

**SOCIAL AND ECONOMIC DEVELOPMENT
PLANNING FRAMEWORK FOR
NATIONAL SUSTAINABLE DEVELOPMENT
STRATEGY**

**INCLUSION OF NATIONAL PLANNING TARGETS INCLUDING MDG INTO
BUDGET ALLOCATION AND METHODOLOGY FOR MONITORING OF
INDICATORS**

**PROJECT
CAPACITY DEVELOPMENT FOR NATIONAL PLANNING AND MONITORING
PROGRAMME (CDNPMP)-UNDP**

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ACRONYMS

ADB	- Asian Development Bank
BMR	- Bureau of Marine Resources
BOA	- Bureau of Agriculture
BOP	- Balance of Payments
BPH	- Bureau of Public Health
BPS	- Bureau of Public Safety
BPW	- Bureau of Public Works
BRCT	- Bureau of Revenue Customs and Tax
CIP	- Capital Improvement Project
CDNPMP	- Capacity Development for National Planning and Monitoring Programme,
COFA	- Compact of Free Association
CPI	- Consumer Price Index
CRC	- Compact Review Commission
DOI	- Department of Interior
EQPB	- Environmental Quality Protection Board
FEIM	- Facility for Economic and Infrastructure Management
ESDP	- Economic and Social Development Planning Palau
FIB	- Foreign Investment Bureau
FIC	- Financial Institutions Commission
FY	- Fiscal Year
GDP	- Gross Domestic Product
GNI	- Gross Domestic Income
HIES	- Household Income Expenditure Survey
IMF	- International Monetary Fund
IPP	- Integrated Project Planning
JICA	- Japan International Cooperation Agency
LMBA	- Line Ministries Bureaus and agencies
MCT	- Ministry of Commerce and Trade
MNRET	- Ministry of Natural Resources, Environment and Tourism
MOA	- Ministry of Agriculture
MOF	- Ministry of Finance
MOH	- Ministry of Health
MPIIC	- Ministry of Public Infrastructure Industry & Commerce
MRD	- Ministry of Resources and Development
MTDS	- Medium-Term Development Strategy
MTFS	- Medium-Term Fiscal Strategy
NASDP	- National Aquaculture Strategy and Development Plan
NDBP	- National Development Bank of Palau
NEPC	- National Environmental Protection Council
NGO	- Non Governmental Organization
NMDP	- National Master Development Plan
OAT	- Office of the Attorney General
OEK	- Olbill Era Kelulau
PCAA	- Palau Community Action Agency
PCC	- Palau Community College
PCOC	- Palau Chamber of Commerce
PCS	- Palau Conservation Society
PFA	- Palau Fisheries Advisory Committee
PIA	- Palau International Airport
PICRC	- Palau International Corral Reef Centre
PITI	- Palau International Traders (Incorporated)
PMA	- Palau Maritime Agency

PMDC	- Palau Mariculture Démonstration Centre
PMIC	- Palau Marine Industries Corporation
PNCC	- Palau National Communications Corporation
PNRC	- Palau Natural Resources Council
PPLA	- Palau Public Lands Authority
PRA	- Participatory Rural Appraisal
PSC	- Project Steering Committee
RRPL	- Republic of Palau Public Law
SBDC	- Small Business Development Center
SID	- Support Impact Doable
SLMP	- Sustainable Land Use Management Project
SPLA	- State Public Lands Authority
SEPP	- Socio Economic Profile Palau
SSF	- Social Security Fund
TNC	- The Nature Conservancy
TTA	- Trust Territory Authority
TTM	- Taiwan Technical Mission
UNDP	- United Nations Development Programme
US	- United States of America
USDA	- United States Department of Agriculture
WB	- World Bank

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EXECUTIVE SUMMARY

INTEGRATION OF SOCIAL STATISTICS INTO NATIONAL DEVELOPMENT PLANS, INCLUSION OF PLANNING TARGETS, INCLUDING MDG, INTO BUDGET ALLOCATIONS AND METHODOLOGY TO MONITOR INDICATORS

Republic of Palau, consisting of 16 states, with close upon 20,000 inhabitants, currently enjoys a high standard of living, relative to its neighbours. Since independence, Palau has been the beneficiary of a US Government grant under the Compact of Free Association (COFA) with USA. This grant and other US assistance play a vital role in promoting increased economic activities and raising living standards in the country. The COFA is due to end in 2010; negotiations for its renewal will be scheduled. .

INTRODUCTION: The looming uncertainty of the country's future financing capability was compounded by the dismal performance in real GDP growth. GDP recorded negative growth over the last two years, and no sanguine estimates are forthcoming, as yet, for 2008. Although, there are no visible signs of poverty in the country, the income distribution pattern shows the emergence of vulnerable groups in the society. Moreover, the high prices of imported food and fuel have a profound effect on living standards, and some segments have been hard hit. The likelihood of more families falling into this category is increasing and sustaining the present state of affairs is at stake. It is imperative to look forward and bring these social considerations into the planning process. Action should be taken to address these issues, and monitor progress, to achieve sustainable development in the country. Therefore, UNDP initiated a project to support the national planning endeavour in Palau: to integrate social statistics in the planning process, set measurable goals, improve the national budget allocation process by incorporating planning targets including Millennium Development Goals (MDG), develop a monitoring and reporting mechanism based on indicators and also to build the analytical capacity of the staff to undertake those responsibilities and coordinate ministries, agencies and other stakeholders. The present document, Social Economic Development Planning Framework for National Sustainable Development Strategy (SEDPF) is a product of the project. SEDPF will develop frameworks and methodologies to materialize the key objectives of the UNDP initiative and will be a major element in strengthening the National Sustainable Development Strategy (NSDS) of Palau. Achievement of the above objectives will depend on many factors. The country's present economic setting is, of course, a major factor, and this is discussed in the next chapter.

CHAPTER 1: COUNTRY SETTINGS - ANALYSIS OF ECONOMIC PERFORMANCES OF PALAU FOR A SUSTAINABLE DEVELOPMENT

- An analysis of Palau's recent economic development and trends is a prerequisite for future planning, in order to assess its long term sustainability and potential to support social development, and mobilise funds for achieving MDG as a part of NSDS. Generally, economic performance, over the five-year period, 2002-2008, was not impressive. The construction sector, which boosted the economy, had an overall impact on growth. The other large contributors to the economy were the hotel and restaurant sector and trade tied to the tourism industry, but their contribution was lower than in 2000. In the past, public administration was the largest contributor to the economy. Presently, public administration and the construction sector, together, contribute around 40 percent of GDP. Real growth of the economy over the last five years was around 2 percent and inflation soared to 3-4 percent during the last four years. According to the Office of Planning and Statistics (OPS), the unemployment rate declined to 2.4 percent in 2007, as per the official definition. But the HIES estimate for unemployment is different. Unexpected variations were evident in the annual balance of payments current account deficit, over the period under review, and averaged 19 percent of GDP. Interest rates applicable to deposits and the lending rates were mismatched, discouraging both local savings and investments. Lending to the household sector is not recorded as statistical information.

The paucity of other important data sets precludes the development of a framework for macroeconomic consistency, which has a very important role in a national planning exercise. Consumption, savings and investment data have not been compiled. The lack of analysis in the process of compiling GDP estimates calls into question the integrity of GDP numbers. Non availability of food production data, other than as derivatives of the household income and expenditure survey (HIES), represents a large hole in the data

system, which constrains the development of indicators to monitor planning targets, including the MDG process.

CHAPTER 2 : PLANNING INITIATIVES - CURRENT AND PAST - Palau has a long history of national planning and it has been accepted by politicians, bureaucrats and the people as the grand vehicle of achieving sustainable development. The Economic Development Plan (EDP) 1994-1999, was prepared in 1994 as an obligatory requirement for signing the Compact Agreement of Free Association of USA (CAFAU), the document establishing a political relationship between USA and Republic of Palau (ROP). Before EDP was fully implemented, the UNDP initiated the preparation of the National Master Development Plan (NMDP) for Palau 2020. NMDP was prepared in 1996 as a strategic long term development plan. But plan implementation has been slow and with a view to expediting the process another generation of medium term development plans have been introduced. These plans focused mainly on public investment and were not comprehensive; they did not adequately address socio-economic factors within a broad framework, and establish concrete executable targets. The Management Action Plan (MAP) and Public Sector Investment Programmes (PSIP) are major plans that were prepared by not by consultants but by Palauans. They are the only plans referred to in the budget call. However, MAP and PSIP are not comprehensive plans derived from NMDP; MAP is a document of guidelines and recommendations and PSIP is a list of investment programmes to be executed by the public sector. No practical or effective steps have been taken to implement all the components of these plans or faithfully follow their guidelines. The current Medium Term Development Strategy (MTDS), which is considered by the public as the new plan, is an effort to enhance economic policy formulation to achieve the NMDP. The MTDS, derived from the NMDP and selected MDGs, is expected to be presented to the Senate in late 2009, under the new administration, as the new planning document. However, without an appropriate framework to align the MTDS with the budget allocations its effective implementation is unsure. Therefore, SEDPF will formulate a suitable framework for this purpose.

CHAPTER 3: A PLANNING FRAMEWORK TO ACHIEVE SUSTAINABLE DEVELOPMENT OF PALAU- Against this backdrop, the SEDPF proposes a holistic approach, with all the elements of sustainable development, economic, environment and social development including MDGs, are brought together in an integrated framework to strengthen the national sustainable development strategy (NSDS).

Palau has expressed its commitment to NSDS in many forums. Regrettably, however, the NSDS has not taken center stage in Palau and has not been properly formulated or developed into an interrelated framework. Therefore, a conceptual framework of the NSDS, and a policy brief, were developed to facilitate the process of mainstreaming the NSDS in Palau, and to obtain senate approval to establish NSDS.

The NMDP as an intergenerational plan is a major component of the NSDS. It projects a 5% percent annual average growth rate over the planned period. Neither NMDP nor MTDS has given much emphasis to detailed statistically measurable economic targets presumably, because credible disaggregated data sets were not available in the country or relevant statistics were insufficient when the NMDP was in preparation. In developing the MTDS, from the NMDP, no real effort has been to made to define numerical targets for economic development. Also, a major objective of these plans was to create a conducive environment for private sector development rather than aiming at economic and social targets. Therefore, medium term key macro economic targets will now be integrated to the medium term national sustainable development strategy (NSDS), through a macroeconomic framework which is a built-in component of Medium Term Expenditure Framework (MTEF), designed to integrate planning targets (including MDGs) to the budgetary process.

Preparation of realistic macroeconomic framework is a prerequisite for a MTEF but is constrained by the lack of necessary skills among planners. However, the planning targets that should be integrated into the planning process are GDP growth, sectoral outputs, exports, imports, growth of employment by sectors, price level, among others. There is no proper methodology developed yet at the planning system but some projections were made on the basis of sum heroic assumptions and included as an example.

CHAPTER 4: INTEGRATION OF SOCIAL STATISTIC AND MDG INDICATORS FOR PLANNING AND SOCIO-ECONOMIC DEVELOPMENT TARGETS

Availability of socio-economic data in Palau, though relatively better than its neighbours, is not sufficient to cover all the indicators of MDGs. Social data has been barely integrated into the national development plans - NMDP and MTDS. The social policy spelled out in MTDS only targets the vulnerable groups. Non availability of a Poverty Reduction Strategy Paper (PRSP), and the theoretical premises of the planning approach would have led to the low emphasis on social statistics which was a common deficiency of many development plans. Integration of social indicators into the planning process is now planned on two fronts. Firstly, macro level social indicators will be introduced to the planning process and then MDG indicators will follow suit. Population trends, income distribution, poverty, employment categories, women's wage labour share in the non-agricultural sector, health, mortality, morbidity, education, enrollment and literacy are the major indicators integrated into the planning process. The socio economic profile of the nation analysed the social development indicators and the targets established for medium term were integrated into the planning process along with the MDGs.

Environment has been integrated in to sustainable development, primarily through projects initiated by development partners, NGOs and also the line ministries and state governments. The report "Republic of Palau – National Assessment for the Barbados Programme of Action + 10 Review" (NABPR) prepared by Ministry of Resources and Development in partnership with other Ministries, Agencies and Organizations –January 2005, is a well articulated review on environment tissues. A varied number of stakeholders participated in the process and the report was prepared by Palauans themselves. It was a successful attempt at introducing consultation and participation of stakeholders to the process.

Thus aligning the economic, environment and social planning targets to the budget allocations and monitoring their implementation completes the new planning framework of Palau.

CHAPTER 5: ALIGNING OF MEDIUM TERM DEVELOPMENT STRATEGIES AND MDG WITH ANNUAL BUDGET ALLOCATIONS-

Consequently SEDPF will develop a current best practice framework for the integration of planning targets and Millennium Developments Goals (MDG) into the budgeting process. Thus a Medium Term Expenditure Framework (MTEF) will be designed and procedures developed to implement it through the Ministry of Finance (MOF)..

MTEF is the budget allocation mechanism for prioritised and well costed programmes covering the current budget year and the next two years. There are some prerequisites for the successful implementation of the MTEF. MTEF is a lengthy process that needs not only capacity building but also attitudinal changes. Macroeconomic framework and the resource envelope, major building blocks of the MTEF, are the other requirements.

The resource envelope indicates the resource availability. The planners/budget analysts need to study the NMDP and MTDS recommendations and strategies, and the MDG interventions, determine the prioritised sectors, and then decide on the allocation of resources to each economic sector. This allocation should be a realistic and hard decision made at a high level, subject only to minimum revisions, and supported by the political process.

The line ministries could select the strategies and activities from the MSTD, or from their strategic plans such as Integrated Project Plans (IPP) and MTDS sector papers, for inclusion in their sectoral plans and budgets. They need to prioritize the strategies and activities, based on the guidelines in their strategic plans, or in MTDS sectoral studies. This gives the line ministries the advantage of a firm allocation of resources for the coming budget year, and indicatively for another two years. This three year fiscal framework gives them more flexibility in determining their planning targets. In the same manner the MDG can be integrated into the budget process by the line ministries under their budget allocation. This system allows stakeholders, NGOs and task force members more opportunities to advocate and influence line ministries bureaus and agencies to include MDGs that had not been considered. This would be possible when the

MTEF is in full operation. The MTEF differs from formal budgeting in that the activities have to be costed. As costing of MDGs is an integral part of the MDG process, it will have an advantage over other items.

Discussions with high officials in the MOF led to accepting the concept of MTEF as the budgeting process from now onwards. But full implementation will take some time. Hence, the guidelines for implementing a comprehensive MTEF system, in nontechnical plain language, was prepared and made available.

The process to introduce the MTEF will not follow the ideal path. There will be no sectoral and ministry budget allocations, as envisaged. Practically, implementation of the MTEF will come as a gradual transformation of the existing system. But improvements will be made in “budget call issue” to facilitate the conversion of the input functional budget to a MTEF. The decision made to conduct budget workshops for line ministries, bureaus and agencies is an important step to create a platform to introduce MTEF to the LM level institutions. The aim is to guide them on prioritizing the strategies, taken from relevant plans, to achieve their medium term goals for sustainable development, and include them as proposals for the budget year and the next two years. The MDG coordinator should take the lead role in organizing budget workshops and extending it to the sub national level (state government level). .

The existing budget call issue is a three page document that provides a broad framework, but does not give concrete guidelines on selecting policy relevant strategies. Nor does MOF have a well defined methodology to evaluate the proposals. It has no checklist and depends on the vast knowledge and experience of the chief planner/budget officer. The budget call instructions also discourage initiatives to introduce new investment projects by advising that the budget allocation requested for the coming year should not exceed the previous year’s allocation. It calls for new requests to prove their importance but provides no guidelines and indicators to prove importance. The budget worksheets attached to budget call requests details at a highly disaggregated level but the information requested are for the inputs but it is not necessary to indicate the outputs. Although it is not likely that a pro MTEF budget sheet will be used immediately, a specimen worksheet will be made available for use when the process is progressing well. The MDG will also be introduced to the budget call.

Lastly, in the final budget allocation the Executive has the power to reposition funds within limits. It is, therefore, vital to take steps to reinvigorate the NSDS process, which had political approval, and include the MTDS, MTEF and MDG as its elements, and submit the NSDS to the new administration. It is important to educate the politicians and decision-making level officers about the concepts of these phenomena and raise awareness of all who are involved.

CHAPTER 6: MONITORING OF PLANNING TARGETS AND MDG ACHIEVEMENTS - Monitoring is a continuous function that uses the systematic collection of data on specified indicators, to provide information to management. However, at present there is no system in place to monitor the outcomes and performance. The report submitted to MOF, by each agency, is not an instrument to monitor progress. Although some data gathering across the institutions takes place, the data is mainly for statistical office records, not for monitoring.

With the inclusion of MDGs, monitoring has to expand to trail changes in key poverty indicators. However, the challenges are, what to monitor and how to monitor. For instance, there are input indicators, output indicators, outcome indicators and the final indicator. Process monitoring is the monitoring of intermediate indicators at different stages of the process. Process monitoring has the advantage of indicating whether a country is moving towards achieving MDGs or not. If the country is not on the correct course then early corrective measures can be taken before it is too late.

Special institutional arrangements are required to coordinate monitoring systems. Against this backdrop, the project has succeeded in getting a key monitoring position established in the MOF. To establish a participatory, transparent and democratic monitoring process the MDG task force/working group will be entrusted with specific responsibilities.

For a transparent monitoring system there must be reliable, valid, comparable as well as cost effective and useful indicators. But it may not be possible to measure the best featured indicator due to difficulties of data collection. Therefore the participation of sub national government levels is considered the best option so that it can go with social data collection and capacity building at the OPS. These actions will ensure that government and other stakeholders have a good understanding of the nature and distribution of poverty, in all its dimensions, and are able to monitor changes in the level and incidence of poverty and develop or improve policy interventions.

The detailed reporting system has been developed with relevant formats, including indicators, data sources and requirements, and the persons responsible for reporting. The formats developed have been filled with information for demonstration purposes. At the same time a format for submission of projects has been attached and it is highly recommended to develop it further through workshops. This is the best method for selection of projects from plans, and its credibility can be raised by engaging the people to develop it.

Capacity development cannot be limited to the government sector but should encompass all the sectors including private sector, NGOs and civil society. There is a possibility of developing private sector capacity to facilitate poverty reduction. Likewise, capacity of NGOs and civil society can be developed to monitor the progress of MDG achievements. However, the complexities arising from introducing the MTEF needs high level skills. To meet the demands for costing MDG interventions and collection of social statistics to monitor MDG achievements, and for other planning tasks, the MOF related institutions need special attention. A specific capacity building programme, submitted to the MOF, has been endorsed and the assistance of development partners is required for its implementation.

Training in the area of macroeconomic framework, estimating of GDP compilation in production approach, and raising the data analytical skills in the OPS are absolutely essential. Compilation of social statistics, training the LM officers to collect and analyse data and assigning data collection responsibility to sub national level institutes (state government) are major capacity building tasks that encompass country wide participation.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS- A single agency or discipline cannot strengthen the NSDS to achieve national development goals (NDG) and MDGs. It is important to address the whole spectrum of issues in a coordinated and sequential manner for cost effective outcomes. The needs and aspirations of the people should be addressed by adopting participatory processes, and explicitly building links between the national development plan, prioritized sector and cross sectoral strategies, and annual budget allocation. The integrated decision-making processes should be supported by the institutional setting, data and capacity.

It is not easy for the country to take these strategic steps in a participatory and democratic manner, by itself. This apparent reluctance or unwillingness was actually due to the nature of the existing institutional and bureaucratic arrangements where there is no room for an upbeat team work culture. Therefore, attempts were made to improve the system by integrating the vital functions to the existing system, and enhancing the procedures by adding the NSDS elements to the existing processes.

In summary, methodology has been developed for Palau to use ideal and best practice methods for integrating social statistics into national development plans, and inclusion of planning targets (including MDG) into budget allocation and monitoring of indicators. Considering the country situation the methodology of implementation will take different forms and therefore, some options have been discussed and even put into practice already.

Finally, the following action plans, both long term and short term, were recommended to ensure that a NSDS process will be strengthened to achieve the said objectives of the project.

ACTIONS TO BE TAKEN

Political

- 1. Advocacy for the new administration's commitment to establish NSDS to achieve sustainable development. NSDS to include MTDS, MTEF and MDG, rather than promoting each one separately.*
- 2. Government prepares a realistic time frame to deliver NSDS and establish a NSDS secretariat with members from new Government, Council of Chiefs, private sector, NGOs and civil society, representing economic, social and environment interests and restructure Project Steering Committee (PSC) of MTDS and SC of MTEF.*
- 3. Request donor assistance for wider capacity building (for politicians and bureaucrats) to strengthen NSDS*

Policy

- 4. Take a ministry level decision to train officers of line ministries, bureaus and agencies in MTEF implementation.*
- 5. Take a policy decision to implement statistical act and start conducting enterprise surveys to collect data directly and subsequently develop analytical skills of the staff.*
- 6. Take a policy decision to fill the new vacant position in OPS to strengthen the planning process as soon as possible.*

Technical Assistance

- 7. MOF and key line ministry staff to be trained on MTEF to serve as trainers.*
- 8. Macroeconomic staff to be trained in the preparation of a credible macroeconomic framework.*
- 9. Raise monitoring staff skills in log frame analysis. Train one or two key persons to develop Logical Framework and identify acridities, outputs, outcomes etc and use them as trainers line ministry level*
- 10. MDG costing/need assessment training for the MDG working group*
- 11 Developemnt of concept format for new projects through workshops*
- 12. Redevelop the formats available in this document to monitor planning targets and MDG indicators collectively.*

Inclusiveness

- 13. Planning office to prepare a detailed strategy to include state governments in planning, monitoring and economic and social data collection processes and submit a proposal to the development partners for funding.*
- 14. Steps to be taken to bring private sector and NGOs participation to monitoring process as proposed in the paper.*
- 15. Give more emphasis to develop the participatory planning process while continuing the consultation process which has some root in the system.*

SOCIAL AND ECONOMIC DEVELOPMENT PLANNING FRAMEWORK FOR NATIONAL SUSTAINABLE DEVELOPMENT STRATEGY

INTRODUCTION

United Nations Development Programme (UNDP), committed to promote and perceive a socially equitable and environmentally sustainable economic development path for the Republic of Palau, recognizes that the Government of Palau, past and present, has shown its commitment to long-term sustainable development, based on transparent and accountable governance.

The economic and social indicators for Palau reflect the current relatively high standard of living, compared to many other Pacific island countries. However, the UNDP sees the challenge for Palau to maintain these standards in the face of declining US Compact assistance, the vulnerable nature of small islands, threats to the environment, gradually increasing population, and global developments which impact on the economy through their follow-on effects such as on tourism. The ill effect of recent increases in food and oil prices on living standards startled the vulnerable groups and showed the risk of being highly dependent on imports for the main consumer products. Although there is some ease in price escalation just at the moment the world recession is looming over the economy.

In these circumstances, to ensure improvements in the lives of the people and halt the trend towards increasing hardship and impoverishment, the country should carefully track its social, economic and environmental development trends, and ensure appropriate policies, plans and programmes to enhance human development.

Against this backdrop, the UNDP is in the process of implementing the project Capacity Development for National Planning and Monitoring Programme (CDNPMP), designed to achieve sustained and equitable human development in Palau, through efficient and effective national planning and resource allocation based on measurable statistics and indicators.

It has identified that following issues are some concerns that should be addressed in order to achieve the sustainable development through enhanced national planning and capacity building.

- There is no lack of plans and strategies but many of these plans need updating and re-visiting based on socio-economic indicators reflecting the current status of the national and its people.
- There is not enough done to coordinate the implementation of the plans by bringing together the various agencies responsible, to discuss the plans for coordinated action. The agencies of government seem to be acting in a compartmentalized fashion, focusing on their particular mandates, with insufficient interaction, sharing of information, networking, planning and implementation of plans.
- There is apparently a lot of statistical information that is generated by various government, NGO and private sector agencies. These include information from the census, surveys undertaken by NGOs and analysis conducted by international agencies including the UN agencies. The problem, however, is that these statistics are seldom analysed, reported on in a format that can be easily comprehended by decision makers, discussed in relevant public forums, or disseminated for general consumption;
- Statistic and indicators are not integrated into plans and there are no targets or other measurable goals set for national development especially in the social sectors. Thus, there is either insufficient, ineffective or no monitoring of policies and action plans.

- While there are attempts to ensure contribution and participation by the community, NGO groups and the private sector in the policies and plans formulation process of the government, there is room for more effective and regular mechanism for participatory planning and support for policy formulation. Government representatives participate in regional and international forums on development issues but provide little feedback to other stakeholders, which may be possible through such participatory forums.
- There is a wish to develop, but currently only an embryonic and insufficient capacity, within the Bureau for Budget and Planning to be able to utilise statistics for more effective, efficient and monitorable planning.
- The budget process and budget allocation are influenced by a number of factors, procedures and processes, but from available information, there is no systematic mechanism to link the budget to specific national development plans and national development goals that are or can be monitored and reported upon.

Against this back drop, the overall outcome of the project would be sustained and equitable human development in Palau through efficient and effective national planning and resource allocation based on measurable statistics and indicators. These outcomes would be supported by outputs and activities that will build national capacities to analyse and utilise data for planning, mobilise the support of key stakeholders of national development, and demonstrate transparent, accountable, and participatory governance. Thus this document is laying foundation to strengthen a National Sustainable Development Strategy (NSDS) for Palau.

Therefore the major objectives of this document, the Socio Economic Planning Framework (SEDPF) for a National Sustainable Development Strategy, are manifolds.

1. Review the national development plans and available economic and social data and integrate them into the planning process.
2. Integrating national planning process and national budget allocation process while improving the methodology of targeting national development goals as well as Millennium Development Goals (MDG) through budget allocation. .
3. Review existing monitoring mechanisms for the implementation of the national development plans and recommend practical steps for establishing and finalizing monitoring mechanisms using appropriate indicators

Besides, proposed framework will bring the planning effort within an interconnected framework. Therefore clearly, this document is not an effort in isolation that ignores the work done before. In the main, it comes within the framework of Palau National Master Development Plan (NMDP). All the related documents that followed the NMDP such as the Management Action Plan (MAP), Public Sector Investment Programme (PSIP) and Promotion of Economic Development in Republic of Palau Plan (PEDRP). The recommendations stemming from Medium Term Development Strategy (MTDS) will be incorporated into the framework with clear vision to achieve the MDG as an integral part of the NSDS of Palau. It is timely to integrate Medium Term Expenditure Framework (MTEF) to planning process so the NSDS will become more integrative with other development efforts. .

Against this back drop, the Chapter 1 is dedicated to review the economic performances of the Republic of Palau (ROP), using the economic data so far available. Major data gaps and weaknesses will be attended and proposals will be made to correct them.

Chapter 2 will review the planning documents developed for the Republic. A special attention will be given to the Medium Term Development Strategy (MTDS) and National Master Development Plan -2020

(NMDP). Based on that, the course of action that should be taken to improve the planning process under current situation will be discussed and determined.

Chapter 3 propose a new planning framework to achieve National Sustainable Development Strategy (NSDS) which encompasses the intergenerational development plan, social statistics, Millennium Development Goals (MDGs), MTEF process which integrate planning targets and budget allocation and monitoring. Chapter 4 is dedicated to analyse the socio economic profile of the nation and subsequently introduces the social statistics to planning.

Chapter 5 is the detailed methodology for MTEF process and Chapter 6 will design a methodology for monitoring the achievement of the targets. In this document the institutional structural changes required have been explained and also a more consultative approach will be suggested for monitoring. . The present performance report system will be revived and the issue of capacity development will be discussed. Finally Chapter 7 is dedicated for conclusion and recommendations/future actions to be taken.

CHAPTER 1 COUNTRY SETTINGS - ANALYSIS OF ECONOMIC PERFORMANCES OF PALAU FOR A SUSTAINABLE DEVELOPMENT

RECENT TRENDS AND DEVELOPMENT (2002-2007)

1.1 The future development scenario becomes viable if the potential acquired during the process of economic development in terms of assets and human capital is strong and relevant. The performances of key economic variables are major indicators of resource availability as well as resource use. The socio economic profile manifests how the benefits of growth has been accrued to the people and in turn how people have formed the necessary and skilled human capital for emerging and existing industries to increase output and reached new growth targets. This chapter will be dealt with these two aspects.

I. REAL SECTOR GROWTH

1.2 Real economic growth rate in Palau recorded an average of 2 percent per annum over the 5-year period ending 2007. This performance has raised the per capita income, at current prices, to \$ 9,200 in 2007 which is higher than most of her Pacific neighbours. The inflow of Compact assistance amounting to about \$225 million over the last 14 years has contributed substantially to a high living standard and economic development in the country. The key macro economic variables of the economy during the period under review are presented in Table 1.1. However, Office of Planning and Statistics (OPS), does not compile all the important macroeconomic variables continuously.

TABLE 1.1 KEY MACROECONOMIC VARIABLES (2003-2007) *

	2002	2003	2004	2005	2006	2007	02-07
1. Real GDP Growth Rate % change	1.7	1.3	7.1	4.7	-2.7	-0.2	2.0
2. Population '000	19.4	19.6	19.8	19.9	20.2	20.1	
3. Investment/GDP %	45.5	43.1	47.1	41.8	43.0	32.2	42.1
4. Private investment/GDP (%)	NA						
5. Budget Deficit/GDP	-25.0	-24.0	-20.0	-16.2	-19.9	-20.5	-20.5
6. National Savings/GDP	NA						
7. B.O.P. cur AC/GDP	-22.1	-23.1	-17.8	-27.6	-8.4	-19.0	
8. Export of Goods & Services % GDP	60.0	70.2	69.9	61.5	55.1	51.7	61.0
9. Consumer price index: Increase	0.4	0.9	5.0	3.9	4.5	3.2	3.2

Source: Office of Planning and Statistics

*The GDP has been changed in an unprecedented manner and these numbers may be not relevant when they are published. Although the figures are not firm, what is important is the recognition of these variables as macroeconomic planning targets of the economy.

1.3 According to the Office of Planning and Statistics (OPS), the unemployment rate has declined to 2.4 percent in 2007. It is according to the official definition but HIES has different estimates for the unemployment. Neither domestic nor national savings data were available. The current account budget deficit (as a percentage of GDP), has decreased from 25 percent in 2005 to 20 percent in 2007. With the grant component the current account budget deficit fell to 5 percent in 2007. Unexpected annual variations in the balance of payments current account were evident during the period under review, and averaged 19 percent of GDP. The value of exports of goods and services has increased but chiefly on account of export of services. Export of goods and services as an average annual share of GDP is around 61 percent during the five-year period ending in 2007.

TABLE 1.2 CONTRIBUTION TO GDP AND GDP GROWTH BY MAJOR SECTORS IN CONSTANT PRICES

TABLE 1.2A CONTRIBUTION TO GDP

Contribution to GDP by Major sectors							
Industry Sectors	2002	2003	2004	2005	2006	2007	02-07
Agriculture and Fishing	3.0%	0.6%	3.5%	5.5%	7.1%	5.9%	4.5%
Mining Quarrying Manufacturing							
Electricity & gas	5.4%	4.8%	2.9%	2.9%	3.4%	3.5%	3.5%
Construction	10.6%	13.0%	13.8%	13.6%	13.6%	10.1%	12.8%
Services	80.1%	77.8%	78.4%	77.4%	75.2%	77.2%	77.2%

Source: Office of Planning and Statistics

1.4 Major sectors contributing to GDP are, construction, trade, hotel and restaurant and public administration. It is the service sector that contributes more than 75% to GDP. The contribution of the good producing sectors other than the construction to GDP is only 8%. The construction sector which has driven the economy two years back is winding its large projects but still contributes around 10% as a single sector.

TABLE 1.2B GDP GROWTH RATES

GDP Growth by Major Sectors							
Industry Sectors	2002	2003	2004	2005	2006	2007	02-07
Agriculture and Fishing		8.2%	17.9%	63.8%	24.7%	-16.9%	16.7%
Mining Quarrying Manufacturing							
Electricity & gas		-38.9%	6.9%	23.3%	0.9%	1.9%	-3.7%
Construction		7.4%	5.9%	4.9%	-28.2%	-32.4%	-10.4%
Services		2.0%	5.8%	1.7%	-0.1%	5.3%	2.9%
Real GDP growth		1.3%	7.1%	4.7%	-2.7%	-0.2%	2.0%

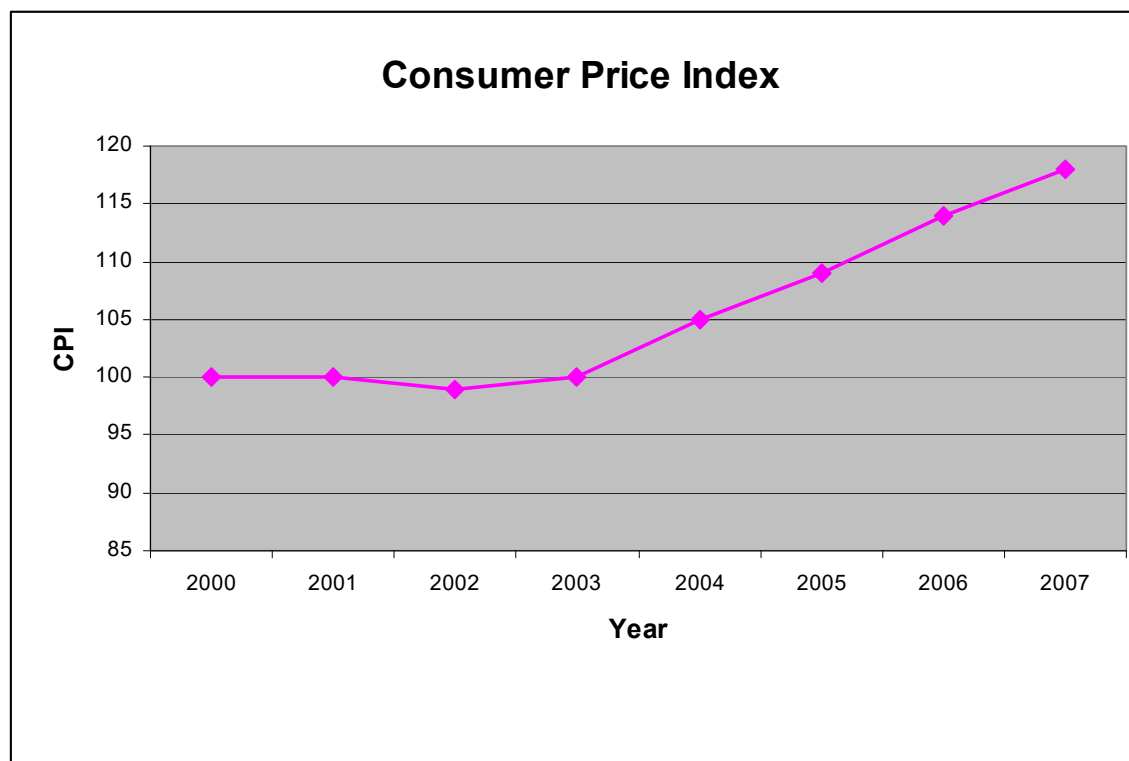
Source: Office of Planning and Statistics

1.5 The service sector which contributes more than 75% to GDP grew very moderately during the last five period. Construction growth has fallen dramatically. The hotel and restaurant sector, strongly driven by the inflow of tourists, recorded a growth around 11 percent while contributing 10 percent to the GDP during the period. Negative growth in the hotel and restaurant sector during 2006 and 2007 is of great concern. Please see annex 1 & 2 for more details. The contribution from tourism, estimated at 60 percent of the GDP, has a ripple effect over the whole economy. Trade sector while contributing 18 percent to GDP expanded at a rate of 1.2 percent. There is a surge in the agriculture sector in some years, but its contribution to GDP remains very low. The government administration, as usual, is the largest single contributor to the economy. Although policy makers took numerous steps to curtail the expansion of this sector, during the period under review, the results are not impressive. The fishery sector which had played a dominant role previously failed to achieve any remarkable development in between years but grew rapidly in 2007 at a rate of 18 percent. Overall the real GDP grew by 2 percent during the period.

II. PRICE AND INFLATION

1.6 The domestic price levels of consumer items have been largely influenced by the oil prices during this period. Increase in food prices is the other major factor that contributed to send annual inflation above 3 percent during the last three years. Over the years the price levels did not go out of control, and the economy was recognized as a stable economy in the region. However, the interest rates applicable to deposits and lending rates were mismatched and equally discouraged both local savings and investments. In 2007, the lending rate went up to as much as 10 percent, while interest rate for savings deposits was well below the lending rate at around 2 percent per annum.

FIGURE 1.1 THE INFLATION.



Source: Office of Planning and Statistics

III. BALANCE OF PAYMENT

1.7 Neither the size nor the composition of exports shows any appreciable change during the last five years. The export of merchandise goods, in nominal terms, fell by 13 percent during the period. More importantly volatile behaviour of export create some suspicious about the quality of data. The weak performance on the export front indicates that the domestic production base is not strong enough to support a consistent growth in the volume and structure of exports and raise its contribution to the economy. There was no diversification in the export portfolio.

1.8 Imports also fell marginally during the period. The imports mainly consisted of food and petroleum products. The volume of crude oil imports increased at the rate of 12 percent annually and in the context of the current high oil price scenario poses a considerable threat to the economy. The import of capital goods and intermediate goods accounted for 20 percent and 9 percent of GDP respectively. Clearly, the country's import dependence is exceedingly high.

1.9 Consequently, the merchandise trade balance has registered a substantial deficit equivalent to 40 percent of GDP. The large trade deficit is offset by the service sector surplus which is of similar magnitude. Travel credit, defined as foreign tourists' expenditure within the territory of the host country, is the largest item of receipts in the service account. It grew at 12 percent per annum and is around 25 percent of GDP. The outflow of private transfer is almost equal to the official grant, and has increased over the years due to the presence of a large contingent of guest workers in the country. As a result, the current account deficit of the country has increased to high levels during the period. The average current account deficit during the period under review was around 18 percent of GDP excluding official grants.

1.10 The capital account deficit is mostly balanced almost balanced by the capital grants received from new donors, the inflow of US compact, and other funds. Although the budgetary capital grant and the non budgetary flows grew, Foreign Direct Investment (FDI) was not up to expectations. FDI which stood at \$18 million in 2005 fell to around \$1 million in the course of two years. Historically FDI played an important role in the economy until it took a downturn in recent years.

IV. SAVING AND INVESTMENT

a. INVESTMENT

1.11 Macro level savings and investment data were not readily available. Hence, public investment had to be estimated on the basis of information gathered from the ministries and from agencies executing projects and programmes. The overall investments in the country, by way of public investment (Central Government plus State Own Enterprise (SOE) investment) and the private sector investment, should have increased at a steady level to maintain the 5.5 percent rate of growth in GDP, experienced during the period reviewed. Public investment is around 13 percent of GDP over the five year period.

1.12 At the time Palau embarked on its development strategy domestic funds were apparently inadequate to mobilize the large scale private sector investment needed for the country to take off. Therefore, Foreign Direct Investment (FDI) played a dominant role with USA, Japan, Taiwan and Korea being the major players concentrating their investments on construction, tourist industry, and hotel and resort development. According to Foreign Investment Bureau, FIB sources, foreign capital investments amounted to \$ 50 million over the last five year period, and generated a significant income in these sectors.

1.13 Domestic investors were actively involved in running successful businesses. The local private construction industry had a robust growth. According to information gathered from the Chamber of Commerce, leaders in the building industry and National Development Bank (NDB) sources, domestic investment realized during the period was estimated as \$ 15 million. The loan portfolios of the banks, including the National Development Bank (NDB), were examined and showed that loans worth of \$ 20 million have been granted for domestic private investment during the period concerned. The total investment was estimated to be around 16 percent of GDP.

b. SAVINGS

1.14 Although the economy is not large enough to mobilize domestic savings to fund large investment projects, the Household Income and Expenditure Survey (HIES) estimates a positive savings level for the households. The operation surplus of the corporate sector was also substantial according to the information at the company office of Attorney General Department. As investment is foreign fund driven and the public sector saving is known, the domestic saving could be estimated. Domestic saving for the period was therefore around 21 percent of GDP while national saving was 6 percent of GDP due to high net income out flow.

V PUBLIC FINANCE

1.15 The narrow revenue base dominates the fiscal front. The Business Gross Revenue Tax, a type of business turnover tax, was the dominant source of income. Since it charged over (how it happened is government charges 3% of total earnings as tax)the gross income at times, it was regarded as an anti business tax. Its share of the total revenue is 34 percent. The import tax and the Hotel Occupancy Tax are the other large contributors. Total revenue increased by 3 percent during the period under review and was 21 percent of GDP.

1.16 A conscious effort has been made, during the period under review, to improve the management of public finances in Palau. Basically, this involved attempts to reduce the overall budget deficit by increasing the tax revenue and cutting back the recurrent expenditure. As for the reduction in recurrent expenditure, the votes for purchase of goods and services and for operation and maintenance expenditure had to bear the brunt of the cuts. This of course may be expected to cause significant adverse impacts. The maintenance of existing capital assets i.e. roads, building and equipment suffered due to a shortage of funds. Poor maintenance will no doubt reduce the productive or serviceable life of the capital assets. Overall, the current expenditure slowed down at the rate of 1 percent during the period under review and reached 40 percent of GDP at the end. By 2007 the overall budget deficit had been brought down to 5 percent of GDP and the current account deficit to 15 percent of GDP.

CHAPTER 2

PLANNING INITIATIVES IN PALAU - PAST AND PRESENT

2.1 Palau had a luxury of having several economic development plans. When country gained independence in 1994 it had a plan called Economic Development Plan 1994-1999, and then after independence it got the most comprehensive development plan called the Palau 2020 National Mater Development Plan. It may be one of the comprehensive development plans prepared for a country in the Pacific. Moreover it has been approved by the congress and government is legally responsible to take it as a document guiding the path of the development of the country. Subsequently number of plans have been developed within the NMDP framework to facilitate the execution of the master plan and the just completed another study which produced a Medium Term Development Strategy (MTDS).

2.2 However, as emphasized in the Capacity Development for National Planning and Monitoring Programme (CDNPMP) and stated below, regarding the issues to be addressed regarding the planning process is still valid.

- “There is no lack of plans and strategies but many of these plans need updating and re-visiting based on socio-economic indicators reflecting the current status of the national and its people.”
- “There is not enough done to coordinate the implementation of the plans by bringing together the various agencies responsible, to discuss the plans for coordinated action. The agencies of government seem to be acting in a compartmentalized fashion, focusing on their particular mandates, with insufficient interaction, sharing of information, networking, planning and implementation of plans.”

2.3 These attempts have been briefly discussed in sequence to get necessary policy information in formulating this medium term planning framework which will be designed to align the planning targets and MDG with the budgetary allocation. More specifically it is important to find out whether these plans have any measurable targets to achieve.

I. ECONOMIC DEVELOPMENT PLAN (EDP) 1994-1999.

2.4 The Economic Development Plan, the first plan developed for Palau is a response to an obligatory requirement and was directly linked to the signing of Compact Agreement of Free Association of USA. It is mentioned that the Economic Development Plan (EDP) was prepared in 1994, pursuant to Section 231 of the Compact of Free Association (COFA) which established a 15-year political relationship between the United States of America and the Republic of Palau.

2.5 Nevertheless it has been prepared within a proper planning framework but has not fully integrated economic or social data mainly due to the non availability of well developed infrastructure for data collection and compiling just before the independence. The broad objectives of the EDP were to:

- Lay the foundations for achieving economic self-reliance based on a free and vibrant market economy;
- Develop Palau’s human, natural and technological resources in a framework of environmental and cultural protection; and
- Achieve measurable and certain progress toward balanced development of the various states.

The policies and strategies to help implement the development plan were defined as follows:

- Develop a self-reliant production-based market economy;
- Reduce and streamline the public sector;
- Develop natural resources to generate income;
- Develop human resources;
- Balance regional economic integration and development; and
- Conserve environmental and cultural assets.

2.6 Achieving of economic self-reliance based on a market economy and environmental and cultural protections have profound impact on the policies of the government and plans developed after EDP. But the general purpose of the plan is a requirement from the USA Government and is also connected to Compact Section 212(b) funding.

II. PALAU NATIONAL MASTER DEVELOPMENT PLAN (NMDP): VISION, GOALS AND STRATEGIES.

2.7 National Master Development Plan of Palau (NMDP), whose scope of work has been jointly agreed by the Government of Palau and the UNDP, is a broad based comprehensive development plan, and is well accepted by all interested parties as a road map for Palau up to 2020 and most importantly it has been adopted by the Olbiil Era Kelulau as the nation’s official development plan. It has well articulated policies, strategies and a set of goals and programme outputs to be realized.

2.8 The vision statement of the NMDP, which has a broad consensus, is “To substantially enhance the quality of life of Palauans and future generations of Palauans”. The key development goals necessary to achieve the vision are:

- Increase real economic growth per capita on a sustained basis
- Share the benefit of economic growth on an equitable basis
- Enrich and enhance confidence in the Palauan culture, raise national conscience, and protect the natural environment of Palau.

2.9 As mentioned under the implementation of the plan, to meet the vision stated above Palau has to

- Improve its project selection and evaluation capabilities and all the decision making process concerned with capital expenditure allocation.
- Implement structural adjustments which improve the efficiency of resource use throughout the entire economy.

2.10 The broad aim of the NMDP is to put in place the institutions and policies for Palau to achieve economic sustainability and enable it to pay for the maintenance of its environment and culture. A shift in economic activity from public sector to the private sector to raise productivity and resource use efficiency and the strengthening of government institutions to improve coordination of the decision making process are the major aspirations of the NMDP.

2.11 This is very clearly spelled out in the NMDP, when it refers to Economic Development Plan (EDP), prepared by the Government of Palau in order to conclude the Free Compact Association (FCA) with the US Government, prior to NMDP. “ While the main focus of the EDP is on the development of a five year capital spending programme the focus of the Master Plan is much broader and encompassing . It is less concerned about the allocation of funds to specific capital projects than on the framework and policies for sustained economic and social development which project evaluation is but one part. In this respect, institutional building is a strong element of the master plan (NMDP).” In spite of that NMDP had to incorporate specific proposals in the EDP to the NMDP on the request of the Government of Palau.

2.12 Against this backdrop, a large set of development strategies, encompassing virtually all the sectors of the economy, have been formulated, and detailed sectoral studies have been included in the NMDP. Each sectoral study of the PNMPD has a number of programme outputs under each strategy, which are specific and targeted. However, time has passed by without attaining some critical goals. This could be ascribed to the non availability of a workable time table and defined and prioritised medium term goals.

2.13 Some advance the view that implementing the plan, as originally scheduled, is a challenging task as most of the strategies are long-term in nature and are also in conflict with the immediate expectations and interests of some Palauans. This suggests that lack of consensus has stalled much of the reform agenda. However, there is a wide consensus in the international community as to the soundness of the NMDP strategies.

2.14 In addition to the above institutional impediments, the non prioritisation of programme outputs, lack of concrete action plans and limited numeric targets within a consistency framework are downsides that call for a concerted effort in translating NMDP to a workable medium term development plan.

III. THE STUDY FOR PROMOTION OF ECONOMIC DEVELOPMENT IN THE REPUBLIC OF PALAU (PEDP) 2000-2005

2.15 Preparing workable plans for the NMDP was not unusual. As most of the Compact capital funding has been expended or obligated on projects identified in the EDP and after its five term it was decided to undertake the revision of the NMDP in order to insure that Palau’s development efforts remained focused. Therefore “The Study for Promotion of Economic Development in the Republic of Palau” (PEDP) is a comprehensive review and revision of the NMDP.

IV. MANAGEMENT ACTION PLAN (MAP)

2.16 There are several other plans developed after the NMDP. Management Action Plan (MAP) and Public Sector Investment Programme (PSIP) are two successive attempts to implement the NMDP incorporating all the other planning efforts.

2.17 The Management Action Plan presented by the President indicated “Planning Documents consulted included the following major planning documents: The Palau 2020 National Master Development Plan; The 1995-1999 Economic Development Plan (The EDP), the 2000 JICA Final Report (‘The Study for Promotion of Economic Development in the Republic of Palau’) and the Palau National Committee on Population and Children (CoPopChi) Report on Sustainable Human Development. Other program specific planning documents were also consulted and integrated into the Report”

2.18 Further MAP has correctly identified the status of the implementation of NMDP. “The Republic has a very comprehensive National Master Development Plan that should be integrated into the planning process of all governmental agencies. The Transition Committee found that this document has been very unevenly applied by different agencies. While some governmental entities have implemented the Plan’s major recommendations, other entities have not undertaken any of the recommended planning actions. The Committee therefore recommends that the strategies of the National Master Development Plan and other sector specific strategic plans be incorporated into the annual budget process.”

2.19 However, MAP is neither a break down of NMDP nor another mini plan. It is a guiding document for ministries recommending them activities to be undertaken after analyzing the existing situation. At the same time MAP recognizes the weaknesses inherited in the planning process by exclusively stating this statement. “While the National Planning Committee exists through Executive Order No. 22, it has yet to organize. It is therefore recommended that this body be reinvigorated and strengthened in order to provide a more cohesive planning structure within the Executive Branch. It is also recommended that this Committee be charged with coordinating implementation of the National Master Development Plan and other sector specific strategic plans.”(MAP pg...)

V. PUBLIC SECTOR INVESTMENT PROGRAMME(PSIP)

2.20 The Public Sector Investment Programme (PSIP) established Palau’s public sector infrastructure priorities for the period of 2003 -2007. The Program is in line with, and incorporates, prior planning infrastructure documents, including the ‘Palau National Master Development Plan’ (“NMDP”) and also recommendations from the ‘Study for Promotion of Economic Development in the Republic of Palau’ (“JICA Study”) and the Management Action Plan (“MAP”). ’

2.21 Both MAP and PSIP are more significant in terms of implementation because there are some attempts taken to incorporate the recommendations made into the budget process. But, it is still fair to accept as mentioned in UNDP document that the budget process and budget allocation are influenced by a number of factors, procedures and processes and there is no systematic mechanism to link the budget to specific national development plans and national development goals that are or can be monitored and reported upon.

VI. MEDIUM TERM DEVELOPMENT STRATEGY (MTDS).

2.22 The recently concluded Facility for Economic and Infrastructure Management Project (FEIMP), executed by Asian Development Bank (ADB) technical assistance programme (2007/2008) produced a series of studies on sectoral issues and institutional reform areas. The Medium Term Development Strategy (MDTS), is a culmination of those sector and institution centered studies.

2.23 The FEIM comprises two components: (i) facilitate economic policy formulation and implementation for sustainable budget management (ii) develop an infrastructure development plan for affordable infrastructure development and ongoing infrastructure operations and management. It is clearly mentioned in the TOR of ADB.

Sustainable Economic Policy Formulation, is the key outcomes of the component I and the key outputs will be:

1. an updated National Master Development Plan;
2. enhanced economic policy formulation to achieve NMDP;
3. sector specific policy recommendations in agriculture, aquaculture, fisheries, labor market, human resource development, education and health to deliver National Master Development Plan objectives and
4. policy recommendations for increased Government revenue to meet ongoing financial demands and new objectives from the NMDP.

Infrastructure Development Plan, the key outcome of the component II and the plan will include :

1. assessment existing infrastructure stock and future infrastructure needs
2. policies on financing of infrastructure operation and maintenance costs and
3. policies to mainstream environmental protection in infrastructure sector.

The key outputs include an:

1. infrastructure needs assessment for NMDP objectives,
2. infrastructure maintenance program for existing and potential stock;
3. costed infrastructure maintenance plan;
4. alternative provider models for infrastructure maintenance

2.24 Nevertheless, the strategies of MTDS were put into public hearings and stakeholder consultations as well. MTDS is considered as the new plan of Palau, Overall NMDP as well as the MTDS regards the benefit of growth should be transferred to the people and MTDS has further addressed the issue of the vulnerability groups of the society. MTDS has not taken income distribution in a broader spectrum.

2.25 However, as mentioned in the MTDS under purpose and coverage of the MDTs.

Purpose: The purpose of the MTDS is to provide a credible, clearly focused, practical and action oriented strategy that the community as a whole identify with. The MTDS is not a detailed operational plan but rather a strategic plan that sets priorities and the details of key actions, responsibilities and timing over a 5 year period.

Coverage: The MTDS covers key policies, institutions and actions that should be the focus of the government to work towards the goal of sustainable national development over the next 5 years.

Therefore introducing MTDS as the new five year plan in many forums is quite confusing and public may not find what they expect from a economic development plan where the targets and the methodology achieving targets are clearly defined.

VII. CHALLENGE AHEAD.

2.25 Although, many of the strategies and policies of the NMDP are still current and valid, they were developed 14 years ago. Since then the socioeconomic context of the Palauans as well as the perceptions of the wider community of the world has undergone change. The importance of people oriented participatory planning as a necessary ingredient for the planning process is now widely accepted. The social dimension has become an integral part of development and UNDP plays a vital role in integrating Millennium Development Goals (MDG) into economy-wide planning. And the recent alarming increase of gas and food prices focused attention on the susceptibility of living standards, in a small import-dependent country, to external shocks. The notion of "Economic Self-reliance" is becoming more relevant and points to the need to revisit the development strategy in the present global context.

2.26 Palau is entering the final year of the compact agreement, in 2009. Compact assistance has granted approximately \$30 million per year and there is no clear indication about the scale of assistance envisaged after 2009. Palau also continues to receive grant assistance which came mostly from Japan and Taiwan. The growing uncertainty of future funding calls for a prudent management of resources, and better targeting of the available sources of foreign assistance. It is necessary to take the initiative in the identification and formulation of donor funded projects that guarantee the sustainable socioeconomic development of Palau

2.27 As the trickle down effect cannot be guaranteed and targeting social development at the planning stage is prudent both socially and politically. Therefore the UNDP decision to integrate social aspects with

targeted interventions is correct, timely and appropriate in view of aligning the planning framework within the National Sustainable Development Strategy (NSDS).

2.28 As Palau has fully pledged to achieve the Millennium Development Goals (MDG), the country's development priorities must be in tune with them. Since MDG initiative has some way to go this document has attempted to identify the areas of development intervention which will enable the country to realize these goals.

2.29 Undeniably all these attempts have assembled a wealth of information in terms of policies and strategies as well as priorities and action plans. Even so, the need for a consistent action plan, with socioeconomic indicators has not been met as yet.

VI. RISKS AND CONCERNS

2.30 The socioeconomic data collection processes have not matured to capture all the economic and social trends. Hence, a variety of information sources and methods of estimation have been used to derive a medium term scenario.

2.31 There is little evidence to show that the resourcefulness and commitment of the private sector and NGOs has been adequately utilized in implementing the development plans. Generally, a framework with credible targets and consistent policies should be in place as a prerequisite for them to move in and participate actively in the process.

2.32 Therefore, well defined numeric targets and cohesive sector and macro targets must be explicitly stated and readily available. Consistency between accounts must be maintained in a transparent manner and interrelation between social and economic variables must be fundamentally correct. But with the National Account data base being incomplete, lacking in savings, investment and other data, the task will be arduous and unmanageable to fully complete in a short time frame.

CHAPTER 3 : A PLANNING FRAMEWORK TO ACHIEVE SUSTAINABLE DEVELOPMENT OF PALAU

I. PRESENT STATUS OF NATIONAL SUSTAINABLE DEVELOPMENT STRATEGY (NSDS) OF PALAU.

3.1 This document, SEDPF, is an endeavor to strengthen the NSDS of Palau, by integrating necessary component of sustainable development into planning process. Therefore implementation phase of the NSDS and the commitments made by stakeholders to implement it will let know the present status of NSDS of Palau.

3.2 NSDS is not always mandatory to be represented by a document. As mentioned in the guidelines of Agenda 21 "It rather constitutes the adaptation of existing processes to comply with sustainable development principles. It is also an ongoing process and not a one-off 'project' for producing a document". Seemingly there is no document in Palau called NSDS. But the plans that have been already developed and are being developed have attempted to identify the economic, social and environment issues which are the main pillars of NSDS at different levels and giving different priorities to them..

3.3 Regarding the position of NSDS, in the final report of workshop on NSDS in Pacific Island Developing states May 2006 it is stated that " Although there is not yet a national sustainable development strategy, one of the key elements of the Presidential Management Action Plan was to integrate environmental planning into socio-economic development planning efforts in order to create cohesively integrated programmes for sustainable development.". In the same document Palau concludes that its NSDS in progress due to major steps taken in the direction of sustainable development path through more rigorous planning process which has been introduced through each stage of planning cycle.

3.4 In the national assessment report of Palau its recommend to the President to move the existing Office of Planning and Statistics from the Bureau of Finance and place it within the Office of the President. The office would be re-structured to be headed by an overall National Planner, assisted by Deputy National Planers for Economic, Social and Environmental Sectors. It is envisioned that the centralized Planning Office be upgraded, elevated and adapted to incorporate duties, functions and responsibilities for foreign grant aid coordination, execution and implementation and project funded programs from the UN agencies and other donor organizations.

3.5 The Ministry of states has represented several NSDS forums. However, the direct involvement of Ministry Finance or the National Planner in NSDS forums is not much visible. However, more reasonable assessment of the NSDS of Palau has to be taken considering the fact that NSDS is a process which is integrative, intergenerational, and participatory.. It is not a fixed plan but a continuous and cyclical process of participation, development, implementation, monitoring and revision with an articulated national vision, clear goals, objectives and targets. To achieve those objectives all stakeholders should be identified and engaged both in developing the strategy and in implementing it

3.6 Above all the report “Republic of Palau – National Assessment for the Barbados Programme of Action + 10 Review”(NABPR) Ministry of Resources and Development In Partnership with other Ministries, Agencies and Organizations –January 2005. is a well articulated review done on the premises of NSDS conceptual framework and with the participation of varied number of stakeholders and prepared by Palauan themselves. This report, is compiled by Ministry of Research and Development with other ministries, agencies and other organization. The document has many ingredient that could be adapted to meet the criteria of an NSDS. This is a document prepared with no foreign consultancy inputs and it proves the potential of Palauan to handle their affairs on their own if they determined to do so.

3.7 NSDS to be effective, it must be set within a time frame and align to the national budget and to the financing mechanism of budget. Thus it linked to the external assistance. Objectives and actions may have different projectiles both short or medium term but they must always be set within the framework of the long-term vision of sustainable development.

3.8 At the same time idea has been mooted for consolidation of all the previously mentioned Plans Studies and Reports into one composite sustainable development document. Further it has been emphasized to have a core working group whose primary task is to go over all the studies, plans and reports and to extract relevant social, economic and environmental issues on sustainable development and compile the same into a composite working NSDS document.

3.9 Issues identified earlier and the discussions on NSDS suggest that still there is a large space to enhance the NSDS process by integrating of social statistics to national development plans and aligning budget with the national development goals. A conceptual framework and a policy brief paper on NSDS, submitted to MOF are attached to annex I to see the logic behind it and relevance to this work.

II. INTERGENERATIONAL AND MEDIUM TERM ECONOMIC TARGETS

3.10 The main goal of the nation is to achieve sustainable development while preserving nature. Therefore, NMDP visualized a moderate growth path for the country, in keeping with the aspirations of the citizens at that time, who were not in favour of rapid growth and suspected that it would harm their life style and nature. Subsequently, NMDP proposed many institutional reforms and regulatory framework improvements to enable the realization of sustainable development. Some proposals have been implemented; others not taken up or not approved, as yet. Non adherence to, or non implementation of many recommendations of the NMDP, resulted in failing to accomplish even moderate growth. As the country approaches the final year of the compact agreement there is uncertainty about the future.

3.11 The NMDP envisaged a growth scenario to produce goods and services worth of US\$ 270 million at current prices in 2007, and an annual average real growth of 5 plus percent. The projected target of GDP in 2010 was US\$ 355 million. But country is far behind the targets of 2007 and is not on course to achieve the 2012 targets.

3.12 Based on this envisaged growth scenario, NMDP had projections to allocate the resources generated by the economic activities for private and public consumption amounting to US\$ 124 million and 52 million respectively (44 percent and 19 percent of GDP respectively), in 2007; and expected public investment of \$ 11 million and private investment of \$ 70.3 million.

3.13 NMDP had growth targets for all the other key macro variables such as consumption and investment from 1996 onwards and put them into a loosely knit framework with lesser social targets. The variables and targets are presented in Table 3.1. The document on Promotion of Economic Development (EDP) was prepared as an implementation plan of NMDP, in 2000. It too did not have any macro economic or social development targets, other than a GDP growth scenario. It is evident that these targets were derived mainly to formulate the budget targets rather than for overall economic development. It has highlighted quite a large number of directions but concrete targets for economic and social development are missing. The PSIP and MAP, two documents which followed the previous plans, were also oriented towards the public investment projects and programme implementation.

**Table 3.1
NMDP Growth Scenario**

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	95-00	00-05	05-10
Private consumption	49.4	72.5	78.3	84.6	91.4	98.7	106	115	124	134	145	156	60.95	106.3	156.04
Public Consumption	29.1	37	38.8	40.7	42.8	44.9	47.2	49.6	52	54.6	57.3	60.2	33.05	50.28	64.18
Private Investment	22.4	36.1	39.7	43.7	48	52.8	58.3	63.9	70.3	77.3	85.1	93.6	29.25	55.72	89.7
Public Investment	19.6	17.7	14.4	7.1	10.3	10.9	10.2	11.1	11	9.6	7.6	6.8	18.65	14.12	11.262
Final Demand	120.5	163.3	171.2	176.1	192.5	207.3	222	240	257	276	295	317	141.9	226.4	321.18
Export	51.9	78.5	85.5	93.2	101	110	120	131	143	156	171	185	65.2	117.6	181.18
Import	57.3	74	75	84.2	90.2	96.1	103	112	120	128	137	147	65.65	104.5	149.32
GDP	115.1	167.8	181.7	185.1	203.3	221.2	239	259	280	304	329	355	141.45	239.6	353.04
GDP growth													8%	7%	8%
Deflator 2%															
Real GDP															
Private consumption	43%	43%	43%	46%	45%	45%	44%	44%	44%	44%	44%	0.44	43%	44%	44%
Public Consumption	25%	22%	21%	22%	21%	20%	20%	19%	19%	18%	17%	0.17	23%	21%	18%
Private Investment	19%	22%	22%	24%	24%	24%	24%	25%	25%	25%	26%	0.26	21%	23%	25%
Public Investment	17%	11%	8%	4%	5%	5%	4%	4%	4%	3%	2%	0.02	13%	6%	3%
Final Demand	105%	97%	94%	95%	95%	94%	93%	93%	92%	91%	90%	0.89	100%	95%	91%
Export	45%	47%	47%	50%	50%	50%	50%	51%	51%	51%	52%	0.52	46%	49%	51%
Import	50%	44%	41%	45%	44%	43%	43%	43%	43%	42%	42%	0.41	46%	44%	42%

Source: National Master Development Plan

III ROLE OF THE MTDS –MEDIUM TERM DEVELOPMENT STRATEGY

3.14 MTDS is the final outcome of a year-long series of studies to frame Palau's future development strategy, on a new footing. It analyzes many aspects of the economy, reviews major sectors and makes recommendation and presents comprehensive sectoral documents, within the overall framework of NMDP. It has been widely discussed by many stakeholders. Participation of the private sector and the NGOs in developing the strategy was a success story. MTDS has identified issues to be resolved and the course of action needed to create an investment friendly environment. The actions recommended and the areas of priority are valuable inputs for a planning document. Therefore this planning initiative is a transformation of the major recommendations of the MTDS to an executable document, within an overall economic and social framework consistent with budget and resource allocations, and with the proposed monitoring mechanism.

3.15 The economic and social development scenario built into this document is based on the presumption that the recommendations and action plans proposed in the MTDS has been accepted and is being put into practice. The MTDS has not given specific statistical targets, expressed in numerical values, for GDP levels, consumption, savings etc. However, this document has estimated those numbers assuming that the MTDS strategy is well into implementation and has the potential to achieve the GDP growth targets. and generate investment funds to continue the MTDS strategy and achieve the goals initially intended by the NMDP.

IV. MOVING FORWARD WITH NMDP AND MTDS.

3.16 The failure to achieve the required growth rates of GDP envisaged by NMDP, precluded the achievement of all the other targets identified in the plan, including consumption and investment. Regrettably non-availability of saving, investment and consumption data in the set of national accounts stalled the monitoring of the NMDP targets. This should be rectified.

3.17 Given these circumstances, to move forward and increase the income of the people and wealth of the nation and alleviate poverty needs a renewed impetus. At the same time, the conservation of the pristine marine and other environmental resources is a fundamental requirement. The new challenge requires a carefully managed accelerated growth option to enable the country to recover from its setback and reenter the NMDP path of development. Bridging this gap is obviously challenging.

3.18 In the event this initiative does not succeed, the declining domestic economic conditions and the ailing world economy, will seriously impact on peoples' incomes, especially of the vulnerable groups. This will exert pressure on the natural resources and their future sustainability will be at stake.

3.19 Against this back drop, a decision was taken to draw a new growth path and also to strengthen the national account capabilities and make it a vehicle conducive to incorporate social statistics into planning system. A new growth scenario will be developed based on the economic performances reviewed earlier. New recommendations and directions of development will be based on the large number of studies already conducted for Palau, especially the MTDS. MDG will be incorporated within a consistency framework with an inbuilt system of monitoring.

V. THE MEDIUM TERM OUTLOOK 2008 – 2012 A NEW GROWTH PATH

(These projections are based on assumptions, which include the implementations of policies and strategies identified in the MTDS, and represent the macroeconomic framework that will be used for MTEF. The measurable economic targets which lack in the plans have been introduced. However, there is no guarantee that these figures will be achieved but they represent likely key planning targets of an economy).

3.20 In its medium term outlook, the country envisages a 5.0 percent real GDP growth during the five year period of 2008 -2012. This growth rate will not permit the country to re-enter the NMDP's initial level of planned development. But it should generate adequate resources for the gradual acceleration of growth and have a positive effect on the living standard of the people. This will avoid any potential mass discontent, which will affect economic and political stability. The resultant per capita income will be US\$ 9000 dollars, in 2000 constant prices, and US\$ 10,800 in current prices, at the end of the period.

3.21 The major challenge ahead is to mobilize the resources necessary to raise GDP level, in the framework of balanced sustainable growth. As it stands now, growth of the economy is skewed due to the very large contribution from tourism, more than from any other sector, due to the unique position Palau enjoys in the region. Therefore, the accelerated growth should be achieved by supporting industry, invigorating agriculture and managing the under-utilized fisheries resources in the exclusive zone for the benefit of the Palau economy. High value-added service sectors are to be promoted along with structural changes in the tourism sector. Accelerated growth is necessary in order to offset the slow down in economic growth in 2007 and 2008.

3.22 Sustainable development may preclude over loading the already over stretched tourism industry. Therefore, the present level growth will be maintained in the short term, until it raises the value added component by refocusing its clientele and strategically changing the composition of the tourist inflow. This strategy will be implemented through tourism related sectors. Steps will be taken to raise the contribution from tourism by 12 percent.

3.23 When a 6 percent growth rate is achieved over the planned period, it is envisaged that the other key macroeconomic targets (tabulated below) will also be realized.

3.24

TABLE 3.2

INDICATIVE MACROECONOMIC TARGETS FOR THE YEAR 2012

	2007 estimates	2008 Forecast	2009 ←-----Planned-----→	2012
1. GDP growth	-0.1	0	4.8	6.2
2. Unemployment rate	2.4	2.2	2.1	2.1
3. Investment/GDP %	32.2	30.1	32.4	38.8
4. of which private investment/GDP			18.9	27.5
5. Budget Deficit/GDP	-20.5	-20.5	-18.3	-8.3.
6. National Savings/GDP			7.1	9.6
7. Balance of payment Current account Deficit/GDP as a %	-19.0	-21.2	-14.3	-8.5
8. Exports of Goods & Services/GDP as a %	51.7	60.2	63.4	68.6
9. Consumer Price rate of increase	3.2	2.3	1.9	1.2

(No realistic figures are available for savings and investments but demonstrate the type of variables needed as planning targets. These figure give the likely direction only)

VI. SECTORAL GROWTH

3.24 GDP, despite all its weaknesses, is still the leading measurable indicator to assess the well being of the nation and the progress of the economy. All the other targets are to a certain extent secondary and depend on achieving the targeted GDP. Nonetheless, the new growth targets will not be primarily realized through boosting tourism related traditional restaurant and accommodation services only. Plan will explore the potential of other areas which are impending to grow. Agriculture and fishery are priority areas and both will have a substantial effect on the income of rural areas and vulnerable groups in society. More importantly, it stabilizes the price level of basic food commodities and helps maintain living standards and the food security of the country. These issues are already addressed in the MTDS including the structural problems such as tenure systems and the impediments for marketing agricultural products. The projected growth rate for the agriculture is therefore 6 percent.

3.25 At present, ownership of dwellings is a fairly important component of the ‘Other services sector’ (OSS). OSS, including personal services, are not much addressed in any of the studies but are dynamic sectors in a tourism dominated economy and are conducive to alleviating youth unemployment. Training youth in the skills needed to provide quality personal services will bring them fairly good incomes and will make them opt to remain in their home country. Therefore, the OSS, which includes personal services needs some impetus, by the provision of career training and loans. The ownership of dwellings should appear as a separate item in national accounts. A growth rate of 6 percent is projected for OSS, excluding ownership of dwellings.

3.26 Manufacturing sector which is almost lethargic has to be put back on to the development track. There is no large market in Palau to operate large scale industries. In view of the growing food import bill it is timely to explore the possibilities of introducing industries which have comparative advantage. Food

processing industries are potential candidates. If feasible, food processing will impact on agricultural output by value addition. Initially, accelerated growth is not recommended. The growth expected is 2 percent in first three years and up to 4 percent thereafter.

3.27 Construction is so far the most dynamic single sector of the country. Its impact on the economy stretches over the years and has a lag effect on other service sector outputs. The public sector investment in economic infrastructure and the booming hotel industry have contributed immensely to its dynamism. Generally, after the completion of large construction efforts their benefits are reflected through all the other industries at national level. Major constructions have been concluded but still the potential for investment in hotel and accommodation industry is not exhausted. Considering the investor's commitment through Foreign Investment Bureau (FIB), and other on going public investments, a 12 percent annual average growth rate is estimated in medium term.

3.28 Real estate and business services is another dynamic sector of the economy. As house ownership in Palau exceeds 70 percent, the sector has to get its momentum from business services other than commercial leasing. The conditions are right for increased business services. It is also an area the local business community could enter. The real estate and business services are estimated to expand at a rate of 6 percent during the period.

3.29 The utilities are the areas subject to radical changes under the medium term development strategy. The restructuring and participation of the private sector in the utility areas would bring efficiency and raise the productivity in the sector. As by nature, such radical reform cannot be implemented in a hurry. Therefore the growth rate of the sector will expand at slightly above its annual average growth rate over 2002 to 2007. Expected growth is 8 percent per annum. Finance and insurance will also follow the same rule when it is open for reforms. But the expansion of other sectors will undoubtedly affect the banking and insurance sector and the anticipated growth rate for the sector is 10 percent per annum.

3.30 All the other sectors: trade, hotel and restaurant, and transport and communication will increase their GDP by the rate of projected growth of tourism. The public administration will be the sector that will face a contraction of its output. Although it will maintain a zero growth in real terms it will decline by 1.5 percent per annum.

3.31 Based on the above projections the composition of GDP and the growth rates of individual sectors are given below. The actual GDP from 2002 to 2007 has been changed but for this exercise most important is the 2008-2012 projections. The GDP estimates are for calendar year and fiscal year figures were ignored.

**TABLE 3.3
GROWTH BY SECTORS****

	2007	2008	2009	2010	2011	2012	2002-2007	2008-2012
GDP Fiscal year	162370	162370	162370	162370	162370	162370	6.1%	0.0%
1. Agriculture, Forestry and Fishing	4,755	4,933	5,908	6,901	7,591	8,358	3.6%	11.9%
Agriculture	1,782	1,853	1,944	2,073	2,196	2,327	4.4%	5.5%
Fishing	2,974	3,081	3,964	4,827	5,395	6,031	3.1%	15.2%
2. Mining and Quarrying	153	262	449	775	794	987	-8.8%	45.2%
3. Manufacturing	698	722	744	795	794	801	-17.2%	2.8%
4. Construction	21,325	20,497	21,705	23,348	24,257	24,315	6.5%	2.7%
5. Electricity, Gas, Water and Sanitary services	5,970	6,866	7,902	9,172	10,605	12,265	9.6%	15.5%
6. Transport, Storage and Communication	10,752	10,080	11,856	12,660	13,809	15,345	1.1%	7.4%
7. Wholesale and Retail Trade	29,201	30,478	31,368	32,558	33,664	34,815	5.7%	3.6%
8. Finance and Insurance	5,257	5,386	6,795	7,784	8,883	10,139	3.6%	14.0%
9. Hotel and Restaurants	13,605	13,675	16,043	18,198	20,344	22,750	4.3%	10.8%
10. Real estate and business services	6,074	6,771	7,538	8,463	9,465	10,588	3.8%	11.8%
11. Ownership of Dwellings	0	0	0	0	0	0		
12. Public Administration	27,477	26,554	25,630	24,948	24,192	23,465	-2.7%	-3.1%
13. Services	10,678	11,455	11,917	12,873	13,856	14,916	2.1%	6.9%
14. Subtotal	135,945	137,679	147,855	158,475	168,253	178,743	2.7%	5.6%
15. Less imputed Bank Services	2,623	2,726	3,730	5,146	6,266	7,129	-0.6%	22.1%
17. Plus Import Duties.	6,259	6,042	6,649	7,379	8,158	9,021	9.1%	7.6%
GDP	139,581	140,994	150,774	160,708	170,145	180,635	3.0%	5.3%

** assumptions.

3.32 The Resources and Utilization account is a missing link in the national account system in Palau. However, it is most important for a national planning exercise to determine the likely magnitude of the numbers have been taken from NMDP projections and applied to the new GDP growth scenario. These numbers cannot be connected to published Palau National Accounts but they show the direction and planning section should take some steps to build this with credible figures.

TABLE 3.4
UTILIZATION OF RESOURCES
(FOR DEMONSTRATIVE PURPOSES ONLY)

	2007	2008	2009	2010	2011	2012
1. Total Resources						
(a) GDP at Market prices	201.9	209.4	230.7	249.5	267.6	286.8
	100%	100%	100%	100%	100%	100%
(b) Net Imports of	-209.7	-345.0	-358.0	-365.0	-382.0	-398.0
Good and services	(1.04)	(1.65)	(1.55)	(1.46)	(1.43)	(1.39)
2. Total Utilisation	202.7	210.2	231.5	250.3	268.5	287.7
(a) Consumption	191.5	192.9	206.9	219.2	231.0	243.4
Of which	94.9%	92.1%	89.7%	87.8%	86.3%	84.9%
- private	131.2	136.1	149.9	162.2	174.0	186.4
	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%
- public	60.3	56.7	57.0	57.0	57.0	57.0
	29.9%	27.1%	24.7%	22.8%	21.3%	19.9%
(b) Investment	11.2	17.4	24.6	31.1	37.5	44.2
Of which	5.5%	8.3%	10.6%	12.5%	14.0%	15.4%
- private	11.0	17.2	24.4	30.9	37.3	44.0
	5.5%	8.2%	10.6%	12.4%	13.9%	15.3%
- public	0.2	0.2	0.2	0.2	0.2	0.2
	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
3. Financing of Investment						
(a) National Savings	13.5	19.8	26.9	33.5	39.9	46.6
	6.7%	9.4%	11.7%	13.4%	14.9%	16.2%
(b) Foreign Savings	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
	-1.2%	-1.1%	-1.0%	-1.0%	-0.9%	-0.8%

VII. INFLATION

3.33 Price stability is a key element for investor's confidence as well as consumer's confidence. Inflation indicates weaknesses in the economy and the level of erosion of consumers' buying power. Inflation in recent years, fueled by increased oil prices, had a ripple effect on the prices of other products. Besides the hike in oil prices, imported food items in Palau are exorbitantly high priced and have a large effect on inflation. The prices of prime products catering to high end tourism are also soaring. The Chamber of Commerce, whose leading members are importers, subscribe to the view that the high prices are due to high freight charges due to the shipping arrangements in operation in Palau. Unless local food production, not only subsistence farming but also the urban and back garden cultivations are improved, the volatility in price increases of basic food items will be exposed to external pressure. Assuming radical changes are taking place on the agriculture front by maintaining a growth rate of around 8 percent the CPI will be assumed to be less than 2 percent during the period and likely to have negative growth in some years.

VII. INVESTMENT TARGETS

3.34 If the grant flows dry up there is no other option but to mobilize private sector investments, both foreign and domestic. There is no firm commitment from USA regarding the compact agreement. However, to sustain the growth rate envisaged during the planned period a total investment of \$ 40 million is needed which is approximately 28 percent of GDP.

3.35 There are no signs yet of private sector investment in infrastructure projects and the government has to bear the responsibility of investments in the public goods sector. Therefore public sector investment has to be further reinforced within the overall investment strategy. Public investment data is not published regularly. However, from data pertaining to the investments made by central government and the state owned enterprises, public investment was estimated at around 12 percent of GDP. In the medium term investments will be kept at this level.

CHAPTER 4: INTEGRATION OF SOCIAL STATISTIC AND MDG INDICATORS FOR PLANNING AND SOCIO-ECONOMIC DEVELOPMENT TARGETS

4.1 Socio-economic profile of the nation manifests how economic development has benefited society in general. As government aims for an economically prosperous society, raising living standards and reducing poverty must continue to receive the highest priority. Therefore, Palau's net work of basic education and health services has to be maintained, at a high level and cover the whole nation, for an overall social upliftment. While growth is a prerequisite for development, to share its benefits the human capital should be developed. Health and education are major factors underlying the development of human capital. Improvement of health services and education facilities will have a large impact and shape the socio economic profile of the country. The demographic profile of Palau has elements of regional differentiation, and in turn it affects the income distribution pattern and the level of education and health.

I. DEMOGRAPHIC PROFILE

4.2 Palau once had a population of 50,000 inhabitants living in the sixteen islands. Subsequently, the country has been subjected to periodic waves of immigration. According to the periodic censuses done at five-year intervals, over the last 25 years (1980-2005), the population has expanded at a rate of 2 percent per annum. The lowest rate of increase, around 0.8 percent, was in 2000-2005. Over this twenty five year period most of the states increased their population but at different rates. Airai is the only state which recorded a steady and strong population growth of 5.8 percent annually. The adjacent state, Ngatapang, received the spill over and its population increased at 8.8 percent per annum, from 2000-2005. Koror experienced its largest increase, of 2.7 percent, from 1900-1995 and the population increased by 1798 persons. Nevertheless for the first time the population has declined in Koror by 0.8 percent per annum during the last two census periods. The increase of population in Palau in recent years is largely a result of the arrival of so-called guest workers. The table below shows demographic changes in summary form.

**TABLE 4.1
DISTRIBUTION OF POPULATION – SUMMARY TABLE.**

Distribution of Population 1980-2005							
	1980	1986	1990	1995	2000	2005	2005-1980
Karor	7,585	9,442	10,501	12,299	13,303	12,676	5,091
Airai	668	1021	1234	1481	2104	2723	2,055
Hgatapang	166	219	62	221	280	464	298
Others	3657	3180	3325	3224	3442	4044	387
Total	12,076	13,862	15,122	17,225	19,129	19,907	7,831
Population growth in states							
	1986/1980	1990/1986	1995 /1990	2000/1995	2005/2000	2005/1980	
Karor	3.7%	1.8%	2.7%	1.3%	-0.8%	2.1%	
Airai	7.3%	3.2%	3.1%	6.0%	4.4%	5.8%	
Hgatapang	4.7%	-19.0%	23.6%	4.0%	8.8%	4.2%	
Others	-2.3%	0.7%	-0.5%	1.1%	2.7%	0.4%	
Total	2.3%	1.5%	2.2%	1.8%	0.7%	2.0%	
population share increase							Difference
	1980	1986	1990	1995	2000	2005	2005-1980
Karor	62.8%	68.1%	69.4%	71.4%	69.5%	63.7%	0.9%
Airai	5.5%	7.4%	8.2%	8.6%	11.0%	13.7%	8.1%
Hgatapang	1.4%	1.6%	0.4%	1.3%	1.5%	2.3%	1.0%
Others	30.3%	22.9%	22.0%	18.7%	18.0%	20.3%	-10.0%
Total							

Sources: Various Census Reports; 2000 Census of Population & Housing, table 6, Republic of Palau

Source: - Office of Planning and Statistics (Census Reports)

The detailed break down is in Annex 2. Location of states in Map 1

4.3 Palau has a large contingent of guest workers, known as legal residents. They mainly work in the construction sector but increasingly spreading out to other economic sectors, including the agriculture sector which was initially reluctant to employ them. The household sector is an area where the participation of guest workers started to increase. This category of residents is an integral part of the analysis. Interestingly, there is a large number of Palau citizens employed in USA and its trust territories and this situation is not likely to change in the near future. These data are not properly calculated.

4.4 According to the census of 2005, the total population in Palau is 19,907; around 69 percent are Palauan and 31 percent are foreigners legally residing in the country. The composition of the non Palauan population is: 54 percent from Philippines islands, 10 percent from US and territories and the balance of 36 percent are from Japan, Taiwan, Korea, Bangladesh etc. Airai has absorbed a disproportionate number of non Palauans. The head count of non-Palauans in Airai is 1223, made up of 547 from Philippines, 90 from US and territories and 586 from other countries. Airai is the only state where Philippine migrants are outnumbered by other migrants. This information combined with income and expenditure, health and education will give regional dimensions of Palau for planning purpose.

TABLE 4.2**POPULATION BY ETHNICITY AND THEIR GEOGRAPHICAL DISTRIBUTION.**

State	Total	Palau	non-Palau	non-Palau%	non-Palau
Total:	19,907	13,707	6,200	31.1%	100.0%
Aimeliik	270	203	67	24.8%	1.1%
Airai	2,723	1,500	1,223	44.9%	19.7%
Angaur	320	294	26	8.1%	0.4%
Hatohobei	44	44	0	0.0%	0.0%
Kayangel	188	168	20	10.6%	0.3%
Koror	12,676	8,554	4,122	32.5%	66.5%
Melekeok	391	309	82	21.0%	1.3%
Ngaraard	581	372	209	36.0%	3.4%
Ngardmau	166	139	27	16.3%	0.4%
Ngaremleng	317	280	37	11.7%	0.6%
Ngatpang	464	358	106	22.8%	1.7%
Ngchesar	254	197	57	22.4%	0.9%
Ngerchelon	488	414	74	15.2%	1.2%
Ngiwal	223	175	48	21.5%	0.8%
Peleliu	702	610	92	13.1%	1.5%
Sonsorol	100	90	10	10.0%	0.2%

Source: Office of Planning and Statistics (Census Reports)

4.5 The table 4.2 shows that the composition of non Palauan by state-wise and the pattern of how non Palauan are spread across the states as a percentages of total.

4.6 Koror is over populated. Babeldaob, which is connected to Koror by a bridge over the marina, and encircled by the compact road, consists of 10 islands including Airai. Babeldaob accounts for 90 percent of the country's land mass and its population density is 15 persons per square km, and without Airai the density falls to 9 persons per square km. The new capital is in the state of Ngardmau of Babeldaob Island with a population density of 10. This information is vital for the formulation of population policy in Palau.

TABLE 4.3
THE POPULATION DENSITY IN STATES

	Sq Mile	Sq Metre	Poulation	Per Sq Mil	Per Sq Km
Total	171	444	19907	116	45
Aimeliik	20	52	270	14	5
Airai	17	44	2723	160	62
Angaur	3	8	320	107	40
Hatohobei	1	3	44	44	15
Kay angel	1	3	188	188	63
Koror	7	18	12676	1811	704
Melekeok	11	28	391	36	14
Ngaraard	14	36	581	42	16
Ngardmau	4	10	166	42	17
Ngaremleng	18	47	317	18	7
Ngatpang	25	65	464	19	7
Ngchesar	18	47	254	14	5
Ngerchelong	16	41	488	31	12
Ngiw al	10	26	223	22	9
Peleliu	5	13	702	140	54
Sonsorol	1	3	100	100	33
	18	47		0	0

Source: Office of Planning and Statistics (Census Reports)

4.7 The age structure as well as the gender distribution of population is vital information in social policy analysis. The Palau population structure has changed rapidly between 1980 and 2005. The 1980 population was largely dominated by persons under 25 years (63.4%) while in 2005 the majority is from the age group of 24-54 (60.0%)(63.4 percent of population in 1980 and 36.3 percent in 2005) to a population where majority is from the age group of 24-54, (36.7 percent of population in 1980 and 60.0 percent) in 2005. The table below gives the changing pattern of labour force over the years by sex.

**TABLE 4.4
CHANGING PATTERN OR LABOUR FORCE**

		2005	2000	Male			
				1995	1990	1986	1980
Labour force	14-65	81.8	81.1	77.9	75.9	73.1	69.9
Dependant	<14 > 65	18.2	19	22.1	23.9	26.9	30
		2005	2000	Female			
				1995	1990	1986	1980
Labour force	14-65	77.5	76.3	72.9	61.8	70.9	68
Dependant	<14 > 65	22.5	23.6	27.2	28.6	29	31.8

Source: Office of Planning and Statistics (Census Reports)

4.8 Although the outward migration statistics have not been properly compiled, the changes in the gender composition of the population indicate higher out- migration of males in the 15-19 age group. According to this information the median age has increased from 18 years in 1986 to 32 years in 2005 , with male and female median age grew from 18 to 30 years during the same period.

**TABLE 4.5
THE AGE AND SEX COMPOSITION OF THE POPULATION.**

Age Group	Population by Age and Sex: 1990-2000						1995		
	1990	1995 Total	2000	1990	1995 Male	2000	1990	Female	2000
Total	15,122	17,225	19,129	8,139	9,213	10,450	6,983	8,012	8,679
Less than 5	1,513	1,762	1,308	766	916	690	747	846	618
5 to 9	1,529	1,551	1,700	793	797	856	736	754	844
10 to 14	1,534	1,527	1,555	807	798	794	727	729	761
15 to 19	1,464	1,282	1,382	795	684	738	669	598	644
20 to 24	1,340	1,427	1,342	738	723	731	602	704	611
25 to 29	1,403	1,741	1,910	799	929	1,106	604	812	804
30 to 34	1,338	1,717	2,169	768	1,005	1,219	570	712	950
35 to 39	1,243	1,583	1,891	720	927	1,104	523	656	787
40 to 44	873	1,261	1,651	514	727	976	359	534	675
45 to 49	666	943	1,272	375	553	750	291	390	522
50 to 54	513	603	886	279	329	510	234	274	376
55 to 59	403	488	563	208	249	306	195	239	257
60 to 64	387	361	463	181	174	230	206	187	233
65 to 69	332	328	318	154	145	161	178	183	157
70 to 74	249	278	274	117	122	115	132	156	159
75 and over	335	373	445	125	135	164	210	238	281
Median Age	25.6	28.1	30.8	26.1	28.7	31.3	25.1	27.3	30.3

Source: Various Census Reports, 2000 Census of Population and Housing, Office of Planning & Statistics

II. EMPLOYMENT

4.9 Employment is a major lever in transferring benefits of growth widely over different socio economic groups. The skill level of the employee, acquired through education and vocational training, will determine the size of the benefits accruing to the individual and his/her household. Geographical dispersion of the

labour force will determine the location-wise transfer of benefits. Therefore employment structure of Palau, its skill levels and the sector of employment deserve greater attention.

4.10 The labour force in the country, that is, the persons within the age band of 14-65 is 81.8 percent for males and 77.5 percent for females in 2005. The estimated unemployment figures are 2.3 and 2.1 respectively for the census years 2000 and 2005. (There is no proper unemployment published). The 2007 unemployment figure estimates are 2.41. Although country has a large number of guest workers the unemployment rate is high.

4.11 In terms of age, the labour force is becoming young and but close to middle age. The skill-levels are expressed by the level of education and training acquired. According to census information, around 80 percent of the labour force are high school graduates and rest are college level graduates. More than 90 percent in management, professional and technical fields are high school graduates. In the service sector, 71 percent of the employees are high school graduates which is somewhat less than the national average of 74 percent of employees being high school graduates. Agriculture and fishery workers are the least qualified. The female employees in administration, management and technical fields are marginally more qualified than their counterparts and have more college degrees and high school qualifications. Therefore high level education of women has large impact on achieving equal status in the job market

TABLE 4.6
EDUCATION BY CATEGORY OF EMPLOYMENT.

Occupation	Total	High Sc	College	Male	High Sc	College	Female	High Sc	College
		Graduat	Graduat		Graduat	Graduat		Graduat	
Employed 25 years & over:	9,019	78.3	20.6	5,532	76.4	18.1	3,487	81.3	24.6
Managerial & professional specialties	1,781	93.1	51.4	983	91.4	49.1	798	95.2	54.1
Technical, sales & administrative support	1,856	91.8	28.5	651	89.4	30.0	1,205	93.0	27.7
Service	1,940	74.0	6.9	902	77.6	9.4	1,038	70.9	4.7
Farming & fishing	524	51.5	9.2	325	57.5	8.6	199	41.7	10.1
Precision products, crafts & repairs	1,023	71.9	11.5	951	72.8	11.5	72	61.1	12.5
Operators, fabricators, laborers	1,799	67.8	5.8	1,688	68.2	5.7	111	60.4	7.2
Unknown	96	40.6	13.5	32	50.0	18.8	64	35.9	10.9

Source: Various Census Reports, 2000 Census of Population and Housing, Office of Planning & Statistics

4.12 Although data is not readily available to ascertain the number trained in different courses, over the last several years, the following information is adequate to understand the current situation. Enrollment for vocational training does not seem to follow any pattern.

4.13 The low interest in courses such as automotive technology and refrigeration and air conditioning clearly indicates the trainees' job preferences. Persons trained in these fields are in great demand in many other countries. It appears that the Palau labour force is not equipped with vocational skills in high demand.

TABLE 4.7
PALAU COMMUNITY COLLEGE GRADUATES BY TRADE AREAS:
SPRING 2005 TO SUMMER 2006

TRADE AREAS OF COURSES AT PCC CONDUCTED	SPRING 2003	SUMMER 2003	FALL 2003	SPRING 2004	SUMMER 2004	FALL 2004
AIR CONDITION AND REFRIGERATION	-	1	1	-	-	-
AGRICULTURAL SCIENCE	-	3	-	1	5	1
AUTOMOTIVE MECHANICS TECHNOLOGY	-	6	1	2	2	2
BUSINESS ACCOUNTING	7	7	1	18	7	4
CONSTRUCTION TECHNOLOGY	-	-	1	4	1	4
CRIMINAL JUSTICE	7	10	2	10	10	3
EDUCATION	13	2	7	17	3	4
ELECTRICAL TECHNOLOGY	-	4	-	1	5	-
GENERAL ELECTRONICS TECHNOLOGY	2	1	2	3	2	-
OFFICE ADMIN.	8	9	3	24	14	6
LIBERAL ARTS PROGRAM	4	2	1	6	1	1
NURSING	-	-	1	4	-	-
SMALL ENGINE & OUTBOARD MARINE TECHNOLOGY	1	3	-	3	-	-
TOURISM & HOSPITALITY	10	3	1	1	1	3
ENVIRONMENTAL / MARINE SCIENCE	2	-	1	1	-	-
TOTAL	53	54	20	95	53	30

Source Palau community College Report

4.14 The economic viability of the sector determines its capacity to provide employment. According to the information available with the OPS, the service sector provides the most number of jobs and agriculture sector the least. Sectoral employment impacts on the geographical distribution of income, and consequently rural and urban income distribution. The following table shows the average wage per unit of labour, in different sectors. Planners can use these information to devise income generation policies and increase the income of people.

4.15 The highest wage rates are paid to the employees in the banking sector. In addition to certain skills, working in this sector calls for a high level of customer service and other attributes and hard work. The average wage rates in public administration are high and it is an attractive employer in Palau. Employees in the education and health sectors as well as in utility services also get high wage rates because of their direct or indirect attachment to the public sector. However, agriculture and fisheries, the two sectors which previously created most of the employment, now suffer from low employment opportunities as well as low wage rates. The agriculture sector is more or less a rural phenomenon and agriculture labour is mostly available in the states of Babeldaob Island. The increase of employment in the agriculture sector in Airai is evidence of a shift from subsistence farming to commercial farming. The agricultural report recently concluded by JICA discusses about hired agriculture labour and the direct involvement of migrants' in commercial farming

TABLE 4.8
AVERAGE EARNINGS BY INDUSTRY: 1991 – 2005

Industry	Year					
	1995	1997	1999	2001	2003	2005
Agriculture, Hunting, Forestry	2,466	2,741	3,008	2,919	2,318	2,523
Fishing	4,855	4,378	4,683	3,832	4,267	4,095
Mining and Quarrying	6,391	8,423	8,202	6,626	6,770	4,796
Manufacturing	4,066	4,205	4,573	3,805	5,033	5,480
Electricity, Gas & Water Sup	8,922	10,963	10,820	11,739	11,791	10,980
Construction	4,874	4,779	5,066	5,794	6,121	6,388
Wholesale and Retail Trade	5,247	5,473	5,910	6,153	5,964	5,810
Hotels and Restaurants	5,796	5,713	6,431	6,047	5,345	5,692
Transport, Storage and Comm.	8,025	7,959	9,181	9,491	9,730	9,998
Financial Intermediation	12,341	12,452	13,616	13,078	14,395	17,314
Real Estate, Rent & Bus. Act.	5,323	6,595	7,470	7,359	8,347	8,300
Public Administration	9,921	10,480	10,699	11,027	11,863	11,829
Education	7,338	7,796	8,421	8,445	9,119	8,736
Health and Social Work	8,376	7,933	9,923	11,599	11,349	8,987
Comm., Soc & Per. Serv Act.	4,667	4,876	4,783	4,528	4,347	4,338
Private HH W/ Employ. Pers.	1,367	1,585	1,585	1,735	1,681	1,662
Extra-Terr. Org. and Bodies	7,773	7,757	8,409	8,459	10,978	11,623
Overall Average (weighted)	7,183	7,356	7,704	7,540	7,802	7,663

Source : Office of Planning and Statistics

4.16 Therefore, sector-wise employment, its growth and geographical dispersion are issues to be reckoned in framing policies to alleviate poverty. As it stands now, wages for agricultural labour are low and this leads to a high incidence of poverty in the rural sector. An analysis of the Household Income and Expenditure Survey results will throw more light on this.

4.17 Another important dimension in poverty analysis is gender distribution of labour. Sectors with low wage rates are dominated by females. The proportion of women employed in agriculture is higher (.percent) than that of men (...percent). This could lead to a higher incidence of poverty in female dominated households in rural areas. Survey data shows that 22 percent of the heads of households are unemployed while 66.6 percent are employed. Only 28.7 percent of women in rural areas are employed and 61.1 percent are recorded as unemployed. About 45.2 percent of the unemployed are in the bottom three deciles.

4.18 Women's share in the labour market is a Millennium Development Goal (MDG) indicator to assess 'gender equality and empowerment of women'. Over the period, 1990 to 2005, the proportion of women in the workforce improved from 54.7 to 62.7. But the disparity is still large.

III. HEALTH

4.19 A productive employment regime is an outcome of quality health and education facilities. Palau health system is mainly a public sector operation. The expenditure on the health services per household is always higher than on education. Although a fee collection system has been introduced the government funds most of the expenditure.

4.20 Palau's achievements in certain areas in the health sector are impressive. All the births are handled by trained medical personnel. Maternal mortality has been nil for the past several years. Life expectancy of males and females has increased from 66.6 years and 74.1 years respectively in 2000, to 66.8 and 75.0 years in 2005. However, annual infant mortality rates were volatile and varied from 6.4 to 30 per thousand,

over the last six year period. The population being small, even slight changes in the absolute data gave rise to large variations in the indicator. Despite the significant and sustained reduction of mortality, the incidence of morbidity and diseases is still quite high. Tuberculosis has not been eradicated yet, but its incidence was low since 2000. According to the Ministry of Health the major causes of death in 2006 are cancer and heart disease. The rate of immunization of children is above 95 percent.

4.21 Another noteworthy development is that while communicable diseases have decreased, non-communicable diseases have increased. Of the 10 leading causes of death in Palau, 8 were non-communicable diseases with life style associated risk factors.

**TABLE 4.9
VITAL HEALTH STATISTICS: 2000 TO 2006**

Vital Statistics	2006	2005	2004	2003	2002	2001	2000
Total Population	21,146	19,907	19,749	19,592	19,436	19,282	19,129
Registered Live Births	259	279	259	312	259	300	278
Crude Birth Rates *	12.2	14.0	13.1	15.9	13.3	15.6	14.5
Registered Deaths	144	134	142	136	134	138	125
Crude Death Rates	6.8	6.7	7.2	7.0	6.9	7.2	6.5
Registered Infant Deaths	2	6	8	3	2	3	3
Infant Mortality Rate	7.7	21.5	30.8	6.4	23.2	16.7	21.6
Registered Fetal Deaths	6	5	18	2	2	5	34

Sources: Ministry of Health Palau

4.22 Hospitals and clinics have been established in all the states. There are more hospitals in Koror state as the population in Koror and the adjacent state Airai is high. The Belau national hospital is in Koror. Designated foreign hospitals are available for referral. The number of doctors and nurses available are not sufficient to allow an equitable geographical distribution. The visit of doctors and related statistics are available with Ministry of Health. Planners can relate visits and incidence of sickness with other health information to develop health policies and targets.

IV. EDUCATION

4.23 Education facilitates individuals to rise out of poverty. Generally, the higher the educational attainment of the head of the household or the principal income earner, the higher the income level of his/her household. Unfortunately, the opportunity for children to compete in the labour market, through educational attainments, is constrained by the lack of facilities in their schools. Therefore school enrolment as well as the quality of education is important for human capital development and to alleviate poverty.

4.24 Palau has a history of valuing education as the gateway for social upliftment. This was evident from the adult literacy rates and the educational status of the population. Most indicators that measured educational attainments were at a fairly high level, by the end of the period.

4.25 The literacy rates of males and females, in the 19 to 24 years age bracket, was over 99 percent, for both years of 2005 and 2006. The enrolment rates for the lower and upper elementary levels are given below. In 2006, the lower level enrolment rate for males dropped but remained unchanged for females; the upper elementary enrolment rate showed a steady growth for both males and females.

**TABLE 4.10
THE RATE OF ENROLMENT**

NER- LOWER ELEMENTARY				NER- UPPER ELEMENTARY			
YEAR	MALE	FEMALE	TOTAL		MALE	FEMALE	TOTAL
2004	84%	87%	85%		70%	70%	70%
2005	91%	90%	90%		75%	72%	74%
2006	87%	90%	86%		76%	80%	78%

Source : Ministry of education and Office of Planning and Statistics

The proportion of pupils that enter Grade 1 and complete primary school is an indicator of the MDG goal to achieve universal primary education.

4.27 The educational attainments of the population improved from 1990 to 2006. The number with 'no schooling' and 'schooling up to grade 10' fell, while the number receiving college education increased. The pupil population of 3000 has been served by 300 teachers in 20 schools. Private sector schools levying tuition fees are partially subsidized by the government.

4.28 More than 98 percent of the 5-6 year age group receive primary education and nearly 86 percent of 10-14 year-olds receive lower secondary education and about 38 percent of 15-17 year olds receive upper secondary education. However, there are pockets in rural areas where primary enrolment is not universal and the drop out rate remains high.

4.29 Assessments of children's educational achievements show that the quality of education is low . Enrolment and school attainments are biased towards the arts and literary streams. The field of study impacts on the structure of the carders produced in the system. Although courses relevant for industry have been organized to avoid the mismatch of cadre supply and demand, enrolment in these courses is poor.

V. INCOME DISTRIBUTION AND DISPARITY

4.30 The real GDP per capita income grew by 2.0 percent during the period. In nominal terms it stands at US\$ 8,000 per head. The level of income distribution, expressed by the Gini Coefficient, is low for both urban and rural sectors at 0.24 and 0.25 respectively, but indicates a relatively fair distribution of income. When the adult equivalent population is considered, which is more relevant in a society with large families, the coefficient increases to 0.39. The average household income of the island, in quintiles, shows that the lowest quintile, the so called vulnerable groups, gets US\$ 7,872 while those in the top quintiles get US\$ 41,4086, approximately five times that of the lowest group.

4.31 In spite of that, there is no visible poverty in the country. An analysis of the Household Income and Expenditure (HIE) survey data, (D. Abbot, UNDP, Pacific Center) indicates that although there is no absolute poverty in Palau, relative poverty exists in both urban and rural sectors. An estimated one in five households (HH) and one in four people live below the minimum living standards or basic need poverty line of Palau (...).

4.32 The Head Count Index (HCI) indicates that Basic Need Poverty affects 18.4 percent HH, nationally, accounting for 24.9 percent of the total population. Therefore, 3,737 people in urban HH, which includes 1,156 children under 15, could not afford a basic minimum standard of living. The figures relevant for the same category in rural sector is 1,202. The recent increases in the price of basic food might have pushed more people below the poverty line. It must be recognized that the population clustered around the poverty line is sensitive to small fluctuations in economic conditions. It is estimated that 237 in rural areas and 818 in urban areas belong to this vulnerable group.

4.33 The Poverty Gap Index (PGI) that reflects the depth of poverty, stands at 6.6. The Square Poverty Gap Index (SPGI) gives greater weightage to the lowest consumption levels and better reflects the severity of poverty. The Palau PGI is similar to the regional averages of 6.7 and 7.7 for urban and rural areas respectively.

4.34 The poorest ten percent and the top decile of HH account for 4.6 percent and 21.0 percent, respectively, of the total HH expenditure. Consequently, the ratio of bottom quintile to the top quintile was 4.5 at the national level and 4.7 and 51.1 for urban and rural sector respectively.

4.35 Poverty among children is another indicator to assess the economic health of the society. It is estimated that 40 percent of all children belong to HH in the lowest three expenditure deciles. At the national level it is estimated that 31.1 percent of children live in HH with an elderly head, and 57.7 percent of them are

from lowest three deciles. The “working poor”, those who are employed but with an income below the basic needs minimum, comprise a 25.8 percent of the lowest three deciles.

4.36 Regional and gender based differences also impact on income disparity. For instance, Koror and Airai region HH enjoy high incomes and female households in rural areas received lower incomes than their counterparts in the urban sector. Overall there is an income disparity in Palau and since data sources are weak and HIES should be streamlined to obtain household data consistently.

VI. WATER AND SANITATION

4.37 Water and sanitation have a significant effect on the population’s health. If these services are maintained at a high standard it will reduce the incidence of several diseases, morbidity and mortality, and thereby improve the health of the people. The national strategy is to provide the people of Palau with an adequate supply of safe potable water, protect the water resources from environmental pollution and support sustainable economic development.

4.38 Public water systems supply 95% and 80% of the Koror and Airai populations respectively. Koror centralized system of water treatment is the only water treatment facility in Palau and serves 75% of the population.

4.39 According to the censuses the access to safe water in Palau is high and above 95 percent. The sanitary condition such that toilets are only in terms of location of toilets.

4.40 The overall socio economic profile of Palau is impressive. Poverty is generally not visible. Basic social development level of the poor in Palau generally surpasses other comparable Pacific nations, and is characterized by high life expectancy, low infant, child and maternal mortality, attainment of basic literacy, high completion rates of primary education, and evenly balanced gender outcomes in education and health.

4.41 Although Koror is geographically isolated, Palau’s economic activities are concentrated in Koror. Consequently, much of the country’s population has been drawn, from rural areas, into Koror and the adjoining Airai state. Due to the non-availability of economic opportunities the land-rich rural states remain thinly populated. Most amenities are now available in many states but some are short of feeder roads to remote areas. The population comprises of a mature labour force whose median age has risen from 18 years in 1990 to 32 years in 2005. Palau also has a large contingent of foreign guest workers.

4.42 There is a large potential for bringing economic development to these areas through proper interventions. The achievements in the area of social development has not been target-driven. In the medium term social development will be targeted as a part of NMDP goals, and the costing structure will be further studied.

4.43 There is still much to be done to achieve the Millennium Development Goals (MDG) by 2015. With increased government expenditure in social capital development and for supplying amenities and utilities through the public domain quite a few goals have been achieved and the country is on track. But the recent economic turmoil in the world has hugely impacted the living standard of the population and maintaining the MDG goals achieved are in stake. A prudent macro economic policy environment, and targeted development focused on vulnerable groups are needed.

VII. SOCIO-ECONOMIC DEVELOPMENT 2008-2012

(assumptions)

a. POPULATION

4.44 The methodology proposed to integrate social dimensions to the planning process is restricted not only by the lack of relevant data but also by the lack of social policies and strategies. Non availability of a population policy is a key issue in Palau where, migration labour constitutes a high percentage of the population, and an unknown number of Palauans have migrated to USA.

4.45 Non availability of a Poverty Reduction Strategy (PRS), as in other developing countries, has tended to concentrate development strategies on economic infrastructure development. The legacy of fully public funded services of health, education and social services as a USA territory, as well as under Compact, cushioned any impact caused by low income levels. The MDG have not been carved into the social policy regime, as yet. Nevertheless, the key social policy targets will be in the area of health, education and income distribution, with targets to be achieved in the medium term, in 2013. Further classifications are proposed in social statistics so that Office of Planning and Statistics may be able make arrangements to collect and disseminate them for planning process

4.46 As labour is a factor of production that is vital for achieving rapid growth, population targets are also considered. Although concerns have been raised about the increasing guest worker population, the country lacks a population policy and has never targeted population growth as foreign workers are readily available, mainly from Philippines. But reliance on a large foreign labour force requires an appropriate regulatory regime, and incentive schemes to ensure desirable employment opportunities for the Palauan labour force, while maintaining equity for the entire labour pool. The lack of a population policy and proper accounts on net migration are other areas that need attention. Net migration is not properly estimated due to weaknesses in the data collection procedures at immigration. In order to maintain the expected growth rate, it is estimated that a population increase of 1.2 percent is required over the planned period. This estimate is based on historical population growth data.

b.EMPLOYMENT

4.47 According to the standard international definition, the unemployment rate in Palau is low. As discussed in the previous chapter, the incidence of “working poor” masked unemployment data, to some extent. The official unemployment rate is 2.5 percent and the most feasible target is to maintain it at this low rate.

4.48 However, the plan will establish targets to produce skilled workers through vocational training for new entrants to the labour market. As a matter of fact, vocational and technical education creates opportunities to emerge out of poverty. But there are many obstacles to organizing high quality training courses: non availability of vocational training institutions, shortage of experienced, well qualified and capable instructors, and lack of relevant up-to-date equipment and material Therefore the targets will be

- Introduction of new courses to Palau Community Colleges and High Schools
- Training of trainers and instructors
- Advocacy programme to attract youth to develop skills that industry demands.
- Apprenticeship programmes will be organized in private sector establishments
- Share the training responsibility with the private sector and encourage on the job training.

This will eliminate the mismatch of labour demand and supply. The projects and proposals will be identified during the consultation period scheduled under the next output.

C. EDUCATION

4.49 The positive role of education has been well accepted in Palau. The enrolment rates are high, literacy rates are high, and the male/female ratio of educational achievements are exemplary. Against this backdrop the challenge is to raise the level of students' achievements which are, at times not up to the standard required. Students have underperformed in Math and Science. Possible causes are: poor education facilities, lack of motivated trained teachers, inadequate physical facilities at schools, inadequate quality inputs in the form of library materials, laboratory equipment, computers, and material and implements for technical subjects.

4.50 Receiving education under these circumstances are likely to result in poor verbal and numerical skills, weak development of cognitive and reasoning abilities, lack of disciplined work ethics and lack of systematic thinking.

4.51 Therefore the targets are to improve the physical facilities and continuing training of teachers. Monitoring and counseling the underperforming students and parents are the other targets envisaged. Other targets identified are:

- Development of secondary vocational training programmes.
- Review schools, both private and public, whose performance has been poor. (Listing of schools for intervention)
- Development of individual school plans to remedy low performance. (School remedial action plan)
- Conduct of teacher training programme. (trained teachers)
- Assessment and redesigning of core school curriculum - periodic reviews and updating. (Curricula Reports)
- Upgrade library facilities and information systems (Upgrade community library and information centers)
- Construction and equipping of new school buildings and facilities. (schools)
- Refurbishment of schools to meet the needs of the improved education system) (refurbished school)

4.52 Most of these targets have been identified in MTDS in one form or another. The MDG targets can be incorporated as and when they are fully developed within the Palauan context. Till then the continuing and increasing investment in education will ensure meeting the MDG targets at the current level.

e.HEALTH

4.53 Health like education has performed well. Most of the MDG health indicators have been achieved in Palau. The challenge is to maintain this level and improve quality in health services. The health statistics clearly demonstrate the increasing incidence of non-communicable diseases as against the decreasing incidence of communicable diseases. Other than for tuberculosis (TB) the incidence of communicable diseases has decreased. High incidence of diabetics and hypertension cases have been reported. Other than upgrading of health sector professionals and improving the existing facilities at national hospitals and clinics, youth will be targeted to ensure a healthy nation.

1. Establishment of healthy lifestyle and wellness programmes
2. Establishment of youth health programmes
3. Construction and refurbishment of primary health care facilities with modern equipment.

The tasks identified by integrated project planning for the health sector and MTDS will be included during the budget consultation period and integrated with MDG targets.

XII. MILLENNIUM DEVELOPMENT GOALS

4.54 The Millennium Development Goals (MDGs), endorsed by governments at the United Nations in September 2000, aim to improve human well being by reducing poverty, hunger, child and maternal mortality, ensuring education for all, controlling and managing diseases, tackling gender disparity, ensuring sustainable development and pursuing global responsibilities.

4.55 MDG are globally owned but countries have the discretion to localise them according national needs and execute them for the benefit of their society. Currently, Palau is in the course of developing and localising the MDG. This exercise envisages getting a proper methodology and mechanism in place to support the country's effort to integrate MDGs into the national development planning process as a component of NSDS, and to guarantee the achievement of goals by year 2015.

4.56 According to MDG report of Palau of the 20 targets and 60 indicators adopted by the international community, 19 targets are relevant in Palau. Palau has added two additional targets to those of the international community (universal completion of high school and reversing the prevalence of non-communicable diseases). Further it says that Palau has made impressive progress toward the MDGs. Goals for health (MDG 4, 5, and 6), education (MDG 2), environment (MDG 7), and gender (MDG 3) have largely been achieved. While Palau's poverty situation (MDG 1) is good in comparison to that of many other countries, data are unavailable to track trends and assess progress. Palau is well-integrated into the global community and receives economic and technical benefits from an extensive network of bilateral and multilateral development partners (MDG 8). (MDG Report Palau-2008)

4.57 This is a special situation relevant to Palau and the assistance Palau has been receiving for decades under Compact agreement to sustain health and education raised the living standard of country to such a level that many MDGs have been achieved. Against this backdrop MDG report may, in future, introduces the targets which will guarantee the no reversal of MDG targets. More and more regionalizing of MDG would not only improve the living standard of rural areas but also increase the broad participations of all the social groups and expand the democratic governance process

**TABLE 5.1
MILLENNIUM DEVELOPMENT GOALS PALAU**

The Goals and Targets at a Glance		
Target for 2015	Status: Will Target be Met?	State of Supportive
MDG1 : Eradicate extreme hunger and poverty		
Halve the proportion of people living below the national poverty	Uncertain	Strong
Achieve full and productive employment for all including women	Uncertain	Strong
Halve the proportion of people suffering from hunger	Achieved	Strong
MDG 2: Achieve universal primary education		
All children (boys and girls) will complete a full course of primary	Likely to be Achieved	Strong
All children (boys and girls) will complete a full course of <i>Note: target added by Palau</i>	Likely to be Achieved	Strong
MDG 3: Promote gender equality and empower women		
Eliminate gender disparity in education	Achieved	Strong
Promote gender equality and empower women	Likely to be Achieved	Strong
MDG 4: Reduce child mortality		
Reduce under-five mortality by two-thirds	Achieved	Strong
MDG 5: Improve maternal health		
Reduce maternal mortality by 75%	Achieved	Strong
Achieve universal access to reproductive health services	Achieved	Strong
MDG 6: Combat HIV/AIDS, malaria and other diseases		
Halt and begin to reverse the spread of HIV and AIDS	Likely to be Achieved	Strong
Make antiretroviral therapy widely available to persons with	Achieved	Strong
Halt and begin to reverse the incidence of tuberculosis	Achieved	Strong
Halt and begin to reverse the incidence of malaria	Not applicable to Palau	
Halt and begin to reverse the prevalence of non-communicable	Uncertain	Strong
MDG 7: Ensure environmental sustainability		
Integrate principles of sustainable development into policies &	Achieved	Strong
Reverse biodiversity loss and by 2010 achieve a significant	Achieved	Strong
Halve the proportion of the population without sustainable	Achieved	Strong
By 2020 to have achieved significant improvement in the lives of	Achieved	Strong
MDG 8: Develop a global partnership for development		
Develop open, rule-based, predictable, non-discriminatory trading	Likely to be Achieved	Strong
Provide access to affordable essential drugs	Inadequate Data	Strong
Make benefits of technology widely available	Achieved	Strong

Source : MDG An Initial Status Report Republic of Palau -2008

4.59 Nevertheless further work has to be done regarding MDG and when the interventions are ready these strategies have to be integrated into the National Sustainable Development Strategies (NSDS) through plans or Poverty Reduction Strategy (PRS) initiatives, and a budget for implementation prepared. The ultimate objective is to ensure that MDGs are financed and the results are monitored

4.60 The MDG working group has the responsibility to work on indicators and recommend the OPS to compile relevant data. It is strongly advised to get the state government involved in collection of data.

CHAPTER 5 : ALIGNING OF STRATEGIES OF NATIONAL DEVELOPMENT PLANS AND MDGS WITH ANNUAL BUDGET ALLOCATION.

5.1 The lack of adequate coordination of the various agencies responsