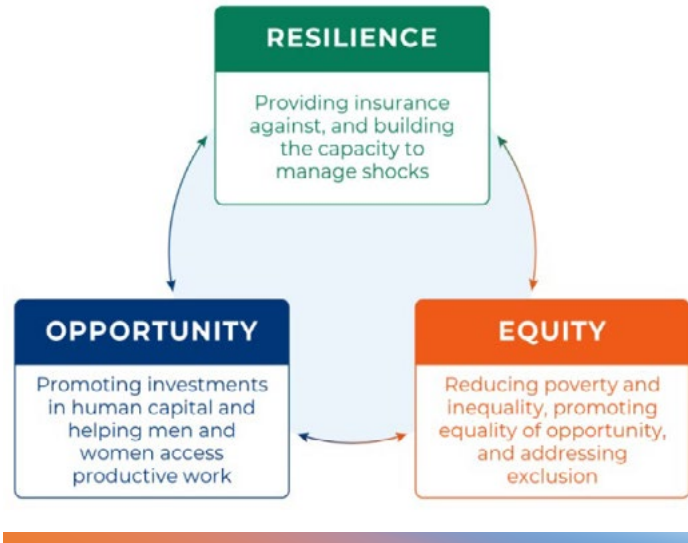


Social Protection Overview

Official Use Only

What is Social Protection?

- Policies and measures that help individuals and societies manage risk and volatility, protect against poverty and destitution, and enable access to economic opportunity.



Official Use Only

Core Elements and Instruments of Social Protection

Social insurance (typically contributory; some non-contributory examples exist):

- Old age, disability, survivor benefits
- Maternity leave, sickness cash benefits
- Social health insurance

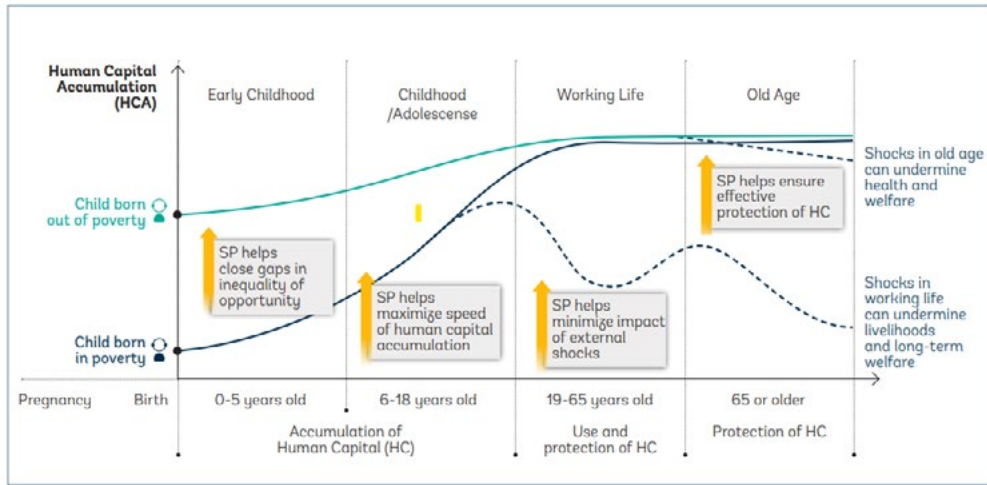
Labor market programs:

- Protect against income loss from unemployment
- Support skills acquisition and job matching/placement

Social assistance (non-contributory):

- Cash transfers
- Food, in-kind, or near-cash transfers (e.g., vouchers)
- Social care services

Social protection supports human capital accumulation



Official Use Only

Social protection is one of the most empirically studied social policies, and intersects with labor and increasingly fiscal policy

3. Crisis preparedness and response to protect gains from all programs
 - Natural disasters, economic crises, displacement, health pandemics
 - Linkages to humanitarian assistance

2. Cash transfers “plus”
 Additional measures: services, work activities, asset transfers, information, skills training, coaching, other accompanying measures (measures vary by cost, benefits, and complexity)

