



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

State of the Republic Address

Senate Chamber
Palau National Capitol
APRIL 24, 2025

A KOT A RECHAD ER BELAU: FORWARD & UPWARD

STATE OF THE REPUBLIC ADDRESS

APRIL 24, 2025

PRESIDENT SURANGEL S. WHIPPS, JR.

Ungil tutau el mora rebekl chad. A uchei er a domuchel, e ngkmal di soak el mereng a sulel a Dios el ngii cheuteled me a ked selbechakl e dmak el ngar tiang er chelechal sils.

A kumtechei er kid e mo odars a sus er kid el mora Kuoll el lbedul me a Reklai, me a Rubekul Belau, Kuoll el Bilung me Ebil Reklai me a re Mechesil Belau. Senate President Baules me a rebek el Senators, Speaker Kanai me a rebek el Delegates. Chief Justice Ngiraikelau me a rebek el Court Justices, Vice President me a rebek el Ministers. Governors, Speakers me a rebek el legislators ra ikal teruich ma elolem el beluu er Belau.

Good morning to Ambassador Jessica Lee of the Republic of China (Taiwan), Ambassador Hiroyuki Orikasa of Japan, Ambassador Joel Ehnrendreich of the United States, Ambassador Toby Sharpe of Australia, and all Members of the Diplomatic Corps.

E a tokubets el sus er kid a mora re mekekerei el chad er Belau me a rokui el chad er Belau el ngara chelsel, er a Ngcheiangel el mora Hocharihie me a rokui el chad er Belau el ngara ikrel Belau.

We are a blessed nation guided by the grace of God who has given our people enduring strength and wisdom. Our independence, peace, and democracy are gifts that allow us to chart our course in this world. But with that freedom comes great responsibility. We must work together. Instead of tearing each other down, being quick to react or judge with negativity, we must lift one another up.

So much of the world around us is in turmoil. And yes, there are challenges that lead to stress and worry. But let us rise above and be the light that shows the world that even in these challenging times, the people of Palau are united. Where others sow chaos, let us sow peace. Where others sow fear, let us sow hope. Where others sow hate, let us sow love.

With these in mind, I return to the wisdom of my father who inspired “A Kot a Rechad er Belau” and call on you all to join me and with peace, hope and love, let us together work to lift the quality of life for Palauans, to encourage our brothers and sisters to pursue their happiness, and join together to push our nation forward and upward.

When We Took Office In 2021, We Faced Many Challenges

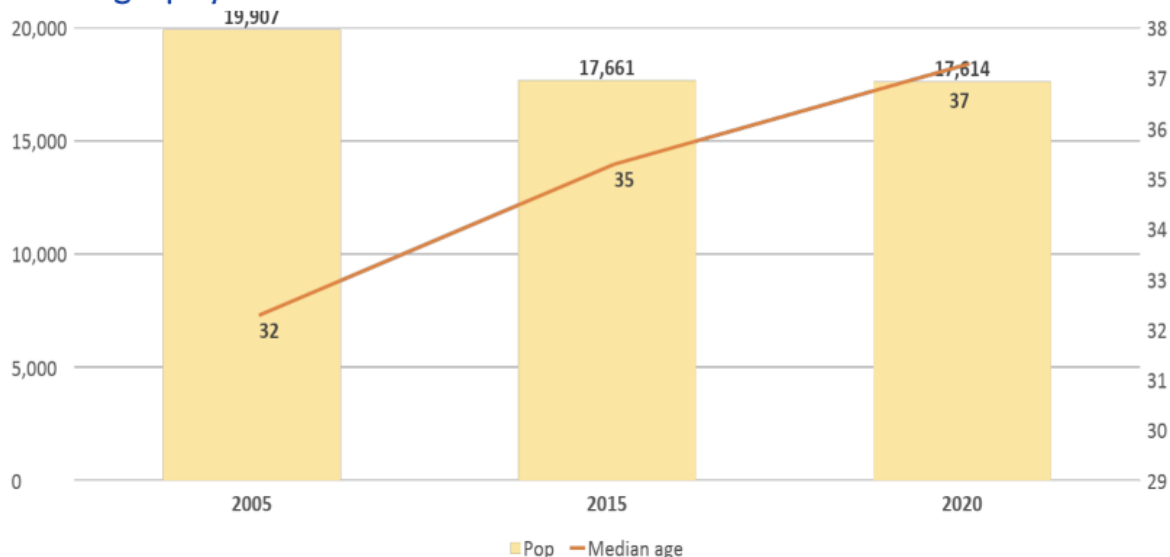
- Children were reading below grade level & our test scores were below the U.S. average.
- We had deteriorating school infrastructure.
- Illegal drugs were tearing apart families.
- Aging hospital and a Ministry of Health that offered limited social assistance and services.
- We had a heavy reliance on imported foods and a struggling fishing industry that lost \$3 million in revenue due in large part to the reduced fishing zone.
- We had a stagnant economy that also relied solely on tourism with no apparent plan to diversify.
- We had debt incurred by airport expansion which led to a loss of \$3.5M in revenue.
- A 2020 Compact Agreement for \$400 million that failed to lay the foundation for a resilient economy.
- We had an antiquated tax system.
- In about 10 years, the minimum wage was increased once while inflation jumped.
- There were too few opportunities for youth to grow professionally.
- We had growing debt, social security and Pension unfunded liabilities.
- Limited housing options.

Outmigration

A side effect of the challenges faced is smart and hardworking Palauans go abroad in search of education, jobs, and better opportunities. Some return but many don't. This brain drain started as early as the 1950s when Palau was still a Trust Territory. However, it's a trend that has continued, likely because many Palauans had come to believe that there were no opportunities here at home.

A Household Expenditure & Income Survey showed that from 2005-2020, our nation's population shrunk from 19,907 to 17,614. At the same time, the make-up of our population changed as younger people sought opportunities abroad — the median age of our remaining population increased slightly from 32 to 37. This ongoing outmigration highlights the important work we need to ensure the opportunities our people are seeking are available right here at home.

• Demography of Palau – census data



It is important to remember that challenges like these often arise when we set our expectations too low or resist adapting and moving forward. From the waters of our own ocean we find a powerful lesson: the blacktip shark, or *mantukuokel*, must keep swimming to survive. Unlike other sharks, it cannot rest—if it stops moving, it cannot force water through its gills. If it stops swimming it will die.

Like the *mantukuokel*, we too must keep moving forward, embracing change and striving for improvement, if we want to thrive as a nation.

Investing in Our Children ***Ke de meleketek er a rengeleked el mo klisichel a beluad***

“A Kot a Rechad er Belau” starts and ends with our children: A Kot a Rengeleked. As such, it is incumbent upon us to invest in our children as a community and as a government.

We made several changes to give our children the foundation they needed to learn and succeed in school and beyond. We started a kindergarten program for 5-year-old children.

We also switched from a traditional 9-month school calendar to year-round. The more frequent but shorter breaks help children retain what they learned, allow teachers and principals opportunities to provide additional instruction time to students who need it, and create space for students to learn and enjoy enrichment activities held during the intercessions.

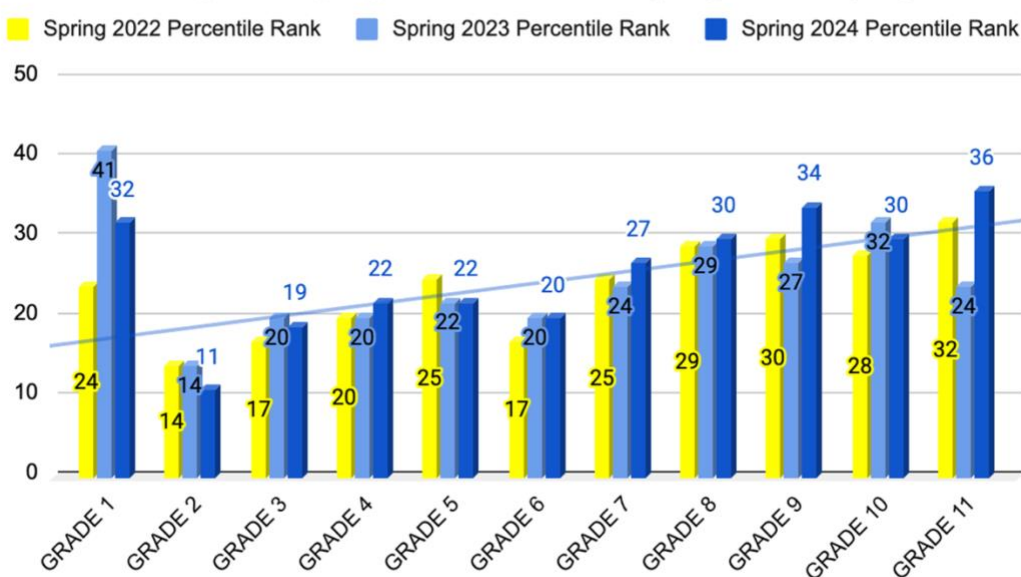
We also got rid of quarterly tests that tried to measure everything but lacked clear focus and actionable outcomes. These assessments encouraged teachers to “teach to the test” and took

up nearly a month of valuable education time, yet did little to help teachers address learning gaps or improve instruction.

