



# Technical Assistance Report

---

Project Number: 40595  
May 2007

## Republic of Palau: Facility for Economic and Infrastructure Management (Financed by the Japan Special Fund)

Asian Development Bank

## CURRENCY EQUIVALENT

The currency of the Republic of Palau is US dollars.

## ABBREVIATIONS

|       |   |   |
|-------|---|---|
| ADB   | – | Asian Development Bank                        |
| CRC   | – | Compact Review Commission                     |
| GDP   | – | gross domestic product                        |
| IMF   | – | International Monetary Fund                   |
| MOF   | – | Ministry of Finance                           |
| NMDP  | – | National Master Development Plan              |
| PFTAC | – | Pacific Financial Technical Assistance Centre |
| PIER  | – | Pacific Islands Economic Report               |
| TA    | – | technical assistance                          |
| US    | – | United States                                 |

## TECHNICAL ASSISTANCE CLASSIFICATION

|                                 |   |   |
|---------------------------------|---|---|
| <b>Targeting Classification</b> | – | Targeted intervention (MDG)   |
| <b>Sector</b>                   | – | Law, economic management, and public policy                             |
| <b>Subsector</b>                | – | Economic management   |
| <b>Themes</b>                   | – | Sustainable economic growth, governance, inclusive social development   |
| <b>Subthemes</b>                | – | Promoting macroeconomic stability, public governance, human development |

## NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2000 ends on 30 September 2000.
- (ii) In this report, "\$" refers to US dollars.

|                         |  |
|-------------------------|--|
| <b>Vice President</b>   | C. Lawrence Greenwood, Jr., Operations Group 2         |
| <b>Director General</b> | P. Erquiaga, Pacific Department (PARD)                 |
| <b>Director</b>         | I. Bhushan, Pacific Operations Division, PARD          |
| <b>Team leader</b>      | A. Gill, Country Specialist, PARD                      |
| <b>Team member</b>      | S. Blaik, Water Supply and Sanitation Specialist, PARD |

## I. INTRODUCTION

1. The Republic of Palau (Palau) is in a critical transition period. Negotiations for the renewal of the Compact of Free Association (Compact) between the Palau and United States (US) governments is expected to begin in the second half of this year. A review process is underway, which included the establishment of the Compact Review Commission (CRC) in February 2006.

2. During the 2006 Country Programming Mission, the Government requested technical assistance (TA) to provide a fast-response facility to assist economic policy formulation, facilitate the budget process, strengthen private sector development, and foster infrastructure management. In response, the Asian Development Bank (ADB) included support for such a facility in the 2007 TA pipeline. ADB's Pacific Department conducted the TA Fact-Finding Mission on 16–24 November 2006. A memorandum of understanding outlining the proposed TA was signed on 24 November 2006. The design and monitoring framework is in Appendix 1.<sup>1</sup>

3. ADB has commissioned a country environment assessment and a private sector assessment. It also supported Palau to host an economic symposium which will result in a social sector analysis and a Pacific Islands Economic Report (PIER). These activities will contribute to Palau's national planning processes.

## II. ISSUES

4. The current Compact between the US and Palau is due to expire in September 2009. There are widespread concerns within Palau about the total financial package that may be part of a new Compact. A significant reduction in US funding for the Government's recurrent and capital expenditures may be part of the new Compact, which will require large fiscal adjustments.

5. The Government has a series of medium-term development plans, including strategic road maps and policy guidelines for economic development. These plans include the *National Master Development Plan*<sup>2</sup> (NMDP) and the *Study for Promotion of Economic Development in the Republic of Palau*.<sup>3</sup> The Government's Public Sector Investment Program also provides guidelines and priorities for infrastructure investment activities. A management action plan provides specific planning and management guidelines for the executive branch. Some progress is being made in preparing the economy for potential fiscal adjustment in line with these development plans, but at a slower rate than anticipated.

6. On 7–9 February 2006, the President of Palau convened a leadership symposium to gather inputs from national and local government entities for a consolidated development strategy, which would represent a national consensus on Palau's future. There was widespread engagement with stakeholders in the Government, local government, the judiciary, and the community. The CRC was established after the symposium and will review the progress of the 15 years under the Compact by conducting economic analysis, social auditing, an environmental assessment, and a governance review.

---

<sup>1</sup> The TA first appeared in *ADB Business Opportunities* on 1 March 2007.

<sup>2</sup> Government of Palau. 1996. *National Master Development Plan*. Koror.

<sup>3</sup> Japan International Cooperation Agency. 2000. *Study for Promotion of Economic Development in the Republic of Palau*. Koror.