	Human Capital	Resilience	Economic Inclusion
	<ul style="list-style-type: none"> - Usage of services (health, education and nutrition) - Increasing knowledge and changing behaviors - Some cognitive, learning and mental health effects 	<ul style="list-style-type: none"> - Deliberate climate-related, agricultural, and natural resource management activities 	<ul style="list-style-type: none"> - Bolstering entrepreneurship - Wage employment - Skills transfer and upgrading - Mobility
	<ul style="list-style-type: none"> - Reducing mortality/savings lives - Consumption of and expenditures on essential items - Enhanced food security - Gender 	<ul style="list-style-type: none"> - Preventing/reducing negative coping strategies - Informal risk sharing and social cohesion - Savings and consumption smoothing - Livelihood recovery and diversification 	<ul style="list-style-type: none"> - Reducing poverty and inequality - Livelihood recovery and diversification - Spending on productive investments - Sparking economic multipliers - Facilitating reforms

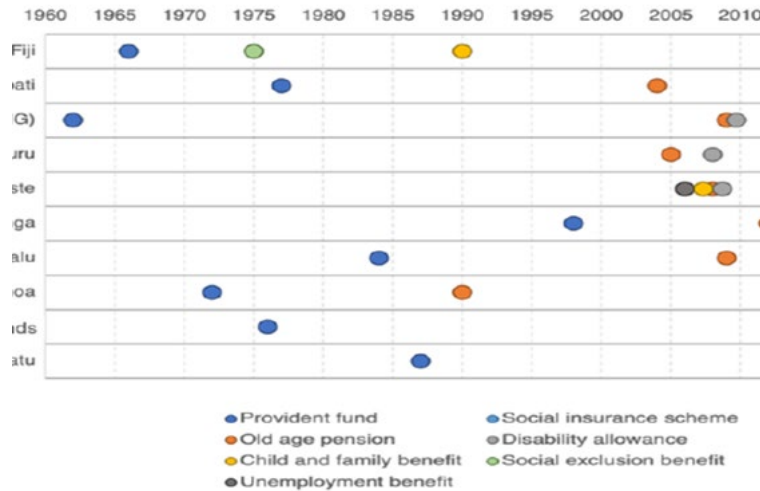
1. “Regular” cash transfers
 Reaching people with tangible support, including laying the foundations/platform to catalyze other interventions

To amplify effects, consider cash plus....

10k+ studies since 2000
 54 systematic reviews of systematic reviews

Official Use Only

MANY PICs HAVE EXPANDED SOCIAL ASSISTANCE PROGRAMS SINCE THE MID-2000s



- Several Pacific countries operate provident fund schemes.
- Social assistance spending (as % of GNI):
 - Fiji, Kiribati, Nauru, Samoa, Timor-Leste, Tonga, Tuvalu: approx. 0.8%–2.2%.
- Expansion of social assistance is relatively recent:
 - Late 1990s: many East Asian countries.
 - Mid-2000s: most Pacific Island Countries (PICs).

OVERVIEW OF THE RMI EARLY CHILDHOOD DEVELOPMENT CASH TRANSFER (CCT)

WHY EARLY CHILDHOOD DEVELOPMENT MATTERS

Early childhood (0-8) are key to ensure children are healthy, educated, and ready to learn and thrive








ECD has high return on investment
Evidence shows that for every \$1 invested in ECD, the return can be as high as \$13

Investing in ECD is essential for building resilience and human capital



9
Official Use Only

FIRST ECD CONDITIONAL CASH TRANSFER (CCT) INTRODUCED IN 2022 WITH HUMAN CAPITAL OBJECTIVES

<p>CCT AS PART OF RMI ECD-II Enrollment to pre-school and attendance to antenatal, postnatal case and Wealth Child Health Checkups</p> 	<p>TARGETING Early years families – mothers, pregnant women with children U5</p> 	<p>PAYMENT TIMEFRAME Bimonthly payments transferred to bank accounts via BOMI</p> 	<p>ID REQUIREMENTS SSN, Birth Certificate, (Yellow Card, not mandatory)</p> 
<p>BENEFIT AMOUNT (INDEXED) USD 90 (USD 95 from Dec. 2025) per mother/pregnant women, plus USD 20 for each child (up to 3 children)</p> 	<p>CT MIS Registration, Enrolment, Compliances and Grievances</p> 	<p>IMPLEMENTING AGENCY MOCIA in coordination with MOHSS, PSS</p> 	