Minister Dale Jenkins made sure we used that time to instruct students and we are seeing positive results. Data from the standardized test shows our children's improved scores compared to their peers from the U.S. and others that use that same test.

We made reading an academic core subject for grades 1-8 and equipped our teachers and students with assisted reading programs that helped bring students' reading performance up to grade level – or even beyond.

Palau IOWA English Language Arts Assessment Spring 2022 to Spring 2024



More recently, Palau High School has added new courses: Music, Art, and Archeology to provide a broader education for our students and encourage them to learn outside of the typical curriculum.

Part of the goal is to get students excited about learning and going to college. Coming next year, PHS students will be able to challenge themselves with Advanced Placement courses in math and English. AP courses will help prepare them for college while earning college credits.

In the last four years we have invested millions to ensure schools were safe, clean and conducive to learning. We installed AC in schools, renovated run-down structures and replaced unsafe buildings.

We've also made long-term investments, upgrading recreational and sports facilities at schools and in our communities for our children. Some of these facilities will be used by athletes in the

upcoming Pacific Mini Games. Funding comes from the U.S., Japan, Taiwan, India, Brazil, South Africa, and our own General Fund.

We are also looking forward to the construction of a new school in Airai. It will include a special education facility for our children with special needs so we can better support them and their families. Airai state transferred the land for this school as well as additional land to the national government for other important programs including the Palau National Olympic Committee facility.

We are also very proud of some of our very own teachers who, even while teaching, were also taking courses with the University of Guam or the University of Hawaii.

- 20 elementary school teachers earned Bachelor's degrees in Elementary Education with Specialization in Special Education from UOG. Annette Tirso, Daphene Nestor, Emolyn Mesubed, Esther Subris, Flora Wasisang, Freinda Wasisang, Gwenthyan William, Iola Blaluk, Jeanie James, Jed Gibson, Jessica Sumor, Joyce Ramarui, Kayolalyne Termeteet, Koriang Clarence, Lorna Lei Ronny, Maxima Teliu, Mechereng M Emesiochel, Shirley Celestine, Victoria Nestor, Virginia Kuterbis These teachers are from Meyuns, Airai, Koror, Peleliu, Melekeok, Ngeremlengui, George B. Harris, Ibobang and Ngardmau Elementary Schools, PHS, and private schools.

- 7 teachers earned Master's degrees in Curriculum Development with Science, Technology, Engineering and Math (STEM) specialization from the University of Hawaii. Emadech Oitering Jolene Rafael, Yvonne Ruluked, Renee Sherman, Mayleen Kesolei, Fraitaz Midar, Jolene Madelngesang are from Koror and Airai Elementary Schools and PHS.

In addition, MOE will be getting more help when JICA volunteer teachers and Peace Corps arrive in the next few months.

Ensuring Our Security & Safety

Oterkekkel a tekoi er a klekerngel ma sebecheklel a beluu ma rechad

Our borders reopened after COVID and with it rose renewed challenges from drugs and organized crime.

We have taken several steps to keep our streets and families safe. We've equipped safety officers with new tools, including INTERPOL data access and specialized training for Customs & Border Protection and police. Biometric scans at the airport, a Coordinated Border Management Working Group, and new measures help us tag any questionable persons. And, to help our officers better protect our borders, we have an X-ray machine that is scheduled to arrive this summer. Japan donated motorcycles that will help increase patrols. We've also strengthened cybersecurity.

We've increased cooperation across agencies—Customs, Airport, Immigration, Labor, and Post Office—working with the FBI, DEA, Air Force Office of Special Investigations, NCIS, CIA, and Taiwan Justice Department. The Office of the National Security Coordinator, which we established four years ago, leads these efforts.

In FY2019, the Attorney General's Office prosecuted five meth-related cases and collected \$57,900 in fines. In FY2024, with better reporting, there were 15 meth-related convictions and \$195,750 in fines—over triple the 2019 figure. Since FY2025 began, the AG's office has filed 17 drug-related cases.

From January 2023 to March 28 of this year, Customs & Border Protection officers confiscated more than 2,600 grams of methamphetamine, 32 grams of cocaine, and 123 vaping devices.

The Bureau of Public Safety is also making changes. Starting this year, DOC will no longer accept food or products from visitors, a long-standing practice. Surveillance cameras have been installed at the facility for added security.

We are set to complete a new Corrections facility, which will offer rehabilitation programs and, we hope, reduce recidivism—especially among those convicted of drug offenses.

These combined efforts are vital in our fight against illegal drugs and organized crime. But government alone cannot do it.

Last year, I asked the OEK to pass a bill for stricter law enforcement policies and tougher penalties for repeat offenders. If passed, it would have immediate impact and send a clear message that we will not tolerate drugs in our community. I urge you to support this bill.

I'd like to recognize Assistant AG Hilaria Asanuma, a Palauan who returned home after studying abroad and now serves her people.

In a few months, 19 cadets from the 30th Police Academy will join officers at checkpoints and patrol our streets after graduating this summer.

Director Curtis Elobt, a US Army veteran, brings valuable experience to our shores. Like other veterans who have returned to Palau, he continues to help us move forward and upward.

* The safety and security of our people is also part of the mission at the Office of the Public Defender, which assists people who can't afford representation. We want to acknowledge the efforts and dedication of Rachel Sumang, Administrative Specialist II who has worked tirelessly to support public defenders. Her work has critical as that office faces a lack of attorneys and growing caseload.

* Over the next few months, you'll hear more about efforts to protect our borders with new, more secure passports. Last month, the Ministry of State launched its E-Passport Project, a \$4.5 million project funded by our friends from Japan. The project will upgrade our passports to

include biometric data that would be more secure and resistant to fraudulent activities. Helping to coordinate this important national project is Yolanda Belsechel “Bisei” Kloulubak of the Palau Passport Office. We thank her for her work on this on top of singlehandedly managing the operations of the Passport Office for four consecutive months this past year. Despite the limited staffing, she ensured that essential services were not disrupted, processing and assisting more than 20 applications daily.

Taking Care of our Health & Social Services

Smisiich a tekoi ra ulekereuil a bedenged ma ungil ukeruul, e mdois a techall ra ngeseu el merkid a rechad er Belau

This administration is committed to improving the health of our people, which has been a challenge for the aging Belau National Hospital, also facing a shortage of services.

We’re pleased to be working with Dr. Kuartei to reform MHHS, with a focus on public health. This reform will support several of our recent efforts.

In the last four years, we’ve made some of the biggest investments in our nation’s only hospital and in our Community Health Centers in decades. We’ve invested more than \$6 million to upgrade and expand the extension of the laboratory, the radiology department, and we have upgraded and repaired our oxygen plant. More than \$800,000 went into renovating health centers in Ngeremlengui and Koror, and purchasing generators for all the centers.

With the help of international partners, we have also installed an MRI diagnostic tool and a new CT scanner, and implemented electronic medical records and an inventory system.

