



State of the Republic Address

**By President Tommy E. Remengesau, Jr.
Before the Tenth Olbiil Era Kelulau**

April 17, 2018

Good morning, Mr. Senate President, Mr. Speaker, Mr. Vice President, Cabinet Members and Chief Justice. Please join me in extending our warmest welcome to Ibedul, Reklai, and the Council of Chiefs, Bilung, Ebil Reklai, First Lady, and all the Mechesil Belau, Governors, Speakers, all State Legislators, members of the Diplomatic Corps, students, and fellow Palauans. Good morning everyone and thank you for joining us today at this joint session of the Olbiil Era Kelulau as we present to the people the 2018 State of the Republic Address.

Ladies and Gentlemen, we live in uncertain times. On the international front we witness the nations of the world taking on more confrontational positions in regard to one another and the unquestioned western coalition that defined the last half of the century is increasingly being called into question.

As a nation, we find ourselves nearing the end of our second period of financing under the Compact of Free Association, even though the United States spending Bill committing to this 2nd financing commitment was signed into Law less than a month ago. We also find that, due to our own development successes over the past two decades, the World Bank has changed our country income classification to that of a 'High Income' country, which will limit the availability of certain global development funding despite the fact that we are also classified as a small island developing state that is highly vulnerable to the mounting impacts of climate change.

Because of our unique situation, we must be prepared to address our fiscal challenges in the coming years. First, we must focus our efforts on expanding our own revenue base to respond to our new development status and expanded funding requirements, including responsive social programs and services, and climate change adaptation and mitigation measures.

Second, we must begin to utilize more of our financial resources to leverage financing to help fully finance investments in economic sectors we have targeted for development. We must do this within a clearly established regulatory framework.

Finally, we must continue to build our capacity to access and implement available financial and technical assistance from our multilateral and development partners. In this effort we must focus on Public Private Partnerships to help lower the burden on the government and to expand available financing options.

This means that we must seriously expand our efforts to not only enhance our tourism industry, but also look to diversify our economic opportunities. Within this context, we must make sure that we continue to work towards sustainable livelihoods, strengthen our food security, protect our family structure, and provide improved health and education to our people, all while continuing to preserve our cultural heritage. These are basic but certainly complex responsibilities for a nation as small as ours. Yet we must progress each and every one of these responsibilities to ensure a vibrant future for our children.

In order to accomplish these ambitious goals, we must continue, at the leadership level, to cooperate through a shared vision of our future. This will require continued serious discussion, negotiation, inclusive community dialogue and, most importantly, compromise.

In order to address these issues and manage this complex process, we developed a Platform and a Plan of Action in 2016 known as the ‘Management Action Plan’ (MAP) to help us move forward during this administration on all of the fronts necessary to respond to these issues. In our MAP, we promised to focus on a number of areas.

1. Safeguarding Family Income Gains and Retirements;
2. Developing Key Economic Sectors to Support Sustainable Growth and Development;
3. Protecting and Preserving our Environment;
4. Expanding and Maintaining our Basic Infrastructure;
5. Strengthening Education, Health and Public Safety Services;
6. Sustaining Increased Support for our Youth, the Aged and Vulnerable Populations;
7. Containing the Cost of Government; and
8. Enacting and promulgating needed laws and Regulations;

In this State of the Republic Address we will provide a brief overview of recent economic performance and outlook over the medium term, consider emerging issues, review implementation efforts in each areas of these MAP commitments, and discuss the realignment of our strategic direction over the next three years.

Ladies and Gentlemen, Palau’s economy grew in FY2014 to FY2015, owing to the recovery of tourism and developments of infrastructure activities. In FY2016 the economy continued to grow more slowly by 1 percent despite the drop in tourist arrivals. In FY2017 growth is estimated at - 3.7 percent, primarily due to reduced tourism activities and delayed construction activities related to supply constraints of aggregate materials. While the decline in construction related activities is temporary, the reduction in tourism activities reflects a serious restructuring of our tourism industry, as we continue to emphasize market diversity and high value tourism through the “*Pristine, Paradise. Palau*” brand.

Tourist arrivals in FY2017 totaled 122,050, a decline of 16.8 percent over the previous year, with the People's Republic of China comprising 45.5% of overall arrivals.