Official Use Only

EARLY CHILDHOOD DEVELOPMENT'S CCT



More than 3,000 Early Years Families enrolled



17,700 or 42% of total population



US\$ 95 per mother/pregnant women, plus US\$ 20 for every additional child (up to 3 children)

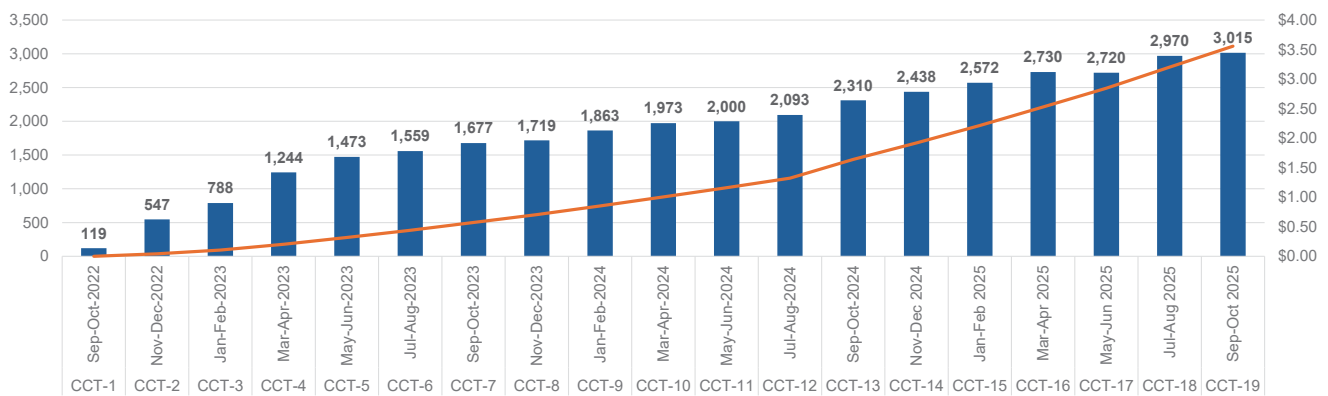


23 Atolls



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TO DATE, US\$3.6 MILLION HAS BEEN DELIVERED VIA 19 TIMELY PAYMENTS

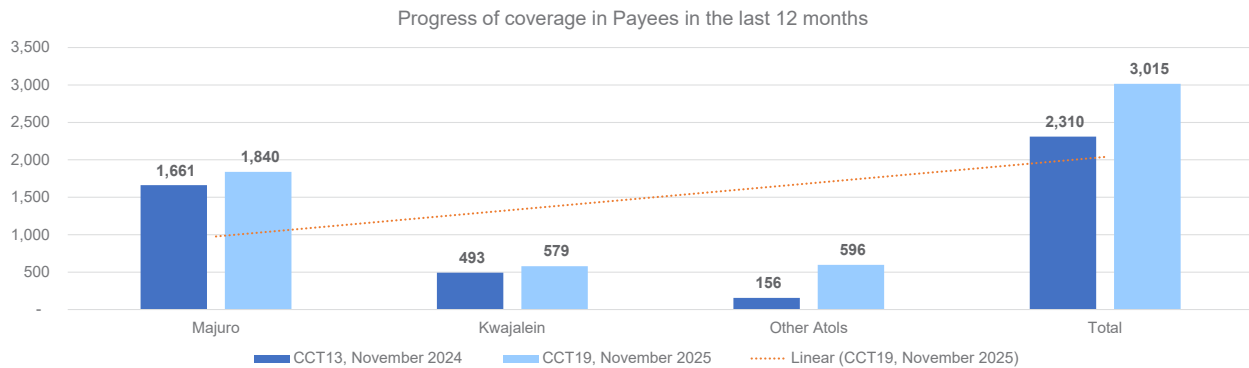


From 119 to more than 3,000 early years families (about 5,000 members) reached through timely bi-monthly payments for a total amount of US\$ 3.6 Mill.