## 1. A Master Development Plan

7. The current NMDP, endorsed in 1996, was prepared without widespread community and government consultation and does not have the necessary ownership to enable it to be used effectively. While it has been used to guide developments in Palau the global environment has changed significantly. The planned update will be managed by the Government, not a consultancy group. The TA will support the update of the NMDP by providing consultants and resources focused on widespread community consultation, as well as technical expertise in selected areas.

8. An updated plan will consolidate the Government's vision for the future, focus development and investment, and facilitate preparations for Compact negotiations with the Government of the United States. The current NMDP is 12 years old and, while not strictly time-bound, was intended to lead into Compact negotiations in 2009. The Compact negotiations will form the basis of the next 15 years of development planning, and therefore an updated NMDP is now needed.

## 2. State of the Economy

9. The Palau's economy a complex mix of traditional and modern economic systems. The traditional system makes significant dollar and in-kind contributions but is not measured by the formal economy. The formal economy is dominated by the public sector. The Government employs 33% of the workforce. Public expenditure is 45% (200%) of gross domestic product (GDP). The remainder of the economy consists mainly of tourism, retail, subsistence agriculture, and fisheries. The economy relies on imports and the ratio of imports to GDP ranges from 60% to 115%. Despite large service account surpluses generated by tourism, the trade account has dominated, resulting in current account deficits in recent years.

10. Palau's economy has sizable fiscal deficits, including wide swings in the gap between expenditure and revenue ranging from 3% to 28% of GDP. In preparing for Compact negotiations the country's fiscal position is weak but noticeable improvement has been made since the implementation of the compact in 1994.

11. Tax collections in Palau are about 20% of GDP. The Government's expenditure gap is financed through Compact payments, and returns from the Compact Trust Account. Tax collections include (i) a narrowly based income tax (about 5% of GDP), (ii) import duties (about 6% of GDP), and (iii) a gross receipts tax (about 6% of GDP). According to a report by the International Monetary Fund (IMF),<sup>4</sup> the efficiency of tax collection is low and efforts to improve collection are being implemented.

12. The Government is pursuing cost savings to address funding shortfalls. Its challenge is to 'right size' the government, improve the efficiency of revenue collection and expand the revenue base. There is some doubt a reduction in recurrent expenditure is achievable, given (i) difficulties in controlling the wage and salary bill, (ii) the rising maintenance bill from a decade of infrastructure development, and (iii) operations and maintenance costs for the new capital of Palau.

---

<sup>4</sup> IMF. 2005. *The Article IV Consultation Paper*. Washington, DC.

13. It will also be difficult to pursue savings in the capital expenditure budget. The infrastructure network remains incomplete, and further investment is needed to reach desired growth dividends. Careful planning will be needed in preparation for Compact negotiations.

### **3. Government Infrastructure and Services**

14. Government-owned businesses supply water, sewage, electricity, gas, and communications services. Some of these have management boards. The government owns the port, but operations are privatized.

15. Limited competition has recently been brought into the telecommunications sector, resulting in price reductions. There is insufficient competition in other sectors to enable market-driven pricing or service standards.

16. The public sector deficit limits Government investment in infrastructure in the utility sector. The TA will consider the potential for alternative utility operation including public-private partnerships and private ownership.

17. Palau has a large stock of infrastructure provided through various grant and loan projects, especially in recent years. Urgent maintenance is required as the defects liability periods on new infrastructure come to a close.

18. Palau needs to review its current infrastructure and consider what further infrastructure is required to achieve NMDP goals. The narrow tax base and inefficient tax collection constrain Government revenues. The infrastructure policy review, analysis, consultations, and recommendations proposed for the TA will support the preparation of a revised NMDP.

## **III. THE TECHNICAL ASSISTANCE**

### **A. Impact and Outcome**

19. The TA will assist the Government of Palau achieve its development aspirations of improved security, economic growth, a strong society and protection of the environment through improved economic and infrastructure management by the Government. The TA comprises two components. Component 1 will facilitate economic policy formulation and implementation for sustainable budget management. Component 2 will develop an infrastructure development plan for affordable infrastructure development and ongoing infrastructure operations and management. The cost of operation and maintenance of existing public infrastructure and the funding of new infrastructure will be key constraints on sustainable budget management and development planning. Component 2 focuses on providing the information necessary to support component 1, while also supporting policy development of economic growth.

20. For component 1: sustainable economic policy formulation, the key outcomes of the TA will include (i) improved policy formulation and budget management for sustainable growth, and (ii) sustained increases in Government revenues.

