



State of the Republic Address

**H.E. Tommy E. Remengesau, Jr.
President of the Republic of Palau**

April 25, 2019

Good morning, Mr. Senate President, Mr. Speaker, Mr. Vice President, and Chief Justice. Please join me in extending our warmest welcome to Ibedul, Reklai, 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, visitors 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 2019 State of the Republic Address.

Ladies and Gentlemen, this year marks the 25th anniversary of our Independence, which is also the 25th anniversary of our establishment of diplomatic relations with the United States and Japan. This year is also the 20th anniversary of our establishment of diplomatic relations with the Republic of China, Taiwan.

When our nation became independent in October of 1994, we were finally returned the ultimate responsibility of governing ourselves. This momentous occasion appeared to be the end of a long journey for our People after so many years under foreign governments. However, the reality is that this was not the end – but just the Beginning – The Beginning of our voyage, as a people and as a nation, to carve out our physical, economic and social place in the modern world. This voyage, while happily undertaken, continues to place our leadership to the ultimate test. It seems that every time we reach a new milestone, another test is placed before us that we must meet as one people and one nation. But together, as one people, as one nation, we are ready to meet each and every challenge.

Now that we have gained constitutional status -- Now that we have achieved our Independence -- we are told by the World Bank that after having economically graduated not only from being a ‘Low Income Country’ into a ‘Medium Income Country’, we have now graduated into a ‘High Income Country’. My friends, usually you get a gift when you graduate. Unfortunately, our gift from the international community is the reward that we will no longer be eligible for many forms of international assistance that we have historically relied upon to improve the living conditions of our people.

With this international reclassification comes a significantly expanded responsibility -- to our people, and for our leaders -- to take greater ownership of our continued growth and economic well-being. We must accept this responsibility despite the fact that we continue to face many of the same unique development issues that face all small island states, including our

inherent economic vulnerability and the mounting impacts and economic costs of climate change.

That is why it is time for us all to adopt ‘Innovative Learning and Excellence’. To meet our new challenges within our limited resources, we must think outside the box -- consider our special circumstances -- and develop appropriate medium and long term plans for our continued development. And in all of our plans, we must strengthen and broaden the number and nature of our partnerships to fit our new reality. Only through strong and creative planning, along with enhanced partnerships, will we be able to develop the innovative financing options that will be the foundation for our sustained growth. And in order to implement these innovative options, we will need to continue to improve the capacity of our people and our government to access and implement these financial opportunities with our strengthened partnerships.

None of these development goals and partnerships will find success without broad-based cooperation between our national, state, community and traditional leadership. This will require continued dialogue and planning and, most of all, a shared understanding that only together will we find success in moving Palau towards its modern future for all of our children.

Before we look further into our innovative future and our best way forward, I would first like to provide a brief overview of recent economic performance in key areas, and within that context, consider emerging issues.

Ladies and Gentlemen, in 2018 our economy grew by 1.7 percent after experiencing a decline of almost 4 percent in 2017. This growth was associated with the positive developments in the construction industry driven primarily by the public sector infrastructure projects.

Tourist arrivals in FY2018, on the other hand, decreased by about 5.0 percent, down to 115,964. This downturn in arrivals was concentrated at the lower-value package tour segment, while the traditional higher spending segment of Palau’s market largely held firm. These trended decreases in tourism numbers reflected a calculated response to the very rapid increase in lower-value tourists experienced in 2016. Not only were our water, sewer and other support infrastructure unprepared for the very rapid influx of tourists in 2016, tourist arrivals did not reflect our commitment to restructure our tourism industry consistent with our emphasis on market diversity and high value tourism through the “*Pristine, Paradise. Palau*” brand. An important contributing factor to this decline was the cessation of Delta Airlines flights. With reduced visitor arrivals, overall tourism revenues decreased by 4.8 percent. However, the tourism revenue per arrival remained positive with a slight increase of 0.2 percent.

For FY2018, total revenues increased from FY2017 by almost 11 percent due to higher tax and grant revenues associated with public and private sector infrastructure projects. On the expenditure side, total expenditures jumped almost 12 percent from FY2017 to FY2018, largely due to increased government infrastructure spending and transfer of Pristine Paradise Environmental Fund (PPEF) revenues.

In terms of debt, the National Government, including its component units, have seven major loans with an outstanding balance of \$59.7 million at the end of FY2018. The total debt service as a percent of the General Fund budget in FY2017 was 3.2 percent and 3.0 percent in FY2018. This percentage is very low by international standards and ensures that debt payments do not overly burden ongoing government operations.

Total Palauans employed in 2018 was 5,699 and non-Palauans 6,227. Total average wage and salary levels increased by 2.1 percent from \$11,125 in FY2017 to \$11,365 in FY2018. The average wage and salary level for Palauans is \$13,826 and \$9,107 for non-Palauans. Gender wise, the total average wage and salary level for females is \$11,722 and \$11,118 for males.