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EFFORTS ARE UNDERWAY TO EXPAND THE PROGRAM’S REACH TO THE OUTER ISLANDS



In the last 12 months (since Nov. 2024), the program was able to beef up its coverage by reaching additional 265 payees in Majuro and Kwajalein, 440 in outer islands, and 12 new atolls reaching an additional estimated 4% of the population.



STEADY PROGRESS IN IMPROVING HUMAN DEVELOPMENT THROUGH ECD-II

1

57% of women have had at least one ANC visit by a skilled provider during the first trimester (Baseline: 34 (Dec.-Jan. 2021); Target: 55 (Dec. 2026)).

2

87.2% of children aged 0-2 years who have received all required well child care (WCC) visits to date (Baseline: 0 (Dec.-Jan. 2021); Target: 50 (Dec. 2026)).

3

5,019 Children immunized (Baseline: 0 (Dec.-Jan. 2021); Target: 4,600 (Dec. 2026)).

4

25% of children aged 3 and 4 years enrolled in public preschool (Percentage) (Baseline: 2 (Dec.-Jan. 2021); Target: 25 (Dec. 2026)).

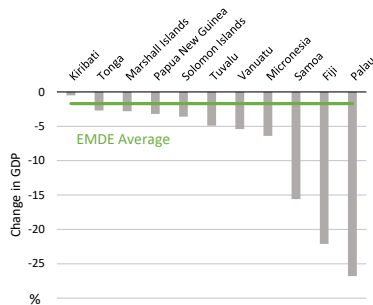
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Pacific Regional Context for Adaptive Social Protection

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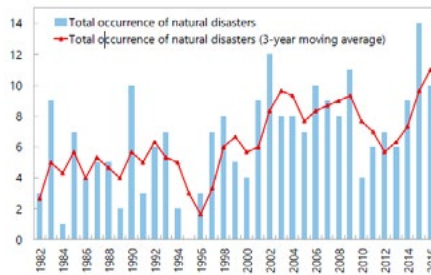
Pacific Island Countries are disproportionately vulnerable to shocks

PICs are more vulnerable to external shocks like COVID..



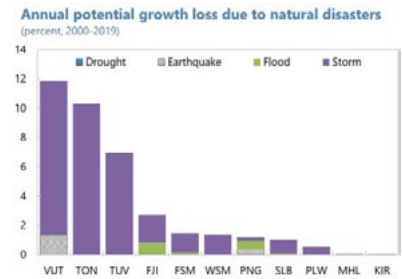
Source: Staff calculations based on World Bank Global Economic Prospects (various dates)

.. are subject to more frequent and severe natural disasters ...



Source: Lee, Zhang and Nguyen, based on EM-DAT International Disasters Database (2018).

.. reducing long-run growth and impacting jobs and livelihoods

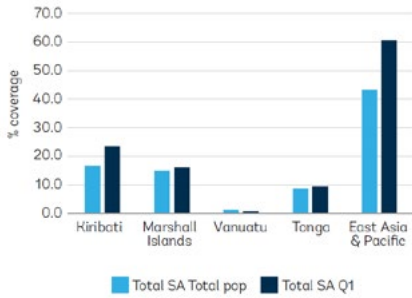


Sources: EM-DAT and IMF staff calculations.

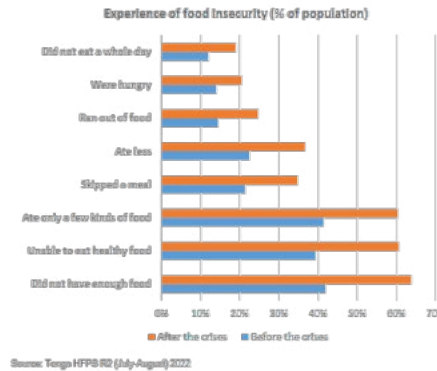
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Households have disproportionately low protection against these risks

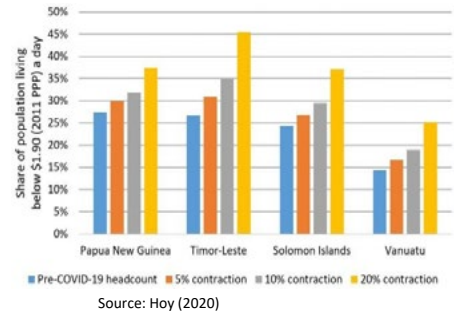
Social assistance coverage is and targeting still low in the Pacific



Households hit by shocks are forced to adopt negative coping strategies...