21. The key outputs of component I will be: (i) validation and updated of the National Master Development Plan; (ii) enhanced economic policy formulation to achieve NMDP; (iii) sector specific policy recommendations in tourism, public administration, private sector development,

public utilities, productive resource sectors (agriculture, fisheries) and social development (including health and education); and (iv) policy recommendations for sustainable financing of Government operations and maintenance and new objectives from the NMDP..

22. For component 2, the infrastructure development plan, the key outcome of the TA will be the adoption of the plan. The plan will include (i) an assessment of existing infrastructure stock and future infrastructure needs, (ii) policies on financing of infrastructure operation and maintenance costs, and (iii) policies on mainstream environmental protection in the infrastructure sector.

23. The key outputs of component 2 will be (i) an infrastructure needs assessment for the NMDP objectives, (ii) an infrastructure maintenance program for existing and potential stock, (iii) a costed infrastructure maintenance plan, (iv) alternative provider models for infrastructure maintenance, and (v) alternative provider models for the delivery of existing utilities.

24. Outputs from components 1 and 2 will be used to update the NMDP. The Government is committed to writing and owning the NMDP. This TA will facilitate this in any appropriate manner including but not limited to: consultancies, logistics support; funding participatory workshops with community groups; editorial services; and, compilation and dissemination of outputs of this TA.

## **B. Methodology and Key Activities**

25. The TA will build on existing work under the ongoing regional TA Strengthening Pro-Poor Policy in the Pacific<sup>5</sup> which is compiling a PIER for Palau and undertaking a review of social sectors as background for the NMDP. ADB has recently also completed a country environment assessment and a private sector assessment.<sup>6</sup> The Pacific Financial Technical Assistance Centre (PFTAC) is providing assistance for tax reform and Government revenue estimation. It is essential that the TA, working through the Government, coordinates its inputs with the work of the PFTAC, other ADB initiatives, and those of other donors.

26. Ownership by the Government and people of Palau of the outputs of the TA will be realized by ensuring all work is coordinated by the Ministry of Finance (MOF) Ministry of Resources and Development (MRD), and the CRC. All work plans for the TA and for individual consultants will be approved by the Government. However, flexibility will be needed so the TA and individual consultants are able to respond to emerging issues and information gaps as the preparation of the NMDP proceeds.

27. Key activities of the TA include:

- (i) Component 1:
  - (a) Review of the existing NMDP, JICA Report and other relevant documents, identifying achievements, constraints and changed circumstances relevant for updating the NMDP.
  - (b) Paper on macroeconomic and fiscal policies and indicators for sustainable development.

<sup>5</sup> ADB. 2005. *Technical Assistance for Strengthening Pro-Poor Policy in the Pacific*. Manila (approved on 10 June, for \$1.85 million).

<sup>6</sup> ADB. 2004. *Technical Assistance for Diagnostic Studies for Secured Transaction Reforms in the Pacific Region*. Manila (TA 6202-REG, approved on 3 December 2004 for \$870,000); ADB. 2004. *Technical Assistance for Mainstreaming Environmental Considerations in Economic and Development Planning Processes in Selected Developing Member Countries*. Manila (TA 6204-REG, approved on 6 December 2004 for \$600,000).

- (c) Paper on strategies and actions for growth and diversification of the tourism sector.
  - (d) Development an action plan for the: agriculture; fisheries; and, aquaculture sectors.
  - (e) Paper on sustainable financing of the social sectors including health, education and social services.
  - (f) Paper on privatization of public utilities and other public services.
  - (g) Identify opportunities to broaden the government tax base.
  - (h) Paper on policy recommendations for an economically sustainable NMDP.
  - (i) Support to a Draft (revised) National Master Development Plan including medium term implementation strategy and monitoring framework
- (ii) Component 2:
    - (a) Develop an outline of potential infrastructure needs to meet NMDP goals.
    - (b) Prepare costings for infrastructure maintenance.
    - (c) Prepare an options paper on possible outsourcing of Government infrastructure maintenance responsibilities.
    - (d) Prepare a position paper on public–private partnerships for the delivery of Government services.
    - (e) Develop an infrastructure development and action plan.

### **C. Cost and Financing**

28. The total cost of the TA is estimated at the equivalent of \$1.4 million. The Government has requested ADB to finance the equivalent of \$1 million. The TA will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. The TA funds will be disbursed based on ADB's *Guidelines for Disbursement of Technical Assistance Grants* (1992, as amended from time to time). The Government has agreed to provide the balance of \$400,000 equivalent in kind through counterpart staff, office space, furniture, administrative support services, provision of transport, and local logistics. Details of the cost estimates and financing plan are in Appendix 2.