As we all know, the prior dramatic increase in overall tourism reflects the greater number of tourists arrivals from Mainland China, which reached a level of approximately 91,000 in 2015 and has been steadily decreasing since that high water mark. Because of this unexpected rise in numbers, it was necessary to take action to bring down the number of Tourists from Mainland China because our over-arching tourism policy is to focus on a diversified tourism base, which allows us to remain within the carrying capacity of our natural environment.

Despite the reduction in overall tourism revenues of about 12.3 percent in 2017, it is important to note that total tourism revenue per arrival and total tourism revenue per visitor night have actually increased by 5.4 percent and 1.9 percent, respectively. This development highlights the importance of a tourism policy that promotes high-value tourism rather than mass tourism, which is the key attraction for tourists.

In the short term, tourism numbers are anticipated to continue to decline due to the overall restructuring of the industry and tourism policy, strong competition within the Asian Tourism markets, political turmoil in the European and North American tourism markets, increasing fuel prices and their impact on air services to Palau and price competition with other destination markets. Perhaps the most important factor affecting visitor arrivals will continue to be the strength of the US Dollar and its effect on the relative costs of other destination markets in our region.

At the government level, for the General Fund operations of the government, total revenues increased slightly from \$85.3 million in FY2016 to \$86.3 million or 1 percent in FY2017, largely from sustained increase in non-tax revenues driven by fishing days' fees. This slight increase in revenues clearly demonstrates that we have been able to weather the temporary reduction in tourists.

Total expenditures declined from \$84.2 million to \$81.5 million or -3 percent, mostly due to reduced subsidy payments. Overall, the General Fund fiscal balance, including the Compact Trust showed a savings of \$9.9 million.

External grants represented 54.2 percent in FY2016 and 46.7 percent in FY2017 of the annual national budget.

The number of employed persons in FY2017 increased by 4.1 percent compared to FY2016. Total Palauans employed was 5,414 and with 6,552 non-Palauans. Total average wage and salary levels increased by 2 percent from \$10,832 in FY2016 to \$11,063 in FY2017. The average wage and salary level for Palauans is \$14,023 and \$8,617 for non-Palauans. Gender wise, the total average wage and salary level for females is \$11,366 and \$10,866 for males.

Palau's total population increased from 17,501 in the 2012 Mini-Census to 17,661 in the 2015 Census. Palau's annual population growth rate was estimated at 0.03 percent. Males represented 47 percent of the population while females represented 53 percent of the population. Of the total

population recorded during the 2015 Census, the male population increased by 2.3 percent and the female population decreased by 0.7 percent. Youth represented 28 percent of the entire population, a decline of 4.3 percent as compared to the 2012 mini census.

The National Government, including its components units, such as PNCC, has six major loans outstanding with an initial value of \$107.8 million for the development of infrastructure with a current balance of \$50.3 Million as of FY2017. External debt sustainability is fairly low and favorable as our external debt position remains stable. The total debt service as a percent of recurring budget increased slightly from FY2016 to FY2017 from 2.9 percent to 3.1 percent. This level of debt is very low for a developing nation.

Palau's Compact Trust Fund increased from \$196.7 million in FY2016 to \$219.8 million in FY2017 because of continued strong market performance.

In FY2017, inflation was estimated at 3 percent mainly due to the increased prices for rent and fuel. Inflation is expected to rise as global oil prices are increasing.

Overall, wage gains, construction activities and the Environmental Impact Fee are expected to contribute to positive growth in FY2018 and FY2019. Anticipated increases in wages and benefit payments will continue to contribute to consumer spending. Construction is also expected to perform strongly with the improved supply of aggregate materials and continued construction and improvements to new and existing visitor accommodations, continued road construction, and planned new major public and private projects.

However, Palau's heavy reliance on tourism creates important challenges as tourism can be highly susceptible to global political, economic and financial conditions. Tourism activities raise the demand for fuel and food imports that makes Palau vulnerable to global commodity price fluctuations. A strong US dollar can impact Palau's competitiveness, particularly in the tourism industry because low-value tourists still accounts for a larger portion of overall tourist arrivals. A slowdown or disruption in the Asian economies can further reduce the number of tourists dramatically. The risk of increased frequency and severity of inclement weather conditions resulting from climate change and sea level rise could further erode tourism and growth prospects.

Ladies and Gentlemen, the work of governance in a small island developing nation is never simple. Over the medium term and beyond 2024, we face the complex issues related to:

- The planned phase-out of direct funding assistance under the Compact Review Agreement in FY2024;
- Reduced international assistance due to our new status as a 'High Income' country and the urgent need to reduce our reliance on external assistance;
- The increasing financing requirements and challenges of Climate Change;
- The adoption of a High-Value Tourism Policy and diversification of our economic base to meet our expanding revenue needs;
- The need to effectively direct foreign investment to priority areas for development;
- The Implementation of the Palau Marine Sanctuary; and

- The need to build capacity to access and implement available assistance from multilateral and development partners to help us progress our development objectives.

These specific issues ultimately relate back to the primary goals of our MAP. These goals focus on moving our Palauan society forward, in a thoughtful manner, on all levels, to ensure a better life for all Palauans. Safeguarding our incomes, developing our economy, protecting our environment, expanding our infrastructure, strengthening our social programs – all are required if we are to meet the complex challenges over the medium term and beyond 2024.

On the positive side, I am pleased to confirm that the United States Congress finally passed a Consolidated Appropriations Act for 2018 that included financial provisions for Palau's Compact. While this act was almost a decade late, we never lost faith with our friend and partner that this day would come. But yes, we have been overly patient. Under the provisions of this Bill, Palau will begin to receive benefits for the final six years of the Compact, beginning in 2019, having received approximately \$13 million in direct assistance on an annual basis since 2010 through direct annual appropriation.

Under the total Compact Review Agreement, including annual payments already made, Palau will receive approximately \$250 Million over the 15 year period starting in 2010, of which \$21 million will be directly provided to the US Postal Service and the balance of \$229 million disbursed annually until FY2024. Palau has already received \$118 million of this funding through annual direct assistance since 2010.

While the approval of the Compact Review Agreement funding is welcome news, unfortunately, Palau will have suffered losses due to the delay in the disbursement of the Compact funding. These losses include inflationary costs, lost investment earnings, and increased infrastructure costs. As a result, we have requested of the U.S. that the remaining balance of the payments be provided up-front in a single payment in order to maximize our earnings going forward and to recover some of these prior losses.

The change in the country income classification status of Palau as a 'High Income' country will have an immediate effect on our ability to gain certain concessionary financing from International Agencies such as the World Bank and the Asian Development Bank. A 'High Income' country status is achieved when a country's Per Capita Income reaches \$12,235 per year. Our Per Capita Income is now around \$14,000 per year. Nevertheless, we are still categorized as a "Small Island Developing State", which allows for special consideration under certain conditions. However, our continued upward economic trends place an increasing burden on our small economy to generate sufficient revenues that will enable us to provide essential governmental services. Yet again, we are penalized for performing well.

Our designation as a 'High Income' country further highlights the importance of reducing our reliance on external assistance. We must begin to look at how we can mobilize domestic resources, including our domestic savings and investments in the international stock market, towards those areas that we target for development. This can be an effective way to help make us more self-reliant. For instance, we have over \$200 million invested in stocks and bonds outside

of Palau. Why not use a small percentage of this money to leverage or fully finance projects that can pay for themselves or provide a revenue stream that can help contribute to our fiscal sustainability? Of course we would need a regulatory framework that provides strict guidelines for what and how a project may be considered and approved.

We must also take into account the fact that in the future, the cost of Climate Change and increasing sea level rise will have a major impact on our economy. We can anticipate more frequent weather events and must work to build our resiliency. A Country Risk Profile spearheaded by the World Bank, estimates that Palau is expected to incur, on average, around \$2.7 million in damages annually from typhoons and earthquakes. And, over the next 50 years, Palau has a 50 percent chance of incurring damages totaling over \$30 million, and a 10 percent chance of incurring catastrophic damages exceeding \$247 million. Incredible!

As a result, we must take into account the future costs of Adaptation to Climate Change, including the need to relocate infrastructure, such as the Hospital, and sometimes even communities, away from coastal areas. On top of this we must strengthen our existing infrastructure and build stronger infrastructure to weather the storms ahead. This will be costly and further highlights the urgent need to look at ways to expand our revenue base.

To respond to these growing future needs for enhanced revenue, we must first look to our Tourism Industry. In this effort to increase the economic benefit from Tourism, we must continue to seek the appropriate balance between economic development and the protection of our environment and the preservation of our cultural heritage. In this effort, we must continue to trust our unique product knowing that tourists will eventually come to Palau. We must not undersell our Golden Egg to the first bidder. Quality, not Quantity, will accomplish this goal.

While our tourism revenues have recently declined due to a number of factors, including the significant reduction in tourists from the Peoples' Republic of China, we must stay the course and implement our vision of a High-Value Tourism model. Let us not forget that the expansion of tourists in 2014 and 2015 were mostly low-value tourists, with daily expenditure well below historical levels. Let us also not forget that this rapid increase in tourists from China resulted in comparable losses in tourists from Japan, Korea, the European Union and the United States.

In our current tourism reset, we can once again return to our vision of a high-value tourism destination and implement our tourism strategy of a "*Pristine Paradise. Palau*" brand, which will move us toward a maximum return on investment and a diverse set of tourism guests. If we are patient, this re-set will allow us to catch up to our governmental responsibilities to tax all tourism businesses and to ensure that our foreign investment laws are being complied with.

It is important to remember that our high-value brand is about showcasing the beauty of our natural environment, of experiencing the unspoiled beauty of our lands and our pristine seas and our rich cultural heritage. This brand is about diversifying our product offerings through *niche markets* such as eco-based, cultural, sports, and weddings and honeymoons. It is about realizing more for each dollar spent, not just through the various niche products offered but also through quality locally produced products from the food visitors consume to the gifts they bring back home. It is not about limiting Palau to only those that can afford to come.

During this reset, we will also have time to identify long-term regular airlines and also develop a strong and transparent process of charter flight selection and monitoring. Delta Airlines did not leave Palau because they were not making money. They left because they had a consolidation business plan that did not include flying to Palau. We must not panic because they have chosen to leave us. We must simply identify new partners, and we are working diligently to do so. Ultimately, our regular airlines should be the major carriers bringing quality tourists to our market. But we cannot discount that charter flights fill in the gaps that ensure the delivery of tourists to Palau.

My fellow Palauans, we must select long-term viable partners to share in our tourism vision. To accomplish this, we revised our Foreign Investment Law last year in RPPL 9-64 to begin to confront the issue of front businesses that do not benefit Palauans, do not pay their fair share of taxes and do not share our long term goals of a Pristine Paradise. Palau. We also recently passed a high-end tourism amendment to the Foreign Investment Law to require quality investment and quality tourism facilities. By the passage of these laws and the expansion of the FIB budget, we have established a capacity to begin enforcing this vision on the ground. I would ask that all Palauans support the FIB in its efforts to enforce our FIB law and to ensure that foreign businesses follow the rules and pay their fair share of taxes. If we give them our backing, I guarantee that we will improve the quality of our tourism facilities and tourism partners, and we will expand our tourism revenues.

As I said last year, let us continue to be mindful of the fact that, “Many will come calling and knocking at our door, but only a few good partners can be chosen.”

As a major component of our Tourism marketing and our environmental agenda, we continue to work to implement the Palau National Marine Sanctuary (PNMS) prior to 2020. In that effort we have received a second 40-meter patrol vessel, with crew, as well as a new wharf, a training center, and a new Marine Law Enforcement Administrative Building from the Nippon and Sasakawa Peace Foundations. In addition, we will receive a replacement patrol boat from Australia by August of 2019.

We have also begun the collection of the Pristine Paradise Environmental Fee and continue to seek contributions to the new PNMS Endowment Fund.

With this expanded surveillance infrastructure, and anticipated supplemental funding, Palau will establish a center to monitor all activity in our Exclusive Economic Zone, and will coordinate surveillance operations throughout our EEZ, and beyond, in partnership with existing regional fishery management organizations.

Prior to 2020 we hope to establish a Central Fishing Auction and Processing Facility, a wharf for the Auction facility, and a Central Market. We have also placed Fish Aggregating Devices (FADs) throughout the Domestic Fishing Zone in an on-going project to establish our domestic fishery.

Related to the PNMS and the protection of ocean resources, I would like to also announce that Palau has been chosen to host the “Our Oceans” Conference in 2020. The conference showcases the state of the world’s oceans and provides a platform for governments, and private sector non-government and civil society organizations to make announcements and commitments to further the protection of the ocean. The conference should bring about 1,000 international representatives to Palau.

For us to be successful in our development agenda, it is imperative that we not only build capacity amongst the Palauan people, but also bring Palauans home who already have the capacity to move our country forward. The reality is that there are simply not enough of us to do all the work that needs to be done. To accomplish this, we must develop and adopt Human Resources Development Plans in the Public Sector to help ensure that we build and retain the expertise to make sure that we are able to take full advantage of the global assistance that is available to us. We must also create a private sector environment that encourages Palauans to return. Sustained increase in the minimum wage and expanded retirement benefits will help encourage Palauans to return as well as attract skilled labor that can help us progress our development agenda.

My friends, all of these efforts are directed at the eight priority areas enunciated in our MAP, which essentially look towards solidifying our gains and moving forward to strengthen our economy, protect our environment, strengthen our education, health and public safety and improve our infrastructure base.

To ‘Safeguard Family Income Gains and Retirement Benefits’, we have proposed further increases to the minimum wage to make us competitive with every jurisdiction in Micronesia. Working together, we made permanent the \$50 increase in social security retirement benefit payments first provided in FY2016, and most recently, we have approved another \$50 increase that will take effect in FY2019. We have also worked to strengthen our Pension Plan financing through funding from the Pristine Paradise Environmental Fee. We are also working to strengthen the Pension Plan and expanding it to include the private sector to increase their retirement income options.

While we will continue to look towards opportunities to better the lives of private and public sector employees and their families, we are always mindful of the potential impact of the cost of doing business, and we will look to off-set these costs through the development of incentives and an improved and fairer tax regime.

Continued efforts to ‘Develop Key Economic Sectors to Support Sustainable Growth and Development’ are central to our response to new economic challenges over the next decade. This begins with our tourism. As indicated, we are working to reset our tourism economy by not only establishing a new marketing strategy under the theme of “*Pristine Paradise. Palau*”, which is tied to our ongoing efforts to successfully implement the Palau National Marine Sanctuary. Within this context we are fine-tuning a new 5-year Tourism Strategic Plan as guided by the Palau Tourism Task Force and we are working hard to implement the “Palau Responsible Tourism Policy Framework.” We are also moving forward with an Eco-Tourism Project funded by the Sasakawa Peace Foundation that focuses on community-based tourism.

In addition, we are working to protect our food security through the development of our agriculture and aquaculture industries. To support these growing industries, the Ministry of Natural Resources, Environment and Tourism has established a National Slaughter House and developed a National Pork Product Certification Program. The \$5 million soft loan from the Republic of China, Taiwan has resulted in almost 100 loans approved totaling over \$1.5 million loans to agriculture and aquaculture projects throughout Palau. We have also revitalized our Giant Clam Farming Project by seeding more clams than we have since 2011. We are also expanding the number fish species for farming. In addition, to make our agricultural products marketable in the region, we have focused on our Fruit Fly Control Project by distribution bait stations throughout the State.

We must also focus on the success of our PNMS through the creation of a domestic fishery, with a Central Market and a Fishing Auction. We hope to have this in place by 2020.

Finally, we have made critical improvements to the Palau International Ship Registry, by revising and tightening the agreement with our shipping industry partners and implementing new accountability procedures. A new vetting process, and new information-sharing agreements with our national security partners, will safeguard Palau's reputation in the international community. At the same time, we have struck a better bargain for Palau by increasing our share of revenue from 30% to 40%, and in two years, to 50%. The Registry was already generating almost \$1 Million per year for the Republic of Palau; under this new agreement we will see an immediate revenue increase of 33%, with even greater gains to come in the near future.

In our efforts to 'Enhance Our Capacity to Protect and Preserve Our Environment' we have moved aggressively to implement our National Marine Sanctuary. This will complete our Protected Area Network System and protect marine life throughout our Exclusive Economic Zone. The PAN Fund is currently implementing a 5-year strategic plan to ensure that by 2025 the PAN will be effectively managed and that by 2050, our Nation will have healthy marine and terrestrial ecosystems. We have also declared, by law, a no-take ten-year hawksbill turtle moratorium that also restricts the sale of any Hawksbill products, except for existing inventory.

The Ministry of Natural Resources, Environment and Tourism (MNRET) is also working on terrestrial issues, such as eradication of numerous invasive species, including fruit flies, the Rhinoceros Beetle, and invasive plants such as Kebeas and Imerata. The Ministry has undertaken a baseline survey of Invasive Plants in protected areas to expand our knowledge of the extent of this invasion. The Ministry is also propagating native trees to distribute throughout the island.

The National Environmental Protection Council (NEPC) has developed a State of the Environment (SOE) report to help monitor and evaluate policy actions. The SOE will help inform policy decisions and prioritize efforts to address environmental risks. We also plan to host a national environmental symposium every other year to help develop consensus on priority environmental issues and interventions as well as to promote collaboration and to continue our efforts to include the environment in our planning process.

On the energy front, Palau is committed to meeting our Nationally Determined Contribution of 45% renewable energy by 2025. We are working hard both internally and with our many international partners to identify appropriate systems and resources to implement this world-leading goal. In 2017, we held the First Annual Palau Energy Summit, where many of these partners joined leaders and policy experts from across Palau to draft a road map to our renewable energy future. And today, with the signing of HB 10-75, HD1, I am pleased to see the Summit's first significant policy outcome take form. This bill, by creating a regulatory body over Palau's energy sector, paves the way for new partnerships that will enhance our energy security while reducing costs for Palauan families.

Finally, to help us effectively deal with the impacts of Climate Change, we developed a Climate Change Policy Framework (CCPF) with the objectives of undertaking effective adaptation measures to deal with expected impacts of climate change, strengthen our capacity to prepare and minimize disaster risks, and mitigate climate change by working towards low carbon emission through clean energy initiatives. The CCPF will help us monitor and evaluate our implementation efforts. An implementation report is being prepared and will be available shortly. Meanwhile, we continue to work with our global and regional partners to build capacity and mainstream climate change into our national planning and budgeting process.

In line with our efforts to 'Expand and Maintain Our Basic Infrastructure', we currently have eight major infrastructure projects under construction at a cost of approximately \$67 million. These include:

The Koror-Airai Water Line Project	\$ 17.0	Million
The Koror-Airai Sewer Project (KASP)	28.0	Million
The Babeldaob Roads Connection	5.0	Million
The New PMDC Clam Hatchery	6.0	Million
The New Correctional Facility	3.5	Million
The Weather Service Station	2.6	Million
The One Stop Shop	4.0	Million
Visitor attraction Site Developments	1.0	Million

We also have over \$300 Million worth of identified projects that need to be undertaken over the next decade, including Affordable Housing Subdivisions, a National Conference Center, a Central Market, the New Babeldaob Central Landfill, Recreational and Visitor Attraction Sites Development, the Angaur State Port Improvements, the National Fish Market and Auction, the new Belau National Hospital, the GCF Renewable Energy Project, a new ship for the southwest Islands, and the New Commercial Seaport Development.

Where possible, we will seek funding support from the U.S., Japan and the Republic of China, Taiwan, as well as other international funding sources. In addition, we will have \$40 Million available under the Compact for infrastructure projects. However, it is very clear that we will have to dig deep into our own pockets to finance many of these projects. It is therefore critical that we expand our revenue generation and begin the process of setting money aside for these essential infrastructure projects.

I am very happy to finally say that Palau now has high speed internet. And it will only get better. Let us continue to work to make ours the best system in Micronesia and up to par with International standards. I must congratulate the OEK for passing the necessary legislation to move this internet project forward and to create a transparent internet system in Palau.

On the private sector side, we have a very long list of planned hotels, some with Foreign Investment Permits, some with EQPB Permits and some with simple high hopes. As I indicated last year, if these hotels, hostels, apartelles, and villas are actually constructed, our Palauan landscape will be significantly altered -- permanently.

In light of this possibility, I must once again warn that if we fail to plan for our tourism future and this apparent unlimited foreign investment stream, we risk compromising our ability to ensure that all Palauans share in the benefits of economic growth and development.

Finally, we continue to work to develop 'Public Private Partnerships' (PPP's) to expand our ability to finance our infrastructure needs and to increase the potential revenue streams from these projects. If we wait until the Government has the money for every infrastructure need, we will limit our development options and slow development implementation, to the detriment of our people. We therefore continue to move forward with the Airport Terminal Project with Japanese partners as an example of how PPP's can assist our financing needs.

To facilitate the 'Further Strengthening of Education, Health & Public Safety Services', we have set in motion a number of initiatives. In education, we are in the process of implementing the Education Master Plan and will seek the support of Congress for this ten-year plan. We continue to work on building capacity through multiple on and off-island training programs for teachers and staff. In fact, 32 teachers and staff have received the next higher degree through our efforts and their hard work. Let's give them a round of applause. We have also prepared an Education Management Information System to improve management of our educational system and a Master Plan for Outreach to our Public Schools. And very importantly, we have strengthened our Information and Communications Technology (ICT) system throughout our school system in preparation for our improved internet capacity.

We also continue to expand our efforts at the Palau Community College to improve our skilled labor pool with the help of the Workman's Incentive Act, allowing local businesses to gain tax credits where they hire these locally trained workers.

In the area of Health, we have declared 2018 as the Year of Good Health and will have numerous events to strengthen our goal to improve the health of Palauans and to respond to the deadly challenge in our country from Non-Communicable Diseases. We are working regionally, through the Micronesia Islands Forum and through the Pacific Islands' Forum to improve awareness and expand NCD prevention programs. We are also emphasizing prevention in all of our efforts at the Community Level. To assist in this effort, we are now providing free medical check-ups at the Hospital so that we can achieve early diagnosis of our problems. The rehabilitation of the Hospital patient ward is complete and we continue to work towards the construction of the long-term health care facility for the elderly.

In the area of Justice, the Vice President implemented, in March of 2017, our Zero Tolerance Program on drugs and corruptive conduct, such as bribery and cheating. We also reorganized the Ministry of Justice to establish a new Narcotic Enforcement Agency to operate at the Bureau Level to combat the sale and use of illegal drugs. We must make it an absolute priority to wage war on drug use and sales to ensure our children's futures. We have also established the Human Trafficking Office to respond to our expanded international traffic and expanding private sector.

We also continue our work to "Sustain Increased Support for our Youth, the Aged and Vulnerable Populations". The Ministry of Community and Cultural Affairs is working to finalize the draft Family Protection Act Implementation Plan and to implement the Action Plan for the Palau National Youth Policy. The Ministry of Health is also providing focus on Dengue Prevention this year through a Youth-for-Youth Prevention Video contest. Working with the OEK, we have also expanded the power subsidy for low and fixed income households to include water and sewer fees. We are also committed to expanding programs and services targeting persons with disabilities. And I am very happy to note that for the first time, Job Corps has a first deaf Pacific Islander in the Program who is also from Palau. To help us make sure that we are responsive to the needs of our people with disabilities, I am also very happy to announce that through wide consultation involving representatives from government agencies, communities, NGOs, churches and businesses, we have developed a National Disability Inclusive Policy. This important policy, together with its implementation plan, provides a framework and guideline for all government agencies and partners to address the needs and rights of persons with disabilities and build a more equal and inclusive Palauan society.

I am also very pleased to endorse the Palau Gender Mainstreaming Policy that will help inform the development of policies, procedures, and practices aimed at addressing the needs, priorities and aspirations of all women, and men. The policy also provides particular attention to the needs of women and men as well as children, the youth, and the old facing greater disadvantages and looks to ensure that they all benefit from needed programs and services.

Over the next three years, we plan to develop a youth corps program to provide training to disadvantaged youth; continue to develop family oriented recreational parks in partnership with our states; design and construct a sports Training Facility; and look to further increase program assistance to vulnerable populations.

"Containing the Cost of Government" is especially challenging for us because of our limited revenue base and increasing demand for improved government services and support, and expanded infrastructure needs. We understand that the government must provide the services needed even when they are costly because the welfare of our people must be assured, and this presents a huge challenge for us. With this in mind, the Ministry of Finance is aligning planned expenditures with anticipated revenues to make sure that we live within our means. With the assistance of the ADB, the Ministry is also in the process of developing a Medium Term Fiscal Strategy (MTFS) that will help ensure a balanced budget and strengthen accountability and productivity of expenditures. The MTFS will include the implementation of a Cost Reduction Plan complemented by energy and water conservation plans.

The National Government is committed to working with the states to help develop real revenue options over the long term, but at the same time to implement practical initiatives in the short term that can provide immediate revenue support. Our affordable housing development initiative or “Townships” is one example of ways to help spur economic activity and revenue opportunities over the long term. The Hoc Committee on Housing development is working hard to establish affordable housing in partnership with the States to encourage the young people from the States to return home or to stay home and to help contribute to viable communities. The development of visitor attraction sites like the Ngerkeai Bai and museum in Aimeliik is helping to create revenue streams for the states in the short term. The development of recreational parks in the states including Koror, Airai, Ngarchelong, Ngaraard, Ngchesar and Peleliu will also provide revenue opportunities for the states immediately.

On “Enacting and Promulgating Needed Laws and Regulations”, we recognize that an effective regulatory environment is necessary to help ensure the continued improvements to the quality of lives of our people. To these ends, working with the OEK, we have enacted some major laws, including amendments to the Foreign Investment Law, which encourages positive foreign investment rather than ‘front’ businesses and that provides incentives for quality investments in visitor accommodations. We have also established the framework for the development of reliable and transparent Telecommunications Network in Palau, and reduced the risks to wildlife and our natural environment by limiting the use of plastic bags.

In the short term, we will continue to work with the OEK to prioritize legislation that will help expand our revenue base and build our human resources capacity. Key areas of focus include:

- Tax Reform aimed at adopting a fair and efficient tax system;
- Reforms to the Civil Service Pension Plan to strengthen its long-term financial viability and inclusion of the private sector to expand retirement benefit options;
- Passage of the Reinvestment Act and other related bills that will offer legal tax incentives to Japanese and other international corporations to relocate to Palau; and
- Enactment of the proposed Credit Union Act to expand financial services at the community level and strengthen Credit Unions by enabling greater flexibility in lending and taking deposits as well providing for safeguards against failure.

Ladies and Gentlemen, we owe many good friends throughout the world for their generous assistance to our development efforts. Our country has been very fortunate over the past half century to make and maintain the friendships that have allowed us to move towards self-sufficiency and self-governance. We therefore extend our heart-felt appreciation to our development partners for their continued support and consideration.

Palau would like to take this opportunity to offer our sincere thanks to the United States for its generous continuation of financial assistance through the Compact of Free Association. We have a special relationship with the United States and the passage of the U.S. Budget supporting financing under the Compact confirms this. We look forward to initiating discussions regarding our continued financial partnership after 2024. Palau will continue to stand with the United States in its effort to support the institutions of democracy and to eliminate terrorism worldwide.

Palau would also like to offer our thanks for the generous development support that we have received from our close friend and ally Japan. We look forward to continued and strengthened relations for generations through ODA projects, JICA programs and people to people exchanges.

Palau is also gratified by its relationship to the Republic of China, Taiwan and for its continued friendship and developmental support. Taiwan is a good and generous neighbor that has confirmed its position in the Pacific and therefore has gained the right to contribute as a member of the global community. Palau will continue to support Taiwan's efforts in the international fora and will work to nurture our friendship and improve our cooperation.

We also offer our thanks Australia and New Zealand for their on-going friendship and assistance and to our other Pacific friends and neighbors of the Pacific Islands Forum. We offer special thanks to Australia for its generous support to Palau and the Pacific Region's surveillance and enforcement efforts and the development of our ICT sector through the World Bank. We continue to offer our support and commitment for the new Pacific Framework for Regionalism.

We also offer our thanks to other national friendships gained over the years, including the European Union, Italy, India, Indonesia, New Zealand, Russia, Thailand, Spain, Singapore, Korea, South Africa, and many others. I would also like to thank the many public and private organizations that have offered their generous assistance to our growing nation throughout the years.

Ladies and Gentlemen, we want to be inclusive. Our journey continues to be peaceful and stable under responsible traditional state and national leadership. We are able to move forward because all of us have a role to play in this Leadership. Even the 'Fourth Branch of Government', the media, has a very important role to play.

Palau continues to be a nation of laws, a nation of Christianity and a nation that respects an open and transparent democratic process. We agree that we must have our differences, but we can all agree that we also have a lot in common.

I therefore ask that we work to focus on those things on which we can agree.

We welcome criticism, but we would hope that such criticism be accompanied by the offering of better ideas and solutions.

Between the last State of the Republic Address in 2017, and this State of the Republic Address, we have been very productive and much has been accomplished, largely through the spirit of cooperation.

At the end of the day, their future relies upon three things:

- 1) Respect;
- 2) Respect; and
- 3) Respect.

Thank You.