.. perpetuating the cycle of poverty



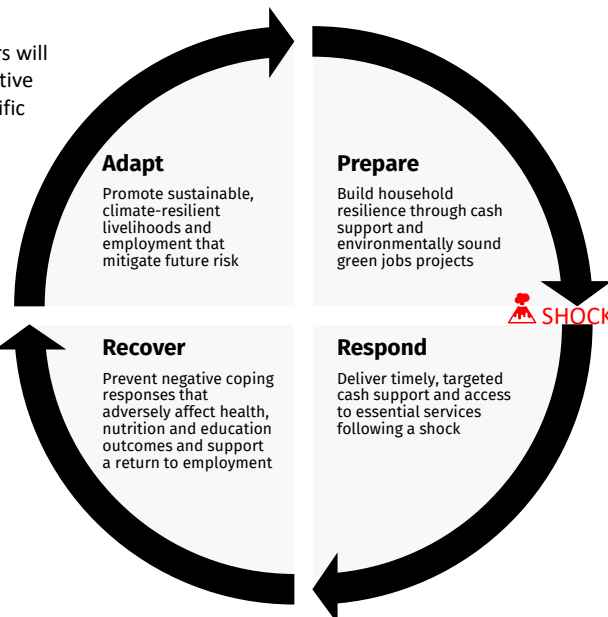
Expanding Social Protection coverage is pivotal to the Bank's twin goals of ending poverty and fostering shared prosperity on a livable planet.

Adaptive Social Protection is essential for resilience and productive inclusion

Our team's focus in the coming years will be helping our clients develop adaptive social protection systems in the Pacific

Adaptive social protection (ASP) is a combination of programs, institutions and systems that enable government to:

- Prepare for shocks and build resilience
- Respond with timely assistance once shocks occur
- Help households rebuild and recover from shocks
- Help households adapt to a changed climate and labor market



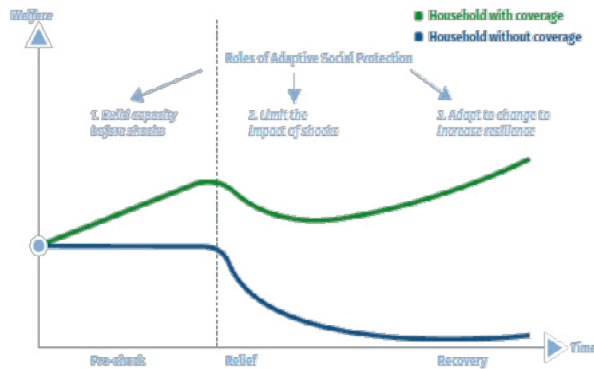
This leverages operations in other sectors including digital, financial inclusion, DRM, disaster risk financing, and digital ID for greater impact

It is also smart economics:

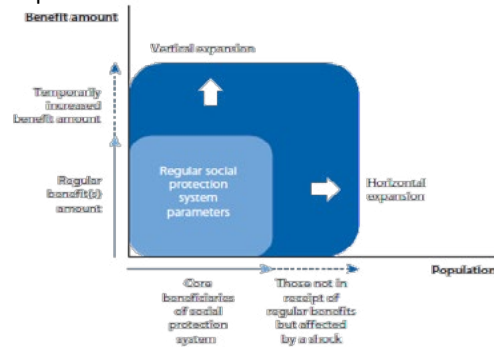
- Saves time and money in post-shock response
- Promotes growth by stimulating local economies
- Builds and protects human capital
- Helps households avoid falling into poverty traps

How does ASP work?