### **D. Implementation Arrangements**

29. The MOF will be the Executing Agency. A TA focal point will be appointed by the Ministry. The CRC will be the Implementing Agency for component 1,<sup>7</sup> and the Ministry of Resources and Development the Implementing Agency for component 2, each appointing a TA focal point. The Government will establish a Project Steering Committee, the details of which are described in Supplementary Appendix A. The team leader will be responsible for coordinating, directing, and monitoring the quality and timeliness of the outputs and the quality and timeliness of activities of the team members and for procuring equipment and training materials. The team leader will ensure that equipment necessary for training, workshops, and seminars will be available for use by consultants during the TA. An equipment list will be prepared by the TA focal point and consultants for ADB approval. The equipment will be

---

<sup>7</sup> If CRC is terminated or transformed into another commission for negotiation in 2007, the Executing Agency and ADB will identify and nominate a new Implementing Agency.

procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time) and turned over to MOF on completion of the TA.<sup>8</sup>

30. The consultancy firm will be responsible for the timeliness and quality of the TA and associated reporting. All written material (reports, plans, recommendations and analysis) by the consultant should be written for the Government.

31. The TA is expected to be carried out over a period of 22 months, starting in August 2007 with fielding consultants, and finishing before June 2009. ADB will engage a team of consultants (20 person-months international and 20 person-months national) with expertise in macroeconomics; economic management and planning; the social sector; agriculture, aquaculture, and fisheries; private–public partnerships; infrastructure; and the environment. During implementation, more individual consultants may be engaged for specific technical services to support the TA as needed.<sup>9</sup> A team of consultants will be engaged as a firm by ADB by quality-based selection in accordance with ADB's *Guidelines on the Use Consultants* (2007, as amended from time to time). Quality-based selection is justified because of the complexity of the TA for country economic and sectoral work and the flexibility needed to include individual specialist consultants, as required. Appendix 3 contains the outline terms of reference. Short-listed firms will submit simplified technical proposals.

#### IV. THE PRESIDENT'S DECISION

32. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,000,000 on a grant basis to the Government of Palau for the Facility for Economic and Infrastructure Management, and hereby reports this action to the Board.

---

<sup>8</sup> All equipment and training materials utilized throughout the TA will become the property of the Government of Palau at the end of the TA.

<sup>9</sup> Such specialist areas may include, but are not limited to, sectoral specialist (health, education, human resource, etc.), workshop facilitators, and specialized infrastructure technical specialists and may be international or national. The specialists will be engaged individually.

## DESIGN AND MONITORING FRAMEWORK

| Design Summary  | Performance Targets/Indicators  | Data Sources/Reporting Mechanisms   | Assumptions  |
|---|---|---|--|
| <p><b>Impact</b></p> <p>Government of Palau achieves economic sustainability.</p>   | <p>Budget forecasts show a balanced budget by 2015</p>  | <p>National accounts</p>  | <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Government is committed to policy and institutional reform</li> <li>• Government sustains macroeconomic development</li> </ul>  |
| <p><b>Outcome</b></p> <p>Improved economic and infrastructure management by the Government</p>  | <ul style="list-style-type: none"> <li>• Budget is approved on time</li> <li>• Increase in tax revenue by 5%</li> <li>• Infrastructure development plan recommendations reflected in a fiscal balanced budget by FY2010</li> </ul>  | <ul style="list-style-type: none"> <li>• Budget paper</li> <li>• ADB review missions</li> <li>• Economic outlook</li> <li>• National accounts</li> </ul>  | <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Government's commitment to cost reduction</li> <li>• Private sector engages partnership with public sector</li> <li>• Sufficient human resources are engaged by the Government to effect change</li> <li>• Parliament committed to taxation reform</li> </ul>   |
| <p><b>Outputs</b></p> <p>Component I</p> <p>1. National Master Development Plan (NMDP) validated and updated</p> <p>2. Economic policy formulation to achieve NMDP goals accepted by the Government</p> <p>3. Sector-specific policies incorporated into the NMDP.</p> <p>4. The Government introduces measures to increase revenue</p> | <ul style="list-style-type: none"> <li>• An achievable NMDP is endorsed by second quarter 2008</li> <li>• Realistic economic policy changes in support of NMDP endorsed by MOF by third quarter 2008</li> <li>• Sector policies in NMDP supporting well-being of poor incorporated by second quarter 2008</li> <li>• Measures are cost-effective and have positive impact on GDP by FY2009</li> </ul> | <ul style="list-style-type: none"> <li>• ADB review missions</li> <li>• ADB review missions</li> <li>• Economic outlook</li> <li>• Review of the NMDP</li> <li>• ADB review missions</li> <li>• Review of measure through a PIER</li> <li>• Review of the NMDP</li> </ul> | <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• The Government's commitment to policy reform, including maintaining focus on environment and balanced development</li> <li>• Good cooperation among consultants and Government agencies</li> <li>• Availability of needed information</li> <li>• Necessary legislative changes are made in a timely manner</li> </ul> |