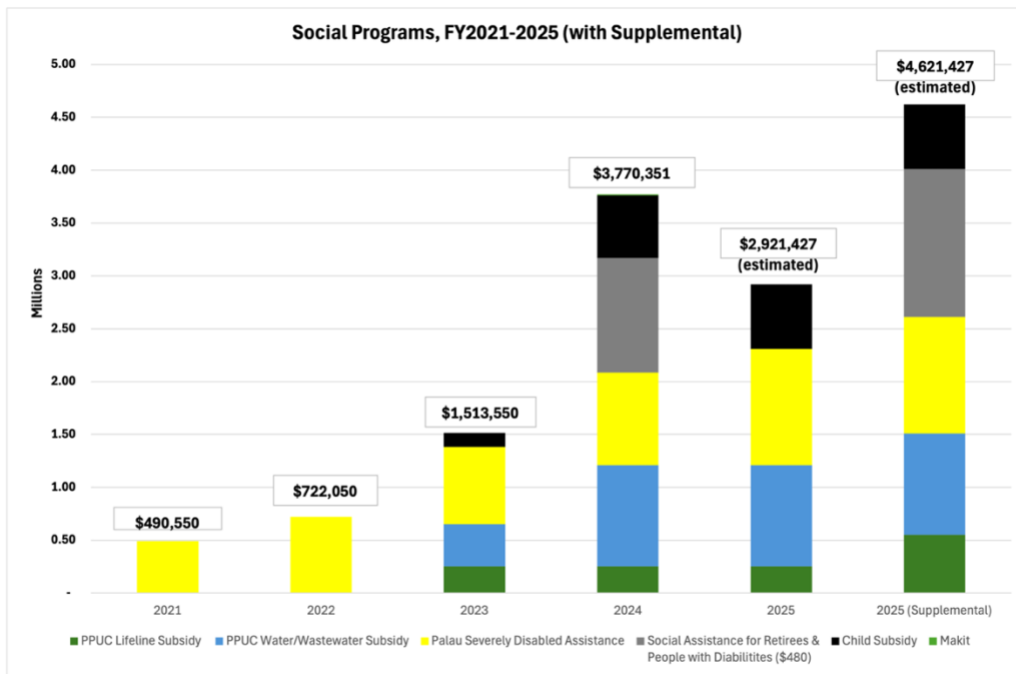
As part of replacing the more than 30-year-old BNH, the Hospital Relocation Task Force has begun a feasibility study. Mesulang to the State Governments of Airai, Koror, and Ngatpang for offering property for potential hospital sites.

We established an MOU with Guam Cancer Care to bring more affordable and accessible treatment for cancer patients in Palau. In the coming weeks, we will meet with them and a potential partner in the Philippines who will provide visiting doctors.

We are excited to welcome new doctors who have joined the hospital team. Dr. Bernadette Roldau Okabe has started her internship at the hospital. She will be joined by Dr. Samantha Oklierii, a pediatric specialty resident, and Dr. Jason Arurang, a radiologist resident.

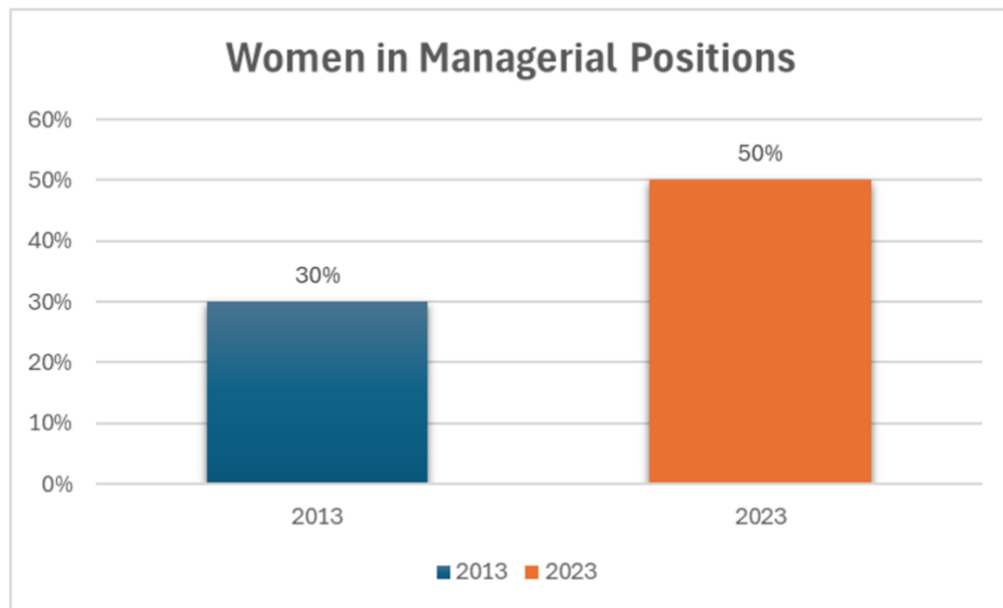
We are also grateful to visiting specialists Dr. Toribiong Uchel and Nurse Practitioner Samantha Uchel, who spent two weeks conducting critical care training in February for healthcare providers, including point-of-care ultrasound and training on the new ventilators in the ICU.

Because we knew that increases in minimum wage and government salaries wouldn't fully offset the inflation caused by COVID and the recent wars around the world, we provided new subsidies to help families and increased existing subsidies. In 2021, the year we took office, \$490,550 was being provided as assistance for those severely disabled. Since then, we have increased the payments to our disabled residents and added subsidies for Palauan children, people who makit, and our retirees. In FY2025, we anticipate providing more than \$4.6 million to help our people.



The 11th OEK considered a bill to provide pregnant mothers with paid maternity leave. Unfortunately, the bill did not pass, although we would have welcomed the opportunity to sign it. We do, however, want to congratulate the States of Koror and Airai for passing local laws that grant mothers maternity leave, allowing them time to heal and care for their newborns.

A recent report shows that not only are there more women in the workforce, but the proportion of women in management positions has also increased from 30% to 50% between 2013 and 2023. Many of these women are working mothers. Balancing work and family is already challenging, but we encourage the OEK to consider policies that support maternity leave and promote the establishment of day care centers.



Protecting our Livelihoods *Sebecheklel a ungil kerruul el kirir a rechad er Belau*

Providing for and protecting our livelihoods goes beyond jobs—it includes our ability to provide for ourselves. We’ve completed our marine spatial planning, and the science tells us we must:

- Close off 50 nautical miles around all of Palau to commercial fishing. This allows us to protect at least 30% and manage 100% of our ocean, preserving our reef ecosystems and promoting stock recovery.
- Increase our domestic fishing zone from 20% to 50% so that our people are not paying exorbitant prices for tuna caught in our own waters. This also ensures our people benefit from the bounty of our oceans, rather than seeing it taken to other parts of the world.
- Implement a moratorium on new fishing licenses and restrict licensing to local companies with a catch history since 2020. This will ensure stability within the industry and incentivize Palauan-owned companies.

We must also work toward a future where tuna caught in our waters is processed at home:

- Designate Ngtapang as a commercial fishing port, streamlining infrastructure for sustainable fishing operations. Last month, JICA and MAFE signed a record of discussion to initiate fisheries development master planning, including development of a port infrastructure master plan.

Senators and delegates, we have with us today, some young MAFE employees who are helping us achieve our environmental sustainability and food security goals.

- Jordan Yuri – Recently promoted from MAFE Executive Coordinator to Project Manager, overseeing about \$1M grant from New Zealand to support marine spatial planning, ensuring responsible ocean resource management.
- Lincy Marino – GEF7 Aquaculture Project Manager, managing a \$1.2M grant to advance aquaculture development in Palau, fostering food security and sustainable fisheries.
- Mesebeluu Ngiramouai – He’s been instrumental in supporting MAFE to secure \$1.2M for household gardening initiatives across Ngiwal, Ngchesar, and Melekeok, strengthening local food resilience.