Adaptive social protection improves welfare before, during and after a shock



Programs can be scaled up or out temporarily during the relief phase, then revert back to targeting only the poorest once the shock has passed



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Building on our achievements



The World Bank Social Protection team has achieved a great deal in the Pacific:

- Helped countries develop adaptive social protection policies or strategies, many of these supporting DPOs
- Promoted dialogue and peer learning by establishing the first ever Regional Community of Practice on Social Protection in the Pacific, with a focus on ASP
- Supported the pilot and scale-up of a green jobs program in Fiji
- Established systems to provide targeted support to children and mothers in RMI, Tonga and PNG
- Supported Tonga to pilot the first social registry system in the region
- Piloted an AI job matching platform to help unemployed youth in Tonga, FSM and RMI to find work
- Piloted the first integrated open-source delivery systems linking ASP and Jobs
- Published influential research on labor mobility supporting the PALM and RSE schemes



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REFLECTIONS

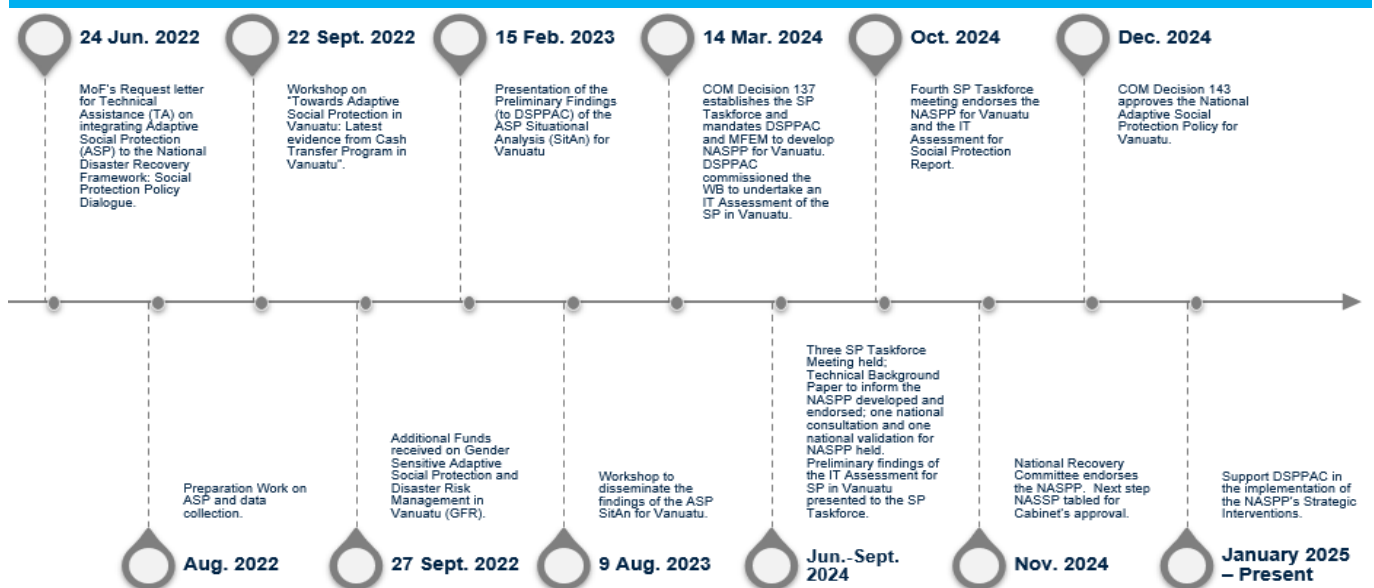
- i. Formulation of national policies on social protection
- ii. How can we sustain the good results from the ECD project and how can we build on the progress
- iii. Adaptive social protection – what would that look like for RMI?

Thank you!