| Design Summary  | Performance Targets/Indicators  | Data Sources/Reporting Mechanisms   | Assumptions   |
|---|---|---|---|
| Component 2<br>5. Infrastructure needs assessment provided<br><br>6. Infrastructure maintenance plan developed<br><br>7. Alternative provider models for infrastructure maintenance developed<br><br>8. Provide alternatives for delivery of existing utilities   | <ul style="list-style-type: none"> <li>• needs are reflected in the NMDP by second quarter 2008</li> <li>• Infrastructure maintenance plan achievable within current budget by FY2009</li> <li>• Selected outcome reduces Government expenditure and improves services by FY2010</li> <li>• Selected outcome reduces Government expenditure and improves services by FY20010</li> </ul> | <ul style="list-style-type: none"> <li>• ADB review missions</li> <li>• ADB review missions</li> <li>• ADB review missions</li> </ul> |   |
| <b>Activities with Milestones</b><br>1.1 Review of the existing NMDP, JICA Report and other relevant documents, identifying achievements, constraints and changed circumstances relevant for updating the NMDP.<br>1.2 Paper on macroeconomic and fiscal policies and indicators for sustainable development.<br>1.3 Paper on strategies and actions for growth and diversification of the tourism sector.<br>1.4 Development an action plan for the: agriculture; fisheries; and, aquaculture sectors.<br>1.5 Paper on sustainable financing of the social sectors including health, education and social services.<br>1.6 Paper on privatization of public utilities and other public services.<br>1.7 Identify opportunities to broaden the government tax base.<br>1.8 Paper on policy recommendations for an economically sustainable NMDP.<br>1.9 Support to a Draft (revised) National Master Development Plan including medium term implementation strategy and monitoring framework<br>2.1 Develop an outline of potential infrastructure needs to meet NMDP goals.<br>2.2 Develop costings for infrastructure maintenance.<br>2.3 Prepare an options paper on possible outsourcing of Government infrastructure maintenance responsibilities.<br>2.4 Prepare a position paper on public-private partnerships for the delivery of Government services.<br>2.5 Develop an infrastructure development and action plan. |   |   | <b>Inputs</b><br>ADB: \$1,000,000<br><br><ul style="list-style-type: none"> <li>• Consultants: \$925,000</li> <li>• Miscellaneous: \$10,000</li> <li>• Contract negotiations: \$5,000</li> <li>• Contingencies: \$60,000</li> </ul> Government: \$400,000<br><br><ul style="list-style-type: none"> <li>• Office accommodation and transport: \$200,000</li> <li>• Others: \$200,000</li> </ul> |

ADB = Asian Development Bank, GDP = gross domestic product, MOF = Ministry of Finance, NMDP = National Master Development Plan, PIER = Pacific Islands Economic Report

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

| <b>Item</b>  | <b>Total<br/>Cost</b> |
|--|-----------------------|
| <b>A. Asian Development Bank Financing<sup>a</sup></b> |                       |
| 1. Consultants   |                       |
| a. Remuneration and Per Diem                           |                       |
| i. International Consultants                           | 630.0                 |
| ii. National Consultants                               | 80.0                  |
| b. International and Local Travel                      | 70.0                  |
| c. Reports and Communications                          | 30.0                  |
| d. Equipment   | 20.0                  |
| e. Training, Seminars, and Conferences                 |                       |
| i. Facilitators  | 25.0                  |
| ii. Training Program                                   | 70.0                  |
| 2. Miscellaneous Administration and Support Costs      | 10.0                  |
| 3. Contract Negotiations                               | 5.0                   |
| 4. Contingencies                                       | 60.0                  |
| <b>Subtotal (A)</b>                                    | <b>1,000.0</b>        |
| <b>B. Government Financing</b>                         |                       |
| 1. Office Accommodation and Transport                  | 200.0                 |
| 2. Others  | 200.0                 |
| <b>Subtotal (B)</b>                                    | <b>400.0</b>          |
| <b>Total</b>   | <b>1,400.0</b>        |

<sup>a</sup> Financed by the Japan Special Fund, funded by the Government of Japan.  
Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. Consultant services will be engaged under the two components of the technical assistance (TA). A team leader, a macroeconomist, will be in charge of supervising all components and will lead the work on the economic policy formulation and implementation components. The team members will work closely with and under the guidance of the team leader.