Palau's Compact Trust Fund increased from \$219.8 million in FY2017 to \$293.3 million in FY2018 because of sustained market performance and due to the injection of \$65.25 million in new funds through the Compact Review Agreement. With this additional injection of funds, we have effectively created a perpetual trust fund, if managed carefully in the future. Making the Trust Fund perpetual is a key component of our long term fiscal strategy.

In FY2018, inflation was estimated at 2.6 percent mainly due to the increased prices for food and fuel. For FY2019, inflation should remain steady, with anticipated lower oil demand and continued reduced prices of agriculture commodities.

Overall, the outlook for Palau's economy for FY2019 and over the medium term remains positive. Palau's economy is projected to grow by 3 percent in

FY2019. Increased construction and tourism activities are anticipated to be the main drivers of growth in FY2019 and FY2020. Construction is expected to perform strongly due to continued construction and improvements to new and existing visitor accommodations, various public projects, and continued road construction. Tourism is also expected to regain its momentum from increased marketing of the *Pristine, Paradise. Palau* brand. Increased employment and wage gains including retirement benefit payments will sustain consumer spending and contribute to expanded growth prospects.

Despite positive revenue and inflation estimates, our heavy reliance on imported commodities, particularly fuel and foodstuff, place us at high risks for price increases as world prices fluctuate, which can disrupt construction and tourism activities and derail our growth prospects over the medium term.

Ladies and Gentlemen, Palau is reaching a crossroad in its development cycle.

- We are nearing the end of the second financial package with the United States through the Compact of Free Association.**
- We have been categorized as a High Income Country by the World Bank, which will result in significant reduction in the amount and type of international assistance we can and will receive.**
- Our Tax system needs to be updated to meet the needs of our expanding economy.**
- Our pension system needs comprehensive reform.**
- All of our infrastructure needs can no longer be financed from foreign grant sources.**

- **We face higher and increasingly costly impacts from Climate Change.**
- **Rapid tourism growth is once again on our horizon and requires continued attention and monitoring.**
- **And our environment remains the source of our unique culture and economy and will come under ever-increasing threat in the coming decades.**

To respond to these diverse pressures on our economy, our culture and our government, we must 1) implement a Medium-Term Fiscal Strategy for Sustainable Economic Development and 2) Implement innovative strategies to expand our institutional capacity for the future.

Thanks to the technical assistance of the Asian Development Bank, I am proud to announce that we now have a Medium-Term Strategy for Sustainable Economic Development that is ready for implementation. With this strategy, we have both a practical and an innovative map to help guide our decision makers in their effort to ensure our country's economic future. The guiding themes of this Strategy are simple. We must:

- **Ensure Palau's long-term fiscal sustainability;**
- **Maximize the use of our economic resources;**
- **Encourage the generation of savings and the use of such savings for investment in our growth;**
- **Encourage the fair and equitable distribution of resources amongst all of the people of Palau; and**

- **Focus on the investment in infrastructure and the improvement of our regulatory environment.**

There are five primary components that this Strategy brings to our future planning effort.

- 1. The first component is to create a debt management framework to ensure that we do not expend beyond our means.**
- 2. The second is to modernize tax structure.**
- 3. The third is to change the way we pay for infrastructure to meet our expanding infrastructure needs. To meet these needs, we must:**
 - **Establish an infrastructure reserve fund dedicated to capital projects and funded by domestic revenues;**
 - **Pursue Public Private Partnerships within a comprehensive framework for their evaluation;**
 - **Expand our general reserve fund to permit application of excess funds to capital investment that will help build our economy; and**
 - **Work to fund all of our operational costs out of domestic revenues so that all other outside grants can go to infrastructure and project capitalization.**
- 4. The fourth component involves immediately responding to critical areas of fiscal policy, including:**
 - **Modernizing our State Owned Enterprise Policy to ensure that they are self-financing and take into account community service obligations;**
 - **Ensuring that our COFA Trust Fund remains a perpetual fund that provides a constant flow of revenues to our government; and**

- **Fixing our Civil Service Pension Fund to ensure long-term fiscal sustainability.**

Concurrent with the implementation of our Medium-Term Strategy, we must undertake innovative approaches to meet our development needs. We must therefore be creative in establishing the foundations of our economy that will ensure diversity and continued growth while avoiding volatility. We are a small country, with limited resources and people. We must therefore maximize the resources and opportunities that we have. We must also ensure that the benefits of our efforts are generously spread amongst our people and all of our families. These innovative approaches must be applied across the board.

Because Tourism is Palau's largest industry, we must always focus on our innovative strategies moving forward. We have all felt the impacts of the reduction in tourists over the past two years. This reduction was due to many factors, both external and internal. Internally, it reflects our efforts to focus on balance and diversity – balance between economic development and our culture and our environment – diversity of tourist clients to ensure our ultimate ownership of the tourism industry. As I have said many times in the past, we must continue to trust our unique Palauan environment and culture and we must not undersell our Golden Egg to the first bidder. Now that our new sewer and water systems are near completion, we can begin to carefully expand our tourism numbers, in a responsible manner, while we continue to build our capacity in other areas.

Fortunately, we see positive trends for expanded airline services to Palau from regular and charter airlines. While we must maintain a reasonable combination of regular and charter flights, we must also continue to focus on formalizing our relations with regular airlines that provide services to higher-value tourists to maximize our tourism returns.

As we work to expand the number of flights to Palau, we are also working to implement the *Pristine, Paradise. Palau* brand that encourages high-value visitors through niche marketing. Our use of the US dollar makes Palau more expensive than other tourist destination markets in the Asia-Pacific region. Given the beauty of our natural environment, and its fragility, it makes sense for us to promote ourselves to selective markets that seek unique experiences. These markets base their travel plans on their values rather than costs, which make them less susceptible to price changes. They are willing to spend more for the experience and are more environmentally responsible, and hence provide added value. Minimizing tourist footprints on our natural environment ensures the sustainability and value of the tourism industry. As the revenue per visitor figures show, a reduced number of visitors does not mean less value, it can actually create more value – “quality, not quantity”, does matter.

In order to make sure that Palauans realize the benefits from tourism, we must also look to develop and expand on our tourism products to help ensure that an increasing portion of every dollar spent stays here in Palau and in turn generates additional income opportunities. We must look to produce more of what visitors eat, drink, and buy as souvenirs. We must plan to own and operate where they stay. We must develop more activities for them to do

and see in both the water and on land. And we must seek to involve communities and our vulnerable populations to expand income opportunities and sustainable livelihoods to everyone.

Friends, above all, we must take care so that Palau owns its tourism market, and this ownership must take precedence over the instant gratification of flooding our tourism market for short term gain. With our unique brand of *Pristine, Paradise. Palau*, as supported by the Palau Pledge, we can diversify our product offerings by showcasing the beauty of our natural environment, and partaking of our rich cultural heritage.

Before I leave the topic of tourism, I would like to note that Palau received Top Honors as the World's Most Sustainable Destination of 2018 – The Earth Award – at the ITB Berlin, the World's Largest Travel Tourism Trade Fair.

In addition, Palau received numerous other awards in the largest marine diving fair in Japan for 2019, including:

- The Best Overseas Diving Destination – 1st Place;
- The Best Dreaming Area – 2nd Place;
- The Best Beach – 8th Place;
- The Best Hotel for Divers, Palau Pacific Resort – 1st Place;
- The Best Live Aboard, Palau Sport – 2nd Place;
- The Favorite Dive Operator Overseas,
 - Day Dream Palau – 3rd Place;
 - Aqua Magic Palau – 4th Place;
 - Blue Marlin – 6th Place; and

- **Cruise Control Palau; – 9th Place.**

We offer our congratulations to the hotels and dive operators for a job well done. Their achievements reflect these companies' understanding of the concept of *Pristine, Paradise. Palau* and a quality tourism sector to our nation's sustainable development. I would like for all of us give them a round of applause.

Ladies and Gentlemen, we cannot talk about tourism without also discussing our current housing crisis. And once again, we have looked outside the box to establish an innovative response to our current housing shortage. As we all know, when our tourism numbers skyrocketed in 2015, it had a major impact on our housing, because owners began converting homes into rental units. In addition, the housing crisis was made worse due to higher housing prices resulting from the lack of available land, the increased costs of materials, the lack of qualified contractors, and the displacement of families due to the return of large tracts of previously leased public lands for residential homes back to individual landowners.

To respond to this crisis, the Olbiil Era Kelulau has passed a resolution approving a \$15 million loan from the Republic of China, Taiwan that provides the mandate to establish residential subdivisions and single family homes and thereby:

- **Providing affordable housing to Palauans;**
- **Attracting Palauans abroad to return to Palau;**
- **Increasing revenues;**
- **Encouraging appropriate development from Koror to Babeldaob;**

- **Enhancing the return of Palauans to their traditional villages;**
- **Promoting healthy living through development of appropriate communal spaces; and**
- **Providing the opportunity to relocate communities from coasts to hills to promote positive actions regarding climate change and building resiliency to natural disasters.**

Within this context, we will work to implement appropriate policies and guidelines for this housing development and financing program that assure safe, environmentally friendly and resilient housing to our citizens. To accomplish this, we will work with state governments to develop sites and infrastructure as well looking at ways to ensure that the cost of borrowing to build their homes is affordable.

Much of the innovative potential that we have to respond to our development issues relates to the degree of success that we have in identifying and mobilizing partnerships. Within this context, we must begin to expand all available Public Private Partnerships, known as PPPs. For Palau, PPP's must be the new norm. By entering into PPPs with private partners, we expand our available funding resources to provide infrastructure that we could not otherwise pay for. We have already begun to mobilize PPP's, as you may have read in the newspapers. The Palau International Airport Terminal Expansion Project is the first example. Under the PPP, a private Japanese company will improve our airport terminal and operate the concessions at the terminal. Through this partnership, we can anticipate a much improved terminal, expanded tax revenues and improved airport service. We gain these benefits by accessing a private company's financing

and operational capacity within public regulatory parameters. Most importantly, without this PPP, we would not be able to upgrade our airport terminal, which is a critical element to our expanding tourism and overall economic development. I congratulate the Olbiil Era Kelulau for its finalization of this project.

We have also proposed a renewable energy Public Private Partnership that is currently being bid for a second time that would move Palau towards a 45% level of renewable energy by 2025. Not only will this energy supply be cheaper and cleaner than through our current diesel fuel generation, it will significantly lower the electricity bills of the Palauan people. In fact, we are currently heavily subsidizing PPUC to insure that utility charges are affordable and manageable. It is hard to argue against lower energy costs for our citizens and a cleaner environment. Incidentally, I should mention that Kayangel will become our first State in the Republic to be 100% solar through a grant from New Zealand. Congratulations Kayangel.

Ladies and Gentlemen, we should broaden our horizons even further and seek PPP's for other appropriate infrastructure projects, such as the development of a modern Commercial Seaport, a new hospital, airports in Peleliu and Angaur, our proposed National Fish Auction Market and commuter and cargo vessels.

One of our most innovative plans to respond to Palau's future development and environmental protection needs is the development of Sustainable Sea Transportation. In a joint venture with the Federated States of Micronesia, the Republic of the Marshall Islands, the Republic of Kiribati and the

Republic of Nauru, we are requesting a \$50 million grant from the Green Climate Fund to finance 50 ocean-going vessels that will depend on renewable energy for their power. These fifty-foot long sailboats use three modes of power 1) traditional sails, 2) solar panels for electricity saved to batteries, and 3) coconut oil for engine propulsion -- sails when there's wind -- solar panels when there is sun and no wind -- and coconut oil when there is no sun or wind and the battery is dead. Palau has already trained three crew members in New Zealand who are manning the first vessel constructed in New Zealand, the *Vaka Motu*, which will sail out of New Zealand to Palau in May and should arrive in Palau in June. If the GCF grant proposal is accepted, Palau will construct ten initial vessels to be used for transportation, tourism, fishing, research and surveillance.

We must also look to other creative financing opportunities with regional and international partners to expand and enhance our country's infrastructure. That is why we are looking to refinance our current Rural Utilities Services (RUS) loan to the Palau National Communications Corporation (PNCC) through a loan from the Asian Development Bank. By refinancing, we can lower the current interest rate of between 3.4% and 4% interest down to approximately 1%, thereby freeing up funds for other communications upgrades that are greatly needed.

We are also looking to bring a second submarine cable to Palau through a loan from the Asian Development Bank. The cost of the second cable will be about the same as our current cost to back up our system with satellite services, which is approximately \$2 million per year. This will provide our system with redundancy, meaning that if one cable is cut, the second cable

continues to bring its signal to our island. Recent examples in Tonga, Saipan and the RMI, where the cut signal eliminated internet and telephone services for extended periods of time, have demonstrated the importance of continuous telecommunications services.

Ladies and Gentlemen, in applying innovation to our future planning, we must put *People First Through Conservation*. We accomplish this by inserting conservation into all of our planning processes. In addition to moving towards PPPs to provide clean renewable energy for our island and clean transportation through the construction of sustainable sea vessels, we must continue to strengthen our Palau National Marine Sanctuary. In 2018 we implemented the Pristine Palau Environmental Fee and have greatly expanded revenues to support our Ocean ever since. We also had the official handover ceremony for the \$70 million donation package from the Nippon Foundation and the Sasakawa Peace Foundation. The PNMS Office moved to its new offices space located at the old Marine Law Enforcement Building, which was renovated through these Japanese funds. In line with the concept of utilizing Public Private Partnerships, we have also signed an agreement with Vulcan Inc., to conduct surveillance in Palau's Exclusive Economic Zone, initially without charge.

Most importantly, we continue to work to establish a Domestic Fishery. To accomplish this, we are looking at numerous options that will permit us to catch pelagic fish for our domestic market while continuing to protect our EEZ. We continue to explore all options including partnerships with private fishing enterprises to develop our domestic fisheries. We are also looking into opportunities for value added fish products for fish caught in our domestic

zone. This will require the establishment of a Central Fish Auction Market and Processing Facility and a wharf for the auction facility.

To support our PNMS and to work with the World Community to save our oceans, Palau will be hosting *The 7th Our Ocean Conference* in August of 2020. This will be one of the largest events held in the region attracting high level government officials to major corporations and civil service organizations from around the world. After the last conference held in Bali, Indonesia there were 305 tangible and measurable commitments amounting to \$10.7 Billion USD and comprising of 14 million square kilometers of Marine Protected Areas around the globe.

At Our Ocean Conference 2020 we will focus on actions and results of prior commitments such as these with the aim of showcasing how such commitments have been translated into actions that improve and enhance the lives of people in their respective countries. With that, Palau challenges its fellow Micronesian countries to stand up and make similar commitments in 2020 by showing how the Pacific islands, specifically the Micronesian Islands, work towards a common goal – improved livelihood of their people.

We must also take innovative actions to respond to the increasing negative impacts of Climate Change. Risk assessment projections are that we can anticipate ever more frequent inclement weather events that the World Bank estimates will cost Palau on average approximately \$2.7 million per year in damages. More frightening is their projections that 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.

As a result, we must creatively respond to these potential future costs through strengthening our current structures and moving of our infrastructure, and sometimes even communities, away from coastal areas. On top of this, we must strengthen our existing infrastructure and build stronger new infrastructure to weather the storms ahead. One way we are preparing for the financial needs of this expansive future is to create the capacity to access international funding, including the Green Climate Fund (GCF) grants, through our own institutions.

In line with these efforts to strengthen our structures and build resiliency, we have identified sectoral focal points and established national working groups to help ensure the effective implementation of our Climate Change Policy Framework. We have also designated lead agencies to coordinate and undertake policy initiatives, including prioritization and development of funding estimates, to better streamline national efforts and achieve consistent desired outcomes of the climate change policy framework.

Towards that end, we have completed our Project Management Handbook, which is a key requirement in our efforts to seek accreditation and direct access to the GCF. We have also established a national grants review framework that focuses on climate change and disaster risk reduction, which is intended to provide a coordinated and cohesive process for project management, from the initial call for proposals, to project design, to monitoring and evaluation, and finally, to reporting and closeout. This grant

proposal review process will be aligned to our national budget process and will be used to demonstrate our strengthened capacity for project management in order to access global funding, such as funding through the GCF.

With that in mind, I am pleased to announce that as part of the Budget Call for Fiscal Year 2019, we will be issuing a Call for Proposals for smaller component projects of the climate change policy framework action initiatives to support ongoing efforts of implementing agencies and to help mainstream funding options in the national budget process.

My fellow Palauans, since taking office in 2013, our administration has committed to transforming Palau along a path of sustainability. This journey toward sustainability is not one for government alone, but for us all. It also cannot be achieved without appreciating the inter-linkages between and amongst our national priorities, including health, education, the economy, and the environment. As our challenges are interrelated, so too must be our solutions.

And while our journey, as Palauans, may be unique to us, we do not walk alone. In 2015, the United Nations adopted the 2030 Agenda for Sustainable Development which includes 17 Sustainable Development Goals that together aim to transform the world, just as we aim to transform Palau, for People, Planet, and Progress while also ensuring that no one is left behind. We have identified an initial set of 90 SDG targets and associated 130 indicators from the 232 Global Indicators list relevant to us. Our Core SDG Indicators will

help us use the SDG framework to support national planning processes with an associated monitoring and evaluation system.

Last year, I committed Palau to report on the Voluntary National Review to the UN and thus, the international community. This is entirely voluntary and each country decides when to present and what to present. Our purpose for reporting is to realistically and systematically assess progress and challenges as we collectively carve out our path towards sustainability.

As we strive to recognize the interconnections between the 17 Goals and promote their integration, we are challenged to assess our values against our aspirations. The Palau of today, very different from the past, is and will always be our Palau – our home and our people. As a people, Palauans have persevered through major social changes throughout their history and yet we remain Palauans – connected to this place over time. As we confront today’s challenges, we find solutions in our past. Just as we have applied our traditional “bul” to today’s oceans and climate challenges and given this tradition freely to the global community, we likewise look to our past for further guidance for the future. Our customs and traditions provide us with a pathway “*rael*” that guides us towards the promise of the SDGs – progressing with our past, meeting the needs of today, safeguarding the environmental on which we and future generations depend. We do not need to re-invent the wheel – We only need to look at our past for solutions to our future environmental challenges.

Finally, we must look into development of other sectoral activities outside of tourism to broaden Palau’s revenue stream. A number of opportunities exist

in the area of financial services. Palau has a unique opportunity to become a financial center for Asian off-shore companies with our new expanded internet capacity.

Ladies and Gentlemen, while we must become more innovative in our thinking and in our partnering, we must continue to maintain our steady planning approach that focuses on the basic needs of our people. In our 2016 Management Action Plan (MAP), we set forth the necessary guidelines that must continue to motivate our planning process and our future actions. In our MAP, we continue to focus on primary areas that will improve the lives of our people. These include:

- 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.**

While I have already discussed many of our innovative approaches to responding to these on-going needs, I would like to discuss efforts underway by our Officials, Ministries and Departments to improve the every-day existence of our people.

In order to **‘Safeguard Family Income Gains and Retirement Benefits’**, we continue to work with leadership to expand our minimum wage and retirement benefit levels. As mentioned, we must prioritize efforts to fund our pension system at appropriate levels. We started this financing enhancement already by allocating funding from the Pristine Paradise Environmental Fee. But now we must seriously consider the structural changes needed in order to guarantee the fiscal sustainability of the pension system into the future. Expanding the pension plan to the private sector is one alternative that will increase retirement income options to the private sector while providing expanded contributions to the pension plan.

Innovative new ideas are also critical to **‘Develop Key Economic Sectors to Support Sustainable Growth and Development’**. This effort must always begin with tourism, but must increasingly include the development of other sectors to provide our economy with diversity. Within this context we must look towards our Medium Term Development Plan to guide our efforts. Regarding tourism, we continue to reset our tourism economy under the theme of *Pristine, Paradise. Palau*, now an internationally award winning marketing brand through the Legacy Project. *The Responsible Tourism Policy Framework*, which links to this project, has been endorsed by Congress through the *‘Sustainable Tourism Education Act of 2019’*. Our Bureau of Tourism has also completed the first two out of six parts of Palau’s National Tourism Regulations. The remaining sections should be completed shortly. The Bureau has also completed its 5-Year Strategic Tourism Plan.

In addition, we continue to work to protect our food security through the development of our agriculture and aquaculture industries. The National

Slaughter House is now in operation. The Bureau of Agriculture is also working to strengthen the agricultural sector by importing new plant varieties for development and later distribution to farmers and eventual sale in the marketplace. Our Giant Clam revitalization program continues through the recent completion of the renovation of the Palau Mariculture Demonstration Center. To assist this process, we have completed a Giant Clam Broodstock Availability Survey. To support the development of our Domestic Fishery, a series of assessments have been concluded, including a survey of local demand for tuna, a bio-economic model for the long-line fishery, a study on food preferences and a feasibility study on the potential for reinvigorating the pole and line fishery in Palau. Finally, we continue to look at avenues for the creation of a central fish auction market and processing facility.

In our efforts to ‘Enhance Our Capacity to Protect and Preserve Our Environment’ we have moved aggressively to implement our National Marine Sanctuary, to bring renewable energy to Palau, and to build our local capacity to access the Global Climate Fund for environmental projects.

To help us continue to monitor and evaluate our policy actions, I am pleased to note that the 2019 State of the Environment (SOE) Report has been prepared by the National Environmental Protection Council (NEPC). The SOE report conveys trends of key natural resource and human response indicators, through time, and reviews their most recent conditions and grades in relation to local and global goals and standards. Where possible, it assigns a Condition or Grade—Good to Poor – and uses a color-coding system to convey whether indicators are healthy. It applies the same color codes to show if a trend is beneficial or harmful to the environment or human/ environmental health.

In summary, 55 percent of Marine indicators were in good or fair condition or had a healthy trend while 75 percent of Terrestrial indicators showed a good or fair grade or had a healthy trend. Indicators for Protected Areas showed that 84 percent had a good or fair grade or had a healthy trend. However, the 2017 SOE showed that 100 percent of Protected Areas had good or fair grades – meaning that 16 percent had poor grades for the first time in 2019. Finally, 72 percent of Human/Urban indicators displayed good or fair grade, or a health trend, but this is unchanged from 2017.

The continued preparation of the SOE will help us determine what areas we need to focus our resources on and will help inform policy decisions and prioritize efforts to address environmental risks.

On the energy front, Palau is committed to meeting our National Determined Contribution of 45% renewable energy by 2025. As mentioned, a second Request for Proposals by the Palau Public Utilities Corporation is in process to identify the best Private Partner for this effort.

In order to ensure that we continue to ‘Expand and Maintain Our Basic Infrastructure’, we have a number of major infrastructure projects scheduled for construction or already under construction in 2019, at a cost of approximately \$137 million. These include:

The Palau International Airport (PIA)	\$ 28.0 Million
The Koror-Airai Sewer	28.0 Million
The Rural Housing Development	15.0 Million

The New Babeldaob Central Landfill	15.0 Million
The Koror-Airai Road Rehabilitation	13.0 Million
Babeldaob State-Compact Rd. Connections	6.0 Million
The One-Stop Shop	4.0 Million
The New Corrections Facility `	3.0 Million
The Angaur State Port Facilities Improvement	3.0 Million
The National Conference Center	3.0 Million

We also have over \$250 Million worth of identified projects that need to be undertaken over the next decade, including, the New Commercial Seaport Development, the New National Hospital, the Rural Water Systems, the Peleliu and Angaur Airport Improvement Projects, and Central Fish Auction Market and Processing Facility.

Ladies and Gentlemen, we continue to focus on our environment and our culture when discussing tourism development for a reason. Our island is small and our carrying capacity is limited. And while it may sometimes appear that we are not progressing with our tourism industry and the development of hotels, I must stress that the opposite is actually true. Currently Palau has approximately 2,200 hotel rooms. If we continue to improve our arrivals through better marketing and expanded flights, a 60% occupancy would result in 180,000 arrivals. Currently we have approximately 2,300 additional rooms on the drawing board that have been permitted by the EQPB for construction. If only 30% of those projects come to fruition, we will have an expanded hotel capacity, at 60% occupancy, of 260,000. The bottom line is that we already have more hotel rooms in the works than we have infrastructure to handle them. Let us not create a future that we cannot

live with. Let us also focus on our *Pristine Paradise. Palau* brand and support the development of higher-value hotels

To facilitate the 'Further Strengthening of Education, Health & Public Safety Services', we have set in motion a number of initiatives. In education, we continue to work to gain accreditation for all of our schools and to improve training for all of our teachers and principals. In line with these goals, RPPL 10-32 was enacted in December of 2018 to increase the minimum educational qualifications of classroom teachers to an associate degree and mandating that the Ministry of Education establish regulations for teacher certification. In addition, Palau, along with other Pacific nations adopted the Pacific Regional Education Framework in May of 2018 to improve education strategies. We are also continuing to improve our technology at every grade level, focusing on strong computer training for our youth as a tool to expand their educational foundations.

I want to congratulate the Olbiil Era Kelulau for their passage of the Post Graduate Scholarship Act in March. This law provides scholarship funding for students who seek post graduate education in fields of endeavor that are defined as priority fields by the Scholarship Board. Repayment of scholarships will be forgiven for students who return to Palau and work for the National Government, State Government or the private sector for five years.

In the area of Health, we are working diligently to respond to our NCD crisis by expanding and improving our community Health Centers, and focusing more on preventive medicine and diagnosis. Through a grant from India, we

have repaired seven centers. We also are close to adding Dispensaries in outlying areas to improve the distribution of medicine. The Ministry of Health has also implemented its Wellness Worksite Project to promote preventive screening. We are also continuing to expand workforce development and professional development opportunities for our health care providers. To ensure a health workforce, we are also looking into requiring physical examinations as part of the application process. These examinations are currently covered by the National Health Insurance. Finally, we continue to work, regionally, through the Micronesia Islands Forum and through the Pacific Islands' Forum to improve awareness and expand NCD prevention programs.

In the area of Justice, we continue to fight our war on drug trafficking and drug use through our Zero Tolerance Program on drugs and corruptive conduct. We have also established the Human Trafficking Office and the temporary Human Trafficking Temporary Shelter. The Ministry of Justice has also completed its MOJ Communications system under a US DOI grant. The Ministry has also revised our nations Labor Rules.

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 establish a comprehensive planning foundation for youth, families and the elderly. In this regard MCAA finalized the Family Protection Act Implementation Plan and is working on its implementation. MCCA also continues to implement the Action Plan for the Palau National Youth Policy. In addition, MCAA is looking to finalize the Disability and Aging Policies this year.

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; construct a sports Training Facility; and look to further increase program assistance to all vulnerable populations. MCAA is also working on gender mainstreaming in order to comply with Sustainable Goal No. 5 by developing a full set of gender statistics and creating a database system for the Gender Office.

I am very pleased to note the accomplishment of a few of our very Special Olympic Athletes who participated in the Special Olympics World Summer Games held in Abu Dhabi in March. Ngirabad Kef-as Malsol took a bronze medal in the 100 meter dash, Trang Kadisha Kabino took 4th place in the 100 meter dash and Waylon Ngirameuns Ulenchong took a silver medal in the 100 meter dash at the recent Special Olympics. Let us give them a big round of applause.

“Containing the Cost of Government” is especially challenging for us because of our expanding funding requirements, the potential for reduction in Compact financing after 2024, and our new status as a high income country. That is why we have focused on establishing the Medium-Term Strategy for Sustainable Economic Development, which I have already discussed in some detail. 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 continues to align planned expenditures with anticipated revenues to make sure that we live within our means.

On “Enacting and Promulgating Needed Laws and Regulations”, we recognize the need for a responsive regulatory environment to improve the quality of the lives of our citizens. To this end, working with the OEK, we have enacted some major laws, including:

- Amendments to the Procurement Law;
- Creation of a national law developing a framework for the access and fair and equitable sharing of the benefits of genetic resources and traditional knowledge associated with Palauan resources;
- Establishing a law mandating the establishment of regulations requiring teacher certification, resulting in the improvement of the overall school curriculums; and
- Passage of the Responsible Tourism Education Act of 2018, requiring businesses to educate visitors on tourism policies, encouraging businesses to provide reusable alternatives to disposable plastic or Styrofoam containers, limiting the use of reef toxic sunscreens, and mandating the development of an accreditation or rating system for tourism related businesses.

Key areas of focus for future laws include:

- Minimum Wage increases;
- Social Security Benefit increases;
- Campaign Finance Reform;
- Tax Reform;

- **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;**
- **An efficient framework for Public Private Partnerships;**
- **Establishment of a domestic bond market;**
- **Establishment of a Post Degree Incentive Program to help Palauan graduates to return to Palau;**
- **Development of a framework for sustained agriculture and aquaculture production;**
- **Tightening bail proceedings for drug trafficking;**
- **Establishment of a framework for mobilizing domestic savings, including national investments to finance infrastructure and private sector development; and**
- **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.**

Ladies and Gentlemen. Without our good friends from throughout the world it would be very difficult to achieve our development goals. Fortunately, we have worked hard over the past half century to make and maintain the friendships that have allowed us to move towards financial independence, 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 the continuation of financial assistance through the Compact of Free Association. We have a special relationship with the United States and the passage of the US Budget that provided funding for the implementation of the Compact Review Agreement in 2018 confirms this. We believe that it is never too early to prepare for the future and would ask for continued discussions regarding partnerships and shared interests to ensure that we remain on a sustainable growth path after 2024.

Palau would also like to offer our thanks for the continued development support that we have received from our close friend and ally Japan. We look forward to 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. It was a pleasure to host President Tsi Ing-wen last month during her state visit. Taiwan is a good and generous neighbor and friend and has earned its position as a friend of the Pacific. Palau will therefore continue to support Taiwan's right to participate and contribute in both the Pacific and in the global community. Palau will continue to support Taiwan's efforts in the international fora and opportunities for strengthened relationship.

We also extend our appreciation to Australia and New Zealand for their continued friendship and development 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 look forward to the delivery of the new patrol boat in 2020, which will greatly enhance our maritime enforcement capacity. 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, Korea, New Zealand, Russia, Singapore, South Africa, Spain, Thailand, 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.

Finally, we recognize the important contributions of Palau's private sector in our nation building efforts. In Palau, a strong and vibrant private sector is the key to our sustainable economic development.

Ladies and Gentlemen, as a country navigating our future, we have identified our waypoints. We have hoisted our sails and we are full steam ahead, but we must continue to keep a weather eye and be ready to trim our sails as needed. While we take note of the broader forecast, we must sail the actual conditions.

As a High Income Country, we can no longer depend on the generosity of our neighbors, friends and development partners to be responsible for the financing of the foundations of our economy. With independence and success, comes responsibility. It is now time for us to accept this responsibility and to move forward with a new and better plan that fits our economic reality.

If we are to be successful, we will have to be creative. As I said at the beginning of this Address, that is why it is time for us all to Adopt Innovative Learning and Excellence. As leaders of a small island nation, we will always be faced with unique island issues of vulnerability, such as lack of resources, distance from markets, high energy costs, and limited capacity. This is the reality of our situation and our planning process must take advantage of every opportunity that presents itself in order for us to remain on a sustainable growth path and achieve our development goals for the benefit of our people.

One of the primary sources of creative and innovative financing of development comes from Public Private Partnerships. Only through entering into such partnerships will we be able to finance investments in our major infrastructure such as airports, energy, seaports, and other basic infrastructure that define a modern society. We must not look at these opportunities as unsolicited intrusions by outside entities. Rather, we must see them for what they are. Partnerships, where both parties benefit from their long-term relationship. If we have the opportunity to build and operate a state of the art modern airport terminal or seaport through such a partnership, we must take advantage of the opportunity through world standard criteria. If we have the opportunity to replace high cost diesel fuel power generation with low cost solar power generation through such a partnership, we cannot reject the concept simply because there is a partner involved.

My fellow Palauans, these opportunities do not come around every day. We cannot reject them out of hand because we are not familiar with how they work. We need to learn how they work, seek outside expertise, where

necessary, and make the right decision based upon the facts. The final criteria is: will our people and our economy be better off with or without this project. If an objective analysis indicates that the answer is yes, then our leadership must proceed accordingly.

Making use of many of these available partnerships, we have made great progress over the past decade. We recently finalized our Compact Agreement with the United States. We have greatly improved our primary and secondary roads. We are moving towards implementation of renewable energy that will lower power rates. Our tourism is poised for growth with a focus on quality rather than quantity. And our construction industry continues to expand to meet our development challenges. But while we applaud our success, we must remember that it is not all about the money. For example, with our new housing program, we now have the money. But in many instances, we don't have the building sites, the roads, the electricity, the water or the sewer. Before we can find success, we must lay the proper foundation to achieve the results that we want. We must therefore work together creatively to lay these foundations.

Our leadership must recognize that, for the most part, we actually find ourselves in agreement 90 percent of the time. Unfortunately, it seems that we get bogged down with the remaining 10 percent on which we have differing views. Let us commit ourselves to focus on those matters upon which we find agreement and leave the 10 percent for later discussion. And when we get to the 10 percent, let us seek to find common ground upon which we can begin to build a consensus. If we take this approach, I believe that we will move our

national agenda forward at a much more rapid pace for the benefit of all of our people.

In working together to build a stronger nation, we must always remember just who we are building this nation for – the People and our future generations.

I commit myself to working with all of Palau’s leadership to help provide all the information needed so that the best decision can be made.

Thank you and may God bless us all, and may God bless the Republic of Palau.