Annex: ASP support in Vanuatu

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Milestones of World Bank’s engagement on ASP in Vanuatu



Ongoing WB's analytical support on ASP

- i. *Development of the **NASPP's implementation plan** (Status: completed with Government for finalization)*
- ii. ***Development of Standard Operating Procedures (SOPs)** for existing and new Adaptive Social Protection (ASP) programs which include rules (eligible beneficiaries, cash transfer amount, triggers, roles and responsibilities) for program adaptability. This includes the development of technical guidelines for identifying vulnerable groups as part of data registration processes/ non-VNPF members (Status: Technical note completed for discussion)*
- iii. ***Identification of digital payments options and payment infrastructure to support ASP programs** (Status: Report completed for discussion)*
- iv. *Identification of detailed design for technical requirements for **Pilot ASP/Disaster Response Database** (Status: Ongoing)*
- v. ***Identification of cost implications for scaling up existing and new ASP programs** including financial instruments (Status: to be commenced once data are available and collected as part of the Pilot ASP Database activity).*

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Attachment 26

**Presentation Slides: RMI Social Protection:
Design, Implementation, and Monitoring,
Mr. Bryan Edejer, Administrator, MISSA and
Ms. Stefania Pozzi, RMI Resident Economist
under the ADB-supported TA-10071-REG**

ADB RETA-10071 – Second Sub-Regional Workshop

Universal Basic Income in the RMI

Bryan Edejer and Stefania Pozzi

Koror, Palau | December 8-12, 2025

FSM

RMI

PAL



Universal Basic Income (UBI) program in the RMI

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- The *Enra Bwe Jen Lale Rara* or Individual Support Distribution
- Program Objectives:
 - Ease cost-of-living pressures
 - Reduce outmigration
- Fully universal program covering **all Marshallese residents**
- **Quarterly payments** of approximately USD 201.92 per person, depending on the number of registered beneficiaries
- Implemented by **MISSA**, the Marshall Islands Social Security Administration
- Program budget: **USD 26.7 million** in FY2026



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ENRA Benefit Structure, Administration & Delivery

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- Total recipients for Q1: **33,119**
 - Majuro: **21,255**
 - Kwajalein: **6,611**
 - Outer islands: **5,253**
- Multiple payment channels
 - Direct bank transfers: 60.33% (Banks: BOMI, BOG and PRB)
 - In-person check pick-up: 39.67%
 - Digital wallet (USDM1): 529 opted (about 0.015 bps)

Total beneficiaries for Q1:		33,119
Majuro		21,255
Kwajalein		6,611
Other islands		5,253
Payment channels		
Direct bank transfers	19,968	60.33%
Majuro		13,588
Kwajalein		4,288
Other islands		2,092
In-person check pick-up:	13,151	39.67%
Majuro		7,667
Kwajalein		2,323
Other islands		3,161
Total	33,119	100.00%
Registration between: 11/11/2024 - 9/30/2025		

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Preparatory work and Registrations

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- UBI module in MISSA's data management system
- UBI Form-100
- A "FDIC" UBI account with Bank of Guam
- Printers and blank checks
- Mass registration (Nov. 2024 to Mar. 2025)

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ENRA Disbursement

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- Bank transfers, check pick-up and USDM1 wallet (Lomalo)
- Check pick-up beneficiaries must transition to a bank of their choice

Conditions:

- Recipients who have left the RMI for abroad (for 90 days and more)
- Recipients who have passed away

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Why Monitoring the UBI?

RMI

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- The UBI represents a **major fiscal injection** (8.1% of GDP annually), with potential effects on prices, labor supply and migration
- The RMI context is unique, and international evidence is limited → strong **need for local data**
- Monitoring helps ensure **operational performance, risk management, and evidence based adjustments** to the program
- It creates a **progressive learning system** the RMI government can capitalize on



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What do we plan to monitor?

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- **Operational performance:** coverage, delivery systems, payment timelines, functionality of bank/in-person/digital channels
- **Macroeconomic effects:** inflation, labor market outcomes, migration trends, borrowing/saving behavior
- **Household (aspirational) and business responses:**
 - Spending behavior (*consumption, savings, debt repayment*), impact on employment and migration intentions, welfare effects
 - Price adjustments, inventory responses

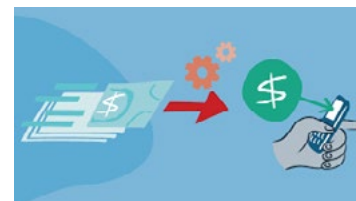


Activities underway: Operational Performance (1/2)

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- **Strong operational readiness**
 - First payments prepared through a well-coordinated process involving MISSA, Finance, Trust Fund, and service providers.
 - Registration database functional and linked to SSN; payment data will also feed into the same system.
- **Smooth and well-organized payment operations**
 - Direct observation of check printing and in-person distribution showed highly organized, efficient workflows.
 - Procedures in place to handle failed payments, missing checks, and reissuances.



Activities underway: Operational Performance (2/2)

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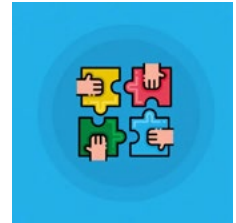
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- **Inter-agency coordination**

- Monthly data sharing with hospitals on deaths
- Gaps remain in migration data (data not shared yet and lack of coverage for Kwajalein)

- **Remaining operational challenges**

- Outer-island recipients depend on intermediaries or are required to travel to Majuro to collect their checks
- Manual checks are required to remove individuals who have migrated from the registry
- Digital wallet option is still new
- Late registrations will be integrated in the next quarter



Activities underway: Business Monitoring

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1. **Digital Business Expectation Survey**

- **Coverage:** Marshall Islands Chamber of Commerce (MICC) members
- **Format:** 5–7 min online survey; voluntary participation
- **Timeline:** Last week of November 2025
- **Number of responses:** 7

2. **In-person Qualitative Interviews**

- **Coverage:** A list of selected businesses
- **Format:** 45 minutes interview
- **Timeline:** Last week of November 2025
- **Number of interviews:** 6



First results from Business Engagement (1/3)

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1. Expected Demand Effects

- **All surveyed businesses expect demand to increase**, mostly *slightly*, though some anticipate significant increases.
- The majority hasn't increased their stocks beyond normal levels or specifically prepared for UBI payments.
- Expected spikes concentrated in:
 - Food items, groceries, fresh produce
 - Transportation services (boat trips, airline tickets)
 - Phone, cars, and some durable goods
 - Seasonal items (Christmas purchases)
 - Payments to land owners



First results from Business Engagement (2/3)

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2. Pricing Behavior and Supply Constraints

- **Most firms report no intention to raise prices**, attributing price-setting primarily to **global suppliers, freight costs, and seasonal patterns**, not domestic demand.
- However, some warn that **stock shortages** could push prices up if demand exceeds planned inventories.
- Structural constraints highlighted:
 - Frequent **shipment delays** and damaged perishables
 - **Port congestion** and customs processing delays
 - Heavy dependence on **imported goods**; limited local supply
 - **Outer islands** face higher logistics costs and less frequent supply



First results from Business Engagement (3/3)

RMI

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3. Early signals on Labor and Migration

- Many firms report **significant challenges hiring or retaining local staff**, independently of UBI.
- Some fear UBI may **reduce willingness to work** or **accelerate outmigration**, while others see little direct impact.
- Long-standing challenges: low skills, preference for US labor markets, and frequent staff turnover.



Monitoring Challenges

RMI

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1. Hard to attribute Causes and Effects

- Multiple programs and benefits rolling out simultaneously →
→ Difficult to isolate the specific impact of the UBI on prices, labor markets, or migration
- Household-level data would improve understanding of behavioral responses but survey should be designed to identify causal impact

2. Reporting Bias, especially for sensitive issues like price increases

3. Limited Administrative Data

- No CPI collected in the outer islands
- Gaps in key datasets such as hours worked, business activity, and migration flows



Next Steps on Monitoring

RMI

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- **Macro-economic effects**

- Inflation (CPI data)
- Employment and Labor Supply (MISSA Social Security data, National Government data, Pan Pacific data)
- Migration (Majuro Immigration data, US Bureau of Transportation Statistics data)
- Loans and Banking (RMI depository corporations survey)

- **Operational performance**

- Interviews with key stakeholders & Document reviews

- **Business responses**

- Post-disbursement Online Survey & In-person Interviews