**A. Team Leader and Macroeconomist** (international, 8 person-months, intermittent)

2. The team leader should have: (i) 3 years of experience working with governments and communities in the Pacific in leadership roles; (ii) at least 10 years' experience providing economic policy advice to governments; (iii) demonstrable skills in national development plan preparation and formulation; (iv) participatory planning experience at the community level; and (v) experience leading teams in a similar context. He or she should hold a tertiary degree, preferably at least a master's degree in economics or a related field, and have excellent verbal and written communication skills.

3. The team leader and macroeconomist, working closely with the project officer, will do the following.

(i) As team leader:

- (a) Ensure the expectations of the Government and Asian Development Bank (ADB) for the delivery of the TA are well understood and articulated to other team members.
- (b) Coordinate the work and inputs of the consultancy team, and consult with relevant members of Government and civil society.
- (c) Act as the primary interface with the Government to ensure the appropriate and timely delivery of TA objectives.
- (d) Provide leadership and guidance to the consultancy team, ensuring the quality and timeliness of all elements of the TA.
- (e) Provide substantive leadership and expertise in the drafting of all reports under all items of the terms of reference.
- (f) Ensure all consultant inputs are directed by an endorsed work plan.
- (g) Ensure that at the end of each consultant input an interim work plan is developed and endorsed by the Government to direct the implementing agencies' TA inputs during the consultant's absence.
- (h) Ensure all financial and procurement requirements of ADB are met.
- (i) Maintain close contact with the ADB Palau desk officer, Ministry of Finance, Compact Review Commission, and Ministry of Resources and Development throughout the entire execution of the TA.

(ii) As macroeconomist:

- (a) Prepare sustainable economic policy suggestions for the *National Master Development Plan* (NMDP). In doing so, prepare target macroeconomic management and fiscal indicators taking into consideration findings from other TA activities, other relevant reports, the Government, and other stakeholders.
- (b) Provide recommendations on future activities to strengthen sustainable economic policy formulation.
- (c) Prepare a fiscal management policy.

- (d) In collaboration with the PFTAC, review the tax system and provide suggestions for ways to raise tax revenue and deliver a more efficient tax system.
- (e) Compile, review, and disseminate all relevant documentation, including social and economic reports and assessments for Palau.
- (f) Update data and information of relevant existing Government policy documents.
- (g) Provide substantive expertise in analyses of all items under the terms of reference, including the status and trends of economic development, fiscal management, the tax system, private sector development, basic social service delivery through private–public partnerships, and the financial regulatory framework, and prepare relevant recommendations.
- (h) Coordinate and consolidate the findings and recommendations of all sector specialists into an updated NMDP.
- (i) Lead policy dialogue with the stakeholder partners, ensuring local ownership of the proposed recommendations, and assist with decision making on their adoption and implementation.

**B. National Advisor** (national, 20 person-months, intermittent)

4. The national advisor must have excellent communication skills and be able to liaise with all members of Government and civil society to ensure the smooth planning, delivery, and administration of the TA. The advisor should have at least 5 years' experience providing economic policy advice to the Government and societies, and should hold a tertiary degree in a related field.

5. The advisor will be a local coordinator, who will directly support the Team Leader and other project members, the Executing Agency, the implementing agencies, and the ADB Palau desk officer. The economic policy advisor will do the following.

- (i) Through consultation with implementing agencies, facilitate the budget process to ensure pro-poor budget formulation.
- (ii) Prepare and implement a media program to disseminate results, including presentations at public hearings, radio and television, and the news media, and to all relevant interest groups and bodies (including Olbiil Era Kelulau members, Chamber of Commerce, nongovernmental organization, Association of Churches, state governors, and other donor agencies, among other relevant forums).
- (iii) Conduct any project-related ad hoc tasks requested by the Executing Agency.

**C. Social Development Specialist** (international, 2 person-months)

6. The social development specialist will have 10 years of experience in policy formulation for social sector issues such as human resource development, labor, education, and health. The social development specialist will have tertiary qualifications in a related field and have 3 years' experience in policy development in similar sized economies and in one or more of the social sectors. It would be advantageous if the specialist is familiar with cultures in the northern Pacific, and has substantial and extensive experience conducting consultations with civil society. The social development specialist will do the following:

- (i) Undertake an initial assessment (desk review) of the social sector analysis funded by the ADB regional TA Strengthening Pro-Poor Policy in the Pacific<sup>10</sup> and other relevant documentation.
- (ii) Conduct a socioeconomic analysis, including costs, on social institutions such as schools, hospital, and local clinics to suggest appropriate size of budget for the social sector; by forecasting future demand for social institutions, suggest the appropriate size of supply of such institutions in the medium term.
- (iii) Prepare a social sector development plan and the associated action plan to identify key social development strategies and actions; identify constraints on and opportunities for mainstreaming social sector considerations in economic development planning.
- (iv) Respond to requests for social sector analysis as the NMDP is developed.