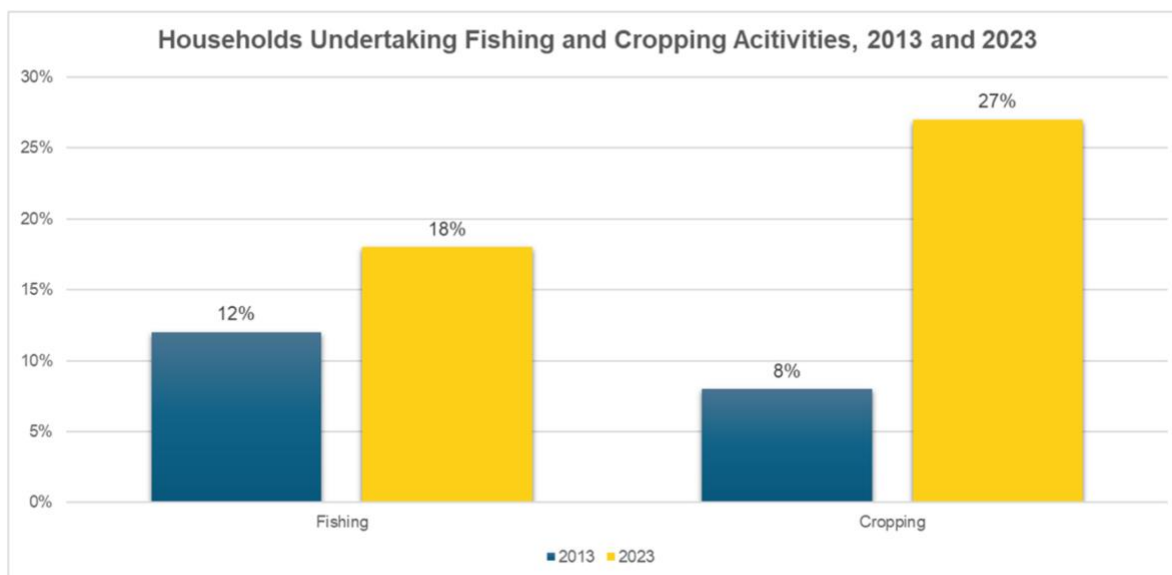
Mesulang for your dedication and expertise which are pivotal to our nation’s future.

Strengthening Agricultural Development

We must also diversify food production to reduce dependency on imports.

A recent HEIS report shows that more families are now fishing and farming than in previous years. MAFE has several programs to support individuals, whether they’re farming and fishing as families or are interested in entrepreneurship. To help support these local efforts, they are:

- Establishing a public-private partnership for commercial agriculture in Nekken to foster innovation and investment.
- Launching household gardening initiatives in Ngiwal, Ngchesar, and Melekeok to encourage self-sufficiency and community engagement.
- Expanding commercial poultry production with a targeted output of at least 1 million eggs annually, meeting local demand and ensuring food security. In partnership with MAFE and TTM, we aim to establish 5 commercial poultry farms, each with 1,000 chicks, to produce at least 250,000 eggs per farm each year.



Protecting Our Livelihoods: Strengthening Palau's Ocean Leadership

Palau's ocean serves as a vital link, connecting its people to millions across the Pacific region. As global attention increasingly turns to the Pacific, we must take a stand and lead transformative change that will benefit both current and future generations around the world.

This leadership is exemplified by the Unlocking Blue Pacific Prosperity (UBPP) initiative, which represents a bold step toward sustainable ocean management throughout the Blue Pacific Continent. Endorsed unanimously by Pacific leaders, UBPP aims to implement conservation efforts on a scale never seen before, targeting 100% sustainable management of the region's vast ocean area. This includes the ambitious goal of protecting 30% of the Blue Pacific Continent, a move that would encompass more than 20% of the world's Exclusive Economic Zones (EEZs) and significantly strengthen ocean resilience against climate impacts.

The initiative is designed not only to safeguard marine ecosystems but also to leverage the economic benefits of protected areas for the well-being of Pacific communities. By connecting Pacific Island countries, territories, and partners, UBPP fosters collaboration to co-create scalable solutions that address both climate and development priorities. This regional approach is further supported by substantial funding commitments, including a \$100 million pledge from the Bezos Earth Fund, which will help drive the implementation of these conservation and management strategies.

Through initiatives like UBPP, Palau and its regional partners are charting a course toward a future where ocean stewardship and economic prosperity go hand in hand. By investing in sustainable management, restoring key ecosystems, and ensuring robust food systems, the Pacific is setting a global example of resilience and determination in the face of climate and environmental challenges.

Strengthening Our Palauan Workforce

Smisichii a mo ungil chad er a ureor el sebeche mo klou a kerkernel

One of the guiding principles of “A Kot a Rechad Er Belau” is: “Our most valuable resource is our Palauan people.” Developing our nation is fundamentally about developing our people, as the strength of a nation comes from its citizens.

Minister Jenkins, MOE, collaborated with Minister Ngiraibelas Tmetuchl, MHRTCD, to develop vocational courses aligned with real jobs that require employees to drive boats, give tours on sea or land, or cook in hotel and restaurant kitchens. These efforts ensure that education is directly connected to employment opportunities.

We also continue to connect youth to government or NGO partners, as well as to colleges and US Service Academies, broadening their pathways to success.

While there is often a narrative about people leaving Palau in search of new opportunities, it is important to recognize that many people are also choosing to stay and are actively helping to build our community. We want to acknowledge and recognize several Palauans who are contributing to our nation:

- Toktang Akitaya (Tekaid Rentals)
- Russ Cabral (WCTC Manager)
- Jay Kodep and Uchellas Hasinto (East Coast Rental)
- Jayna Edwina Dilmeskid Kasiano (SinceShorely Yours)
- Godiva Ngirabiong Salii (Ngermid OASIS)
- Iris Polycarp (Miso Hungry)
- Ivory Polycarp (Chop Shop)

*In keeping our community informed, we also ensure our people are equipped to do their job better. To that end, we recognize the work of Mr. Iyar Dolmers, a young man who is typically behind a camera, not in front of it. If you watch the Press Conferences from the Office of the President, he’s always there, managing the cameras and the soundboard, many times he’s a one-man show.

*Sharing information is also important in our efforts to promote interagency collaboration as well as coordinate efforts between states and the national government. It’s not an easy task but Maylene Gorong, Domestic Service Officer with Bureau of Domestic Affairs, has been a strong contributor to this effort.

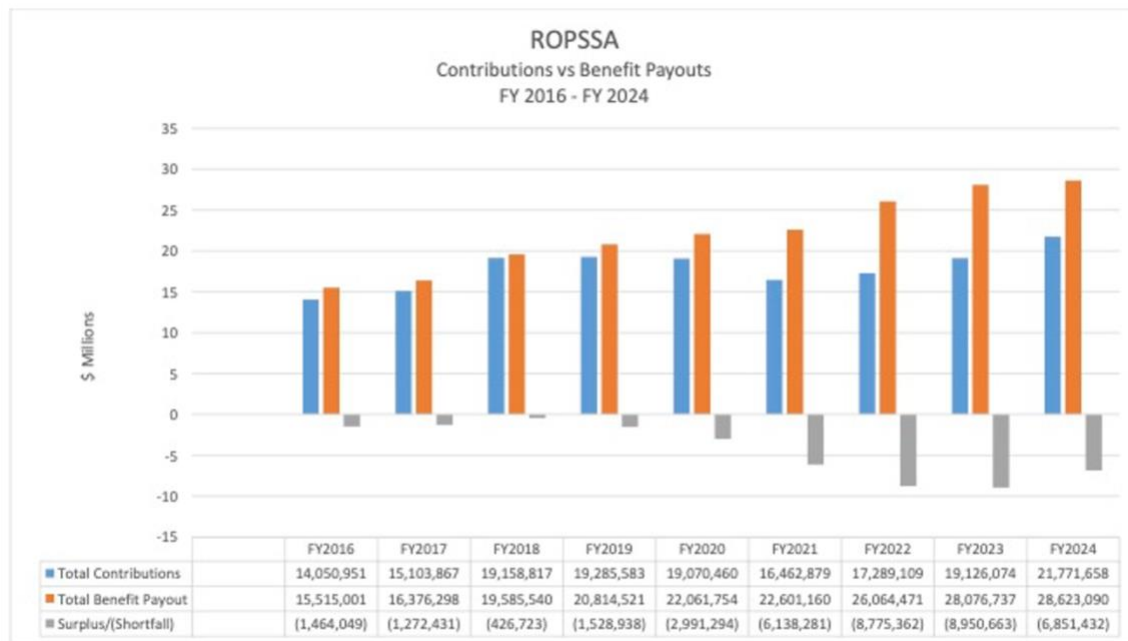
Building a Sustainable Economy

Debt was a significant challenge at the start of the administration, a situation further exacerbated by COVID-19. When we took office in 2021, we inherited more than \$164 million in debt. Of this amount, \$38 million was a high-interest loan used to upgrade the national airport, while \$15 million was a USDA loan to PNCC at a 5% interest rate.

To keep government operations running and support small businesses and individuals who lost jobs during COVID-19, we incurred an additional \$100 million in debt. At the same time, we faced the burden of pension and social security funds that were at risk of insolvency.

Recognizing the urgency, we took some much-needed steps shortly after taking office. We reached out to USDA and succeeded in reducing the interest rate to 3% in 2022. Working with PNCC we secured a \$36 million USDA grant to help the telecom provider bring fiber network access to Palauan homes. This achievement was made possible thanks to the tireless efforts of Virginia Tellei and the PNCC team, whose work ensured that the \$36 million grant helped us avoid additional debt.

Additionally, we are grateful to the U.S. Congress for providing an extra \$15 million to upgrade and clean the mobile network infrastructure of Huawei and ZTE.



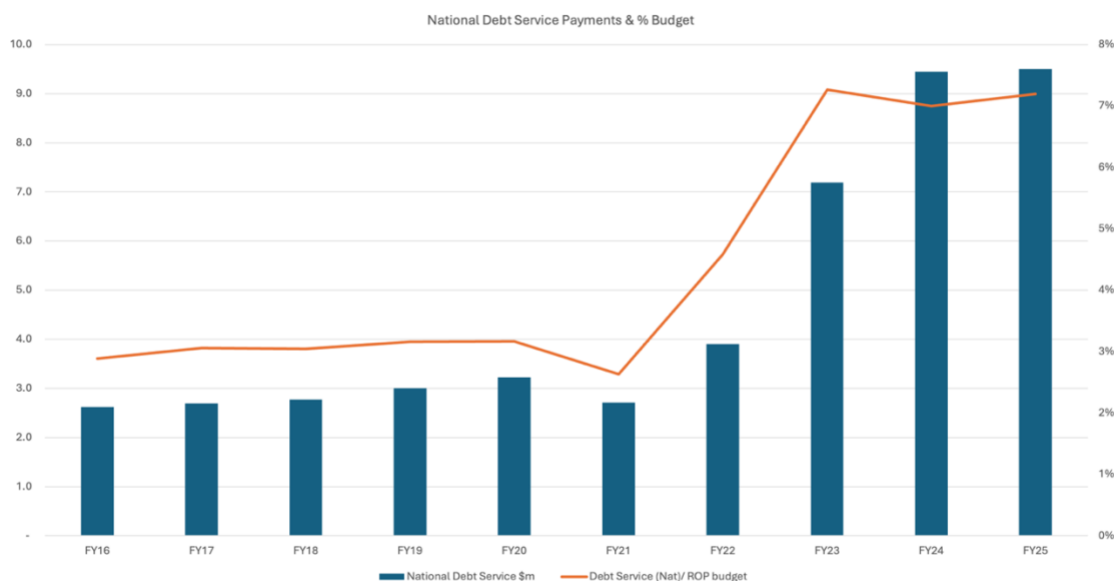
Given the size and impact of these loans, Chief Negotiator Minister Kaleb Udui Jr. negotiated a Compact Review Agreement that included \$10 million per year for six years to help pay down these debts. This strategic move underscores the importance of having a debt management office to pay down expensive debt and develop a sustainable strategy for managing obligations.

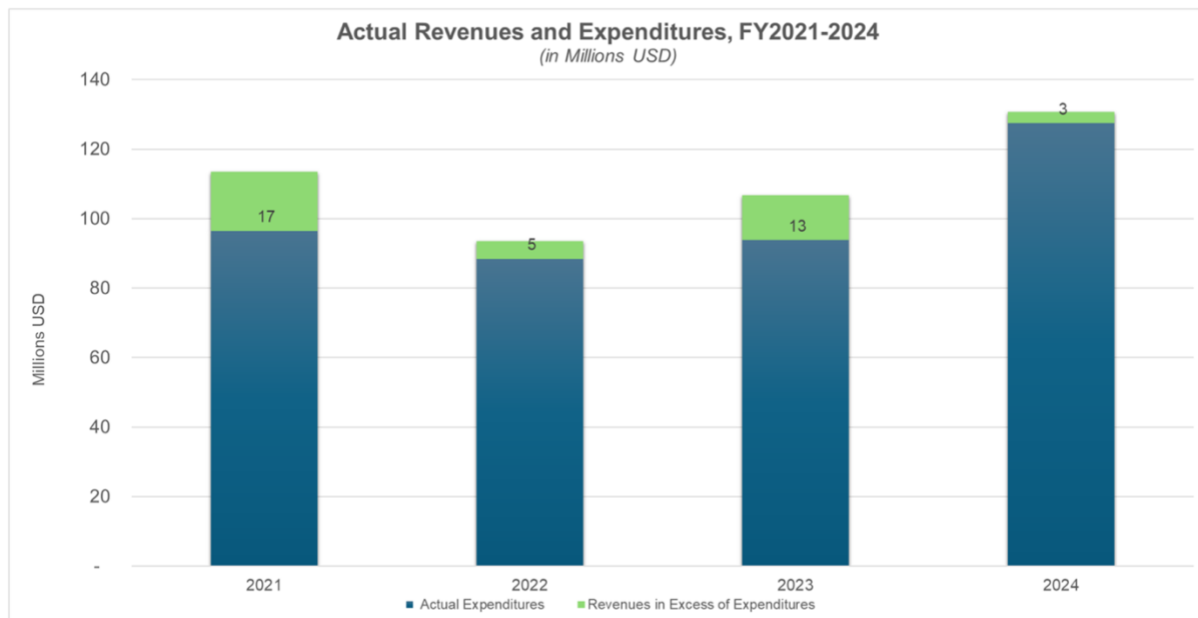
Looking ahead, we have also appealed to the United States for an additional \$20 million to further strengthen our fiscal position. These funds have been placed on hold, but we remain hopeful that they will soon be released.

As part of our ongoing debt management efforts, any new loans will be secured at low rates, such as the ADB 1% loan for Koror State and the Saudi loan at 2.5%.

This debt consolidation strategy plan is critical to ensure we have sustainable debt repayment that doesn't overwhelm our children.

I want to take a second to thank some young people who have as much a vested interest in ensuring that we don't kick the can down the road and who have been working diligently to help us address debt today. Planning specialist Klumch Tangelbad and Microeconomist Roleen Ronny, we thank you for your service to our nation and to future generations.

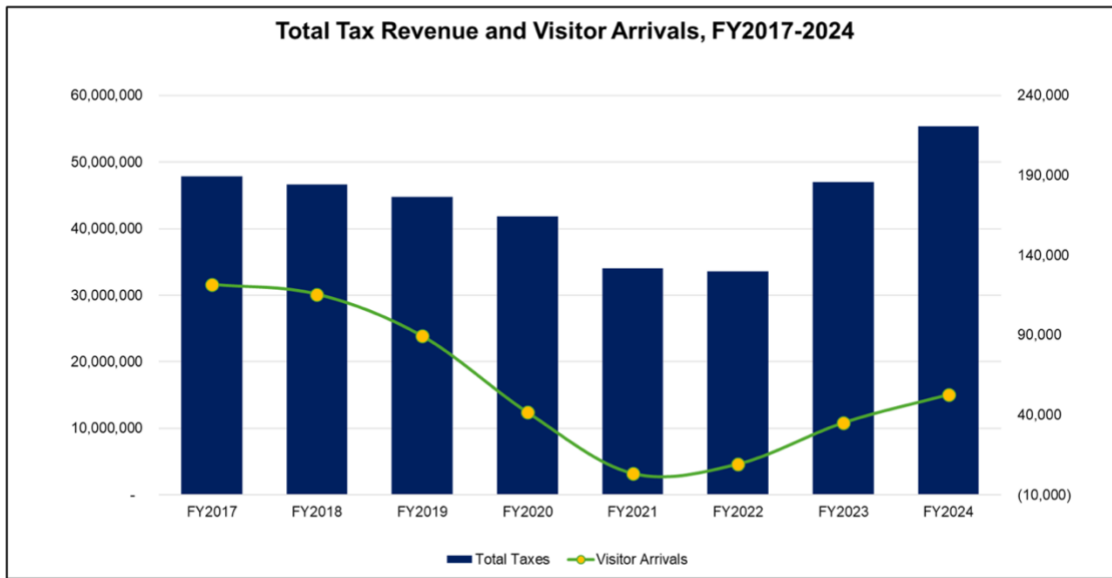




Palau’s economy is highly dependent on tourism, which makes us vulnerable to external shocks. For example, the downturn in tourism that began in 2016 was further exacerbated when the industry was decimated by the pandemic in 2020. When we took office in 2021, our main goal was to reopen the economy and resuscitate our number one industry—tourism. To achieve this, we welcomed military partners and explored new opportunities, such as bubble tourism with Taiwan and the resumption of United flights.

Today, we are seeing positive developments as more flights are being welcomed to Palau, thanks to partners like China Airlines, United, Qantas, and Nauru Airlines. We are grateful to Taiwan for helping us revitalize key markets, and to Australia for awakening new ones. We also appreciate Japan for supporting the restart of charter flights by Japan Airlines, as well as United Airlines, which will begin new flights from Japan in late October.

In anticipation of increased tourist numbers, three new hotels are currently under construction. This growth aligns with our vision for “Tourism with a Purpose.” We aim to expand our tourism markets to welcome visitors who share our respect for our land and oceans. To support this, we are promoting high-value ecotourism, including condos, marinas, and other infrastructure that showcase renewable energy and our commitment to protecting our home.



Building a Sustainable Economy: Tax Reform

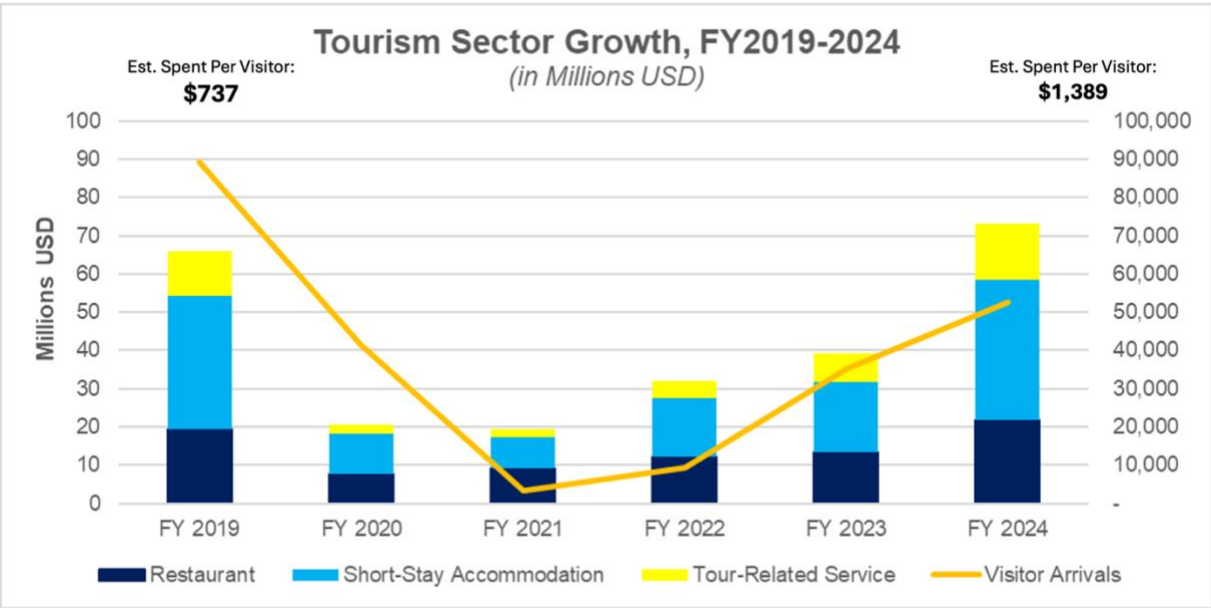
Palau implemented comprehensive tax reform in 2023 to promote equity and ensure that everyone pays their fair share of taxes. The reform broadened the revenue base to include tourists and profit-generating businesses, aiming to shift more of the tax burden to visitors and capture greater value from the tourism sector. These measures were designed to create a fairer and more sustainable fiscal environment.

After one year, the new system has fostered a business-friendly environment that attracts and encourages investment. The reform has allowed for increased social assistance programs and provided more financial support to the economy in fiscal years 2023 and 2024.

Prudent fiscal policies have kept government spending lower while implementing savings that enabled an increase in the minimum wage for government employees. The national minimum wage was raised from \$3.50 to \$4.25 per hour in October 2024, with a further increase to \$5.00 per hour scheduled for October 2025. This adjustment is part of a broader effort to support workers and strengthen the social safety net, while balancing the needs of businesses and the overall economy.

Business growth in Palau has accelerated significantly, with business licensing showing a marked increase—from just four new licenses in 2019 to 34 new business licenses in the current year. This surge reflects a revitalized business environment, particularly in tourism-related sectors such as restaurants, hotels, and rental properties. Revenues in these sectors nearly doubled, rising from \$38.67 million in FY2023 to \$73.15 million in FY2024, underscoring the strong rebound in tourism and associated industries.

These positive developments are closely linked to recent economic reforms, which have substantially contributed to increased consumer spending and overall business sector growth. The influx of tourists, the presence of U.S. military partners, and rising consumer demand have all played a role in boosting economic activity across the country. As a result, business confidence has improved, and the combined impact of these efforts is evident in Palau’s robust economic recovery and growth trajectory.



Where We Are Heading

Palau’s sustained positive economic outlook is closely tied to a significant surge in visitor arrivals. In 2024, visitor arrivals grew by 234%, marking a remarkable rebound for the tourism sector. This upward trend has continued into the current year, with particularly strong growth from key markets. Arrivals from Taiwan increased by 38%, while Australia posted the most significant year-over-year growth at 120%. These gains are attributed to targeted strategies by the Palau Visitors Authority (PVA), including tailored marketing efforts and the introduction of the Palau Pacific Express service operated by Qantas.

Supporting these efforts is Chloe Yano, the marketing manager for PVA, who plays a pivotal role in developing and implementing these successful strategies. Currently, she is in Turkey attending the PATA International conference, where she continues to raise Palau’s profile as a premier tourist destination.

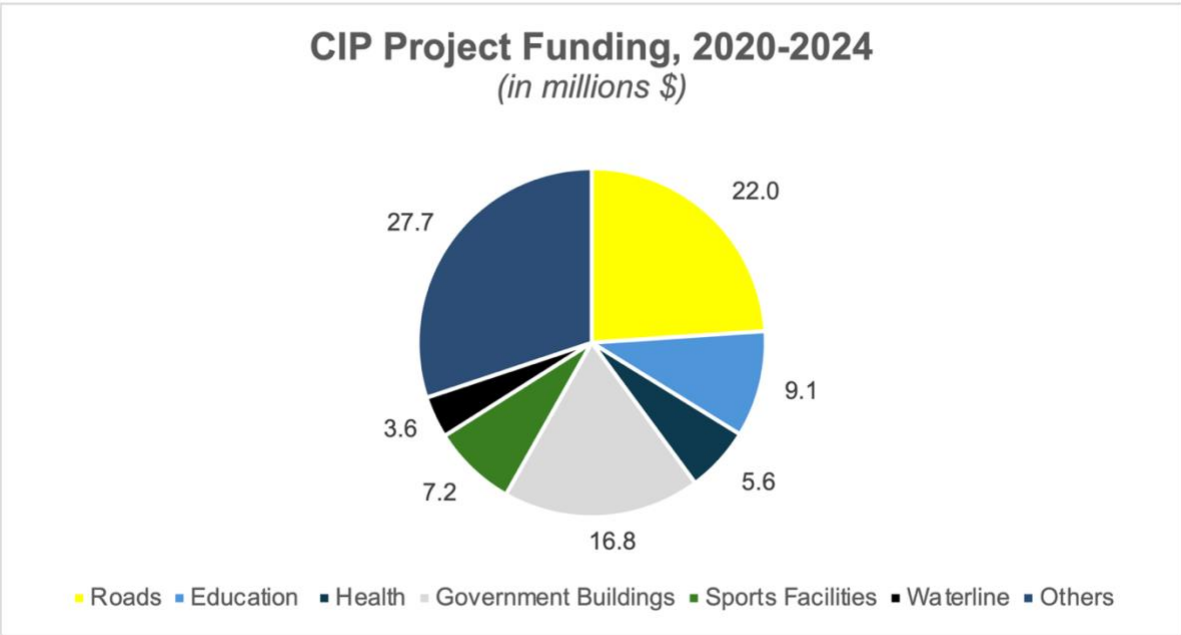
Overall, these coordinated initiatives have helped Palau surpass half of its pre-pandemic visitor arrivals, with 50,541 visitors recorded as of November 2024, compared to 93,723 in 2019. The momentum in tourism recovery is expected to further boost economic growth and reinforce Palau’s position as a sought-after destination in the Pacific.

While our U.S. military guests are in Palau for the vital work of defense and preserving peace in the Indo-Pacific, their economic contributions are also significant. Over the past two years, Palau has welcomed more than 4,000 personnel, including sailors, soldiers, Marines, Airmen, Space Force members, and Department of Defense civilians. The estimated economic impact of this military presence and engagement is approximately \$41.6 million. This figure encompasses 27 ship visits, military site visits, 423 military flights, various exercises, and MCED-P activities.

The construction industry has experienced substantial growth, driven by ongoing government, private sector, and U.S. military projects that continue to keep local contractors engaged. A key development is the completed feasibility study for the Malakal Port. The design phase is expected to be finished this summer, followed by the Environmental Impact Statement (EIS) and bidding processes throughout the next year. If all proceeds as planned, work to expand the more than 70-year-old port—an effort in collaboration with Koror State and the U.S. military—could begin by the end of 2026.

There is hope that the OEK will pass the Saudi Loan bill to support homes and housing developments, addressing a critical concern raised by many Palauans both at home and abroad. Housing remains a pressing issue for the community, and this legislation is one of the efforts that would help tackle this challenge.

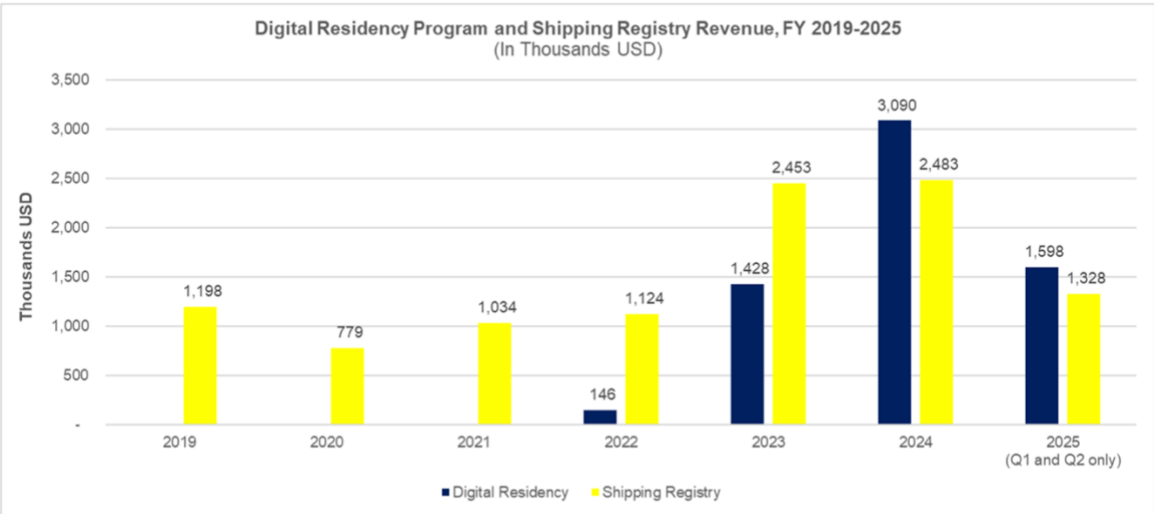
In addition to housing initiatives, ongoing road construction projects are helping to improve infrastructure and pave the way for expanded utilities. Since 2020, Palau has seen more than \$91 million invested in capital improvement projects, reflecting a strong commitment to national development. More improvements are anticipated in the near future.



Pushing the Economy Forward

I want to thank the members of the OEK for their collaboration in passing legislation that enabled Palau to venture into financial technology. The Digital Residency Program has experienced remarkable growth, generating \$6.1 million in revenue since its launch. This year, we are on track to double our revenue for FY2024, reaching \$2.8 million. The program now boasts digital residents from 148 countries, demonstrating its global appeal.

The Digital Residency Office (DRO) works in partnership with Cryptic Labs to drive this initiative, serving as a strong example of a successful public-private partnership. Notably, the program has been managed efficiently, with only one dedicated hire, Jay Anson, and two additional staff, Lolyna Ngiratarang and Stephen Redhor, taking on collateral roles to support its operations.



Building on the success of the Digital Residency Program, Palau has introduced another innovative initiative—the Palau Savings Bond—thanks to legislation passed by the 11th OEK. This new program was made possible through the efforts of former Minister and current advisor on finance, Kaleb Udui, and Dr. Yoshino.

The savings bond initiative is a strategic move to modernize the nation's financial infrastructure while fostering economic growth. It is designed to empower citizens financially and accelerate Palau’s infrastructure development, creating a sustainable cycle of investment and growth. Palauans, both at home and abroad, can purchase bonds through a mobile app, allowing them to participate in national development while earning returns on their investment.

This initiative provides individuals with a secure savings mechanism, helping them build long-term wealth and plan for future needs such as housing or education. For the government, the

bonds serve as a valuable domestic funding source, enabling the financing of critical projects—including roads, housing, and SME development—using locally raised capital and reducing reliance on foreign loans.

Investments generated through the savings bond program are expected to stimulate the economy by creating jobs, enhancing business opportunities, and fostering a more dynamic economic environment. Ultimately, this initiative strengthens Palau’s control over its economic future by channeling domestic savings into national priorities.

Legislation Needed

Ministry of Interior: The proposal to establish a Ministry of Interior is a smart, forward-looking move that streamlines Palau’s governance. While I understand that there are concerns about the cost and the creation of new bureaucracy, I respectfully disagree. Rather than creating new bureaucracy, the bill simply reallocates existing agencies into a more coherent, better-coordinated structure. This consolidation promotes efficiency and strengthens domestic areas such as cultural preservation, youth development, and emergency management all under one roof. The only new cost is the salary of the Minister, a modest investment considering the significant returns in administrative effectiveness that we’ll see.

LLCs: I thank the OEK members for their dedication and collaboration in revamping our Corporations Act. We now have a modern, simplified, and streamlined framework that will significantly ease the process of registering new businesses, including an online registration portal set to launch publicly in the next few weeks. And we’re not stopping there: the same team of expert consultants is now assisting us with drafting a Limited Liability Company (LLC) law, with a dedicated working group already in place to guide the process. Introducing an LLC law will be a major step forward for our economic growth, providing entrepreneurs greater flexibility, stronger protections, and clearer regulations, which is exactly what we need to foster innovation, attract investment, and accelerate local business development.

Procurement Bonding: The recently introduced procurement bonding bill is a smart step toward fairness and economic opportunity. Our current bonding rules make it difficult for Palauan-owned construction firms, especially small and mid-sized ones, to compete with larger, sometimes foreign-owned companies. By creating a tiered system that waives bond requirements for Palauan-owned firms on smaller projects and allows flexibility for mid-sized contracts, while still protecting the government’s interests through increased retention and written risk assessments fixes it. It also updates outdated thresholds to reflect inflation. I urge the OEK to move forward on this to help stimulate our local economy.

Small and Medium Sized Business Support: It’s time we take meaningful steps to support our small and medium-sized businesses, the backbone of our economy. Let’s ensure that they are paid on time. Late payments can be devastating to cash flow. We can look to international

best practices, like automatic interest on overdue invoices, as a model for encouraging fairer payment standards. We should also re-examine our lending environment. Current interest rate caps on business loans may be limiting access to credit, especially for those seen as higher risk. If we want to encourage investment and growth, we need regulatory framework that balances consumer protection with the realities of commercial lending. These kinds of reforms, access to credit, fair treatment, and financial flexibility, are essential, creating a more supportive and competitive environment for Palauan businesses.

Key Highlights from the FY2025 Supplemental Budget

The FY2025 Supplemental Budget includes several important allocations aimed at strengthening Palau's financial management, supporting essential services, and advancing national priorities. Funding has been designated for the modernization of tax and debt management systems, support for international representation, and critical payments for housing and school operations. Additional resources are directed toward subsidies and hosting the Pacific Mini Games. Investments in the Civil Service Pension Plan and new diplomatic facilities in Tokyo and Hawaii further demonstrate a commitment to both domestic welfare and Palau's international presence.

- Bureau of Revenue & Taxation: Integrated tax management system - \$500K
- Debt Management System: \$400K - Using new software
- UN Representation Office - \$572K - AOSIS Chairmanship cost; mortgage interest payment ; mortgage principal payment
- Bureau of School Operations: \$391K - food supplies, homebound feeding, Melekeok School bus, 2 HP outboard motors, school facility renovation
- Palau Housing Authority - \$500K loan payment
- Lifeline Subsidy Program & Residential Electricity: \$550K - Lifeline Subsidy Program & Residential Electricity
- Pacific Mini-Games: \$200K – Hosting
- Retired & Disabled Citizens Assistance – Appropriation to provide \$480 per individual for retired, unemployed
- Civil Service Pension Plan - \$350K - to upgrade the Civil Service Pension Plan database system, hardware, and servers
- Tokyo Embassy: \$5.8 - to purchase a new embassy property in Tokyo, Japan
- Hawaii Consulate Office: \$80K – building closing cost

Mesulang

United States - Funding for schools, pay down debt & build economic resilience

Taiwan for continued partnership - tourism, agriculture, aquaculture climate change, gyms, prison, schools, roads, blue carbon study

Japan for the infrastructure, the Judiciary building, Babeldaob power distribution, Minatobashi bridge, fishing port, Ocean Thermal Technology, education, and tourism programs.

Moving Forward and Upward Together

In 2021, we reached out to you, the people of Palau, to join us on a journey to put your welfare first.

In 2024, we called out again and asked that we continue walking forward—together and upward.

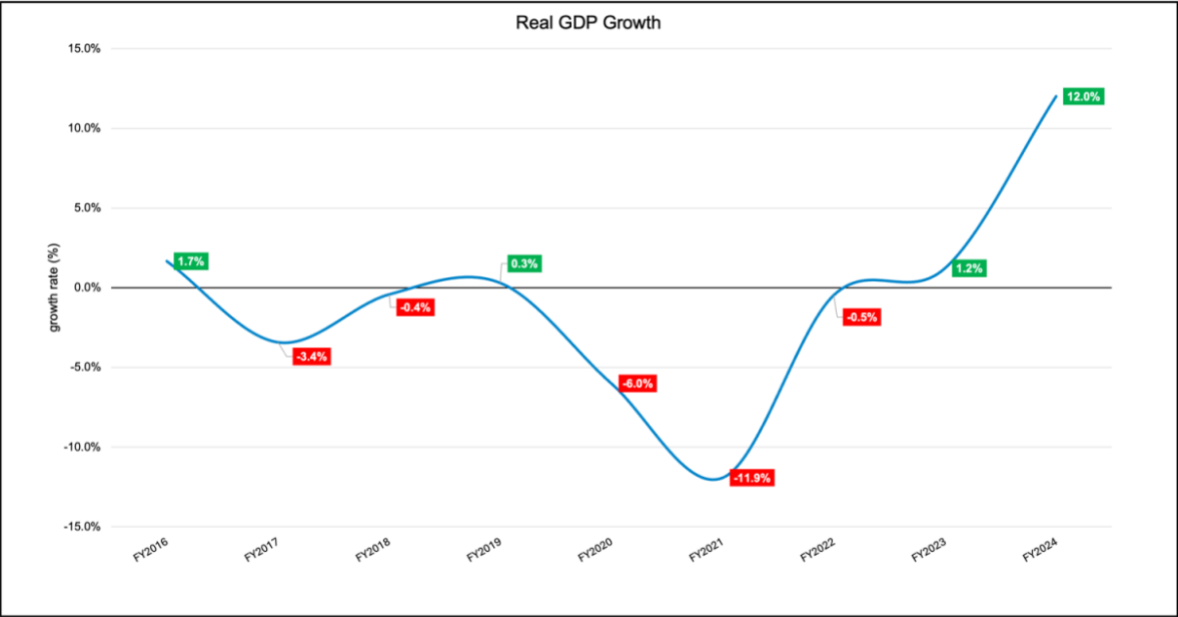
We remain committed to building an economy that supports jobs, education, health, and safety for all.

We continue to invest in our youth by supporting their education, advancing our health and social services, and strengthening our Palauan workforce.

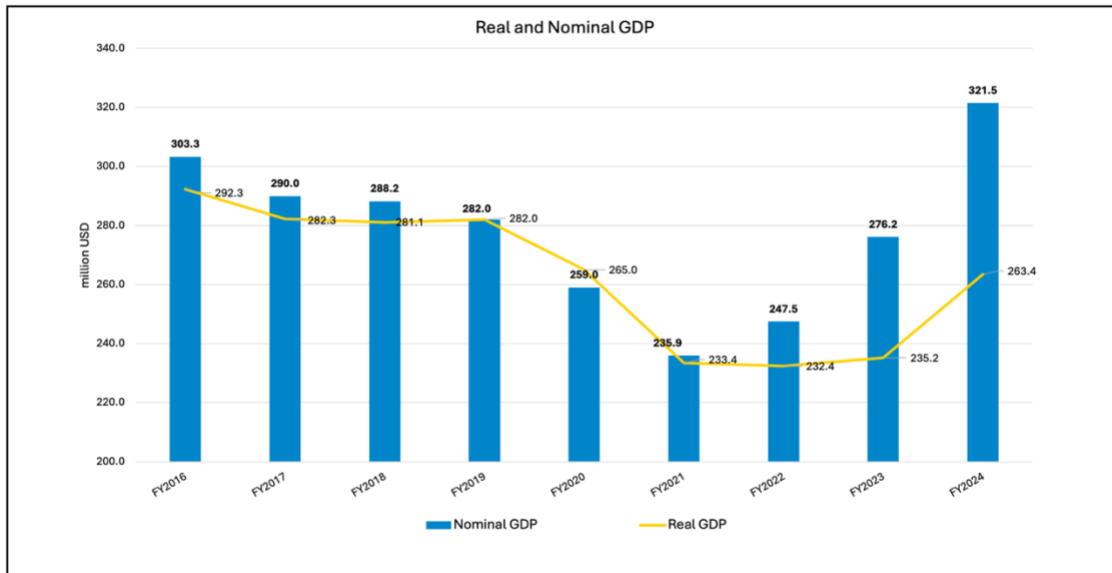
We honor Palau’s traditions—respect for peace, freedom, and justice—and lean on the wisdom of our elders. We stand hand-in-hand with our democratic friends against tyranny, united in support of a free and peaceful Indo-Pacific region that offers everyone a chance at prosperity.

We cannot be afraid of change. The leaders who came before us pushed boundaries to create our sovereign nation. We cannot sit still and expect the world to wait for us to figure out what we want and how we want to get there.

Despite the challenges, we have come together. Through our collective efforts to diversify our economy, enact comprehensive tax reform, and negotiate the Compact, we have achieved record economic growth of 12% in 2024.



In 2024, our GDP rose to \$326 million—surpassing FY2016’s \$298 million, even when tourism was at its peak. Although our numbers declined to \$281.9 million in 2019, we rebounded and set a new record of \$325.8 million in 2021.



Together, we have reached new heights. And today, we are pleased to report, **the state of our nation is strong. But it can be stronger.**

In the legend of Mengidabrutkoel we celebrate how challenging the status quo resulted in saving the lives of mothers. He stood up against those who feared change. He refused to allow the conventional practice of using a bamboo knife to cut a woman open to deliver the baby. This would have killed his wife. So he fought against old beliefs and saved his wife’s life.

The lesson here is sometimes we have to be bold. Like our ancestors, we too can find better ways to improve the lives of our people if we are willing to embrace change.

The lesson is clear: sometimes we must be bold. Like our ancestors, we can find better ways to improve the lives of our people—if we are willing to embrace change.