**D. Aquaculture and Fishery Specialist** (international, 1 person-month)

7. The aquaculture and fishery specialist will have at least one tertiary qualification in a related field with at least 7 years' experience, including policy formulation. The specialist will have field experience of aquaculture and fisheries and knowledge of the fisheries market in the Pacific. The aquaculture and fishery specialist will do the following:

- (i) Undertake an initial assessment (desk review) of the Government's development strategies for aquaculture and fisheries.
- (ii) Review the policies and Government institutional arrangement for fisheries, assessing institutional capacity to protect natural and marine resources.
- (iii) Review the current situation of natural and marine resources, and draw up suggestions for sustainable development.
- (iv) Review the current situation of subsistence fishing, taking into consideration formal and informal institutional arrangements.
- (v) Develop a policy paper on the future of the industry, taking into consideration domestic requirements and international opportunities.
- (vi) Prepare a fisheries development strategy and action plan, taking into consideration in-shore fisheries and aquaculture.
- (vii) Provide recommendations on economically viable options for developing aquaculture markets for consideration under the NMDP preparatory process.

**E. Agriculture Specialist** (international, 1 person-month)

8. The agriculture specialist will have directly relevant tertiary qualifications with 10 years' work experience. He or she should have 3 years' Pacific island country experience in agriculture production and subsistence farming and knowledge of the agricultural market for the Pacific. The agriculture specialist will do the following.

- (i) Undertake an initial assessment (desk review) of the Government's development strategies on agriculture.
- (ii) Review the policies and Government institutional arrangements for agriculture.
- (iii) Review the current situation of subsistence farming, taking into consideration formal and informal institutional arrangements.

<sup>10</sup> ADB. 2005. *Technical Assistance for Strengthening Pro-poor Policy in the Pacific*. Manila (approved on 10 June for \$1.85 million).

- (iv) Consult with Government officials, workers in the agriculture sector, and organizations related to agriculture (such as the Food and Agriculture Organization).
- (v) Prepare an agriculture development plan to identify key agriculture development strategies and action plans.
- (vi) Provide recommendations on economically viable options for developing agriculture for consideration under the NMDP preparatory process.

**F. Privatization Specialist** (international, 2 person-months, intermittent)

9. The privatization specialist will have tertiary qualifications in finance-, economics-, or management-related fields. He or she will have 10 years' experience in public sector finance and private sector or Government corporations, ideally in the provision of public utilities. The assignment of the privatization specialist, working under the guidance of the team leader and macroeconomist, will do the following.

- (i) Review all relevant documents and legislation related to service deliveries.
- (ii) Review all facets of basic social service delivery (including power, water, sewer, road maintenance, solid waste management, and health and education facilities), with a focus on pro-poor access to basic services, and look at the quality and relevance, reach and accessibility, and cost-effectiveness and efficiency. Identify alternatives to improve service delivery, reviewing private sector and community-based delivery modalities, among other options.
- (iii) Consider viable alternative public service delivery modalities through private–public partnership and state-owned enterprise reform, and present recommendations for widespread dissemination and decision making in the most relevant formats for Palau.
- (iv) Conduct consultations with relevant stakeholders to develop recommendations that promote private sector participation in service delivery through the wide spectrum of outsourcing or private–public partnership arrangements.
- (v) Work with the infrastructure specialist to include findings in the Infrastructure Development Plan and provide recommendations on implementing possible privatization or private–public partnership initiatives and state-owned enterprise reform for infrastructure maintenance.

**G. Infrastructure Specialist** (international, 4 person-months, intermittent)

10. The infrastructure specialist should have tertiary qualifications as a civil engineer, with 10 years' experience, including 5 years' experience in infrastructure planning and infrastructure assessment. He or she will have some experience working in the Pacific. The infrastructure specialist will do the following.

- (i) Review relevant legislation, strategies, reports, and studies on infrastructure in Palau.
- (ii) Consult with the national and state governments, representatives from the private sector, community members, and other stakeholders as appropriate.
- (iii) Assess the status of infrastructure service provision with respect to institutions efficiency, effectiveness, costs, access, and expectations.
- (iv) Identify future infrastructure needs for delivering against the NMDP objectives, providing approximate values, operating costs, and maintenance costs, with a

- view to assessing the appropriateness of the NMDP strategies and to informing future Government fiscal planning.
- (v) Assess the maintenance cost of existing infrastructure. Based on the assessment, identify approximate financing needs in the short, medium, and long term (e.g., 5–15 year outlook) for the infrastructure sector.
  - (vi) Liaise with the privatization specialist to provide an inventory of available modalities for infrastructure financing, potential partnering opportunities to meet needs, and related institutional arrangements; assess the relevance of each modality (including, but not limited to, economic, institutional, cultural, social, regulatory, and financial aspects).
  - (vii) In the report, discuss success or failure of different modalities in other countries and similar settings; based on some examples, make proper recommendations for infrastructure maintenance.
  - (viii) Review best practices for subsidies and affordable access to infrastructure services and recommend proper systems to implement in Palau.

#### **H. Environment Specialist** (international, 2 person-months)

11. The environment specialist will have tertiary qualifications in environmental impact assessment or in engineering, but must have 5 years' experience assessing the impact of public infrastructure activities on the environment. They will also have experience in infrastructure planning or developing policies for environmental consideration in public infrastructure activities. The environment specialist will the following.

- (i) Review the environmental impact of existing public infrastructure.
- (ii) Identify the opportunities and constraints the environment offers for development; particularly estimating how much the environment can contribute to economic growth and the gains to be made from environmental improvement in specific infrastructure.
- (iii) Assess the impact of potential environmental problems due to major infrastructure on livelihoods, health, the vulnerability of poor communities, and vulnerable groups.
- (iv) Prepare an environmental and natural resource development plan for Palau to identify key environmental components and their relationship to projected development plans.
- (v) Identify policy and institutional challenges for environmentally sustainable growth.
- (vi) Evaluate Government environmental policies in terms of appropriateness and effectiveness of regulatory environment against the NMDP objectives and recommend changes to the plan and the existing policies.

#### **I. Unspecified Consultants**

12. Additional international consultants will be engaged for up to 6 person-months. At this stage, expertise of the additional consultants is still unspecified. It will be determined as the TA progresses. Additional consultants will be identified and contracted through the successful firm.

#### **J. Reporting Requirements**

13. The consultancy firm is responsible for submitting various reports to the Government and ADB. The inception report will be submitted within 1 month of commencement of services.

The report will include an implementation plan, work plan, detailed cost estimates, and schedules.

14. The consultancy firm will submit, at the end of each month, a report identifying where TA progress is not in accordance with the agreed work plan, what remedial action is being taken, who is responsible for implementing the remedial action, and any cost or time implications.

15. If a consultant has intermittent inputs, he or she will leave a plan for action for his or her counterparts after each assignment.

16. Milestone reports will include: (i) a development plan for the agriculture, fisheries, and aquaculture sectors; (ii) an options paper on opportunities to broaden the Government tax base; (iii) a social sector development plan; (iv) an outline of potential infrastructure needs to meet NMDP goals; (v) an infrastructure development plan; (vi) an options paper on possible outsourcing of Government infrastructure maintenance responsibilities; and (vii) a position paper on the use of private–public partnerships for the delivery of Government services.

17. A draft final report will be submitted within 21 months from the start of services.

18. The final report will be submitted 2 weeks after comments on the draft final report have been received from the Government, ADB, and participating local stakeholders and the report has been revised accordingly.

### **Governance Arrangements**

1. A Project Steering Committee (PSC) will be established by the Government consisting of:
  - (i) Minister of Finance,
  - (ii) Ministry of Finance TA Focal Point,
  - (iii) Minister of Resources and Development,
  - (iv) Ministry of Resources and Development TA Focal Point,
  - (v) CRC Executive Director,
  - (vi) CRC TA Focal Point, and
  - (vii) National Advisor (non-voting member).
  
2. The PSC will meet at least monthly and in addition as required. Its responsibilities include to:
  - (i) Coordinate the views of local partners for discussions with the ADB and the contractor,
  - (ii) Address implementation issues,
  - (iii) Direct the local consultative process based on proposals prepared and submitted to the National Advisor,
  - (iv) Provide leadership at consultative sessions, community meetings and task group meetings,
  - (v) Direct the media campaign,
  - (vi) Oversee the work plan and performance of the contractor and provide feedback to the ADB,
  - (vii) Conduct briefings for consultants on employed through the TA,
  - (viii) Endorse consultancy reports for release, prepare consolidated comments on consultancy reports and approve final reports.
  
3. The Government of Palau will establish a Working Group for the purpose of producing a draft update to the MNDP. The Working Group may constitute the CRC, PSC or both and may include additional stakeholder representatives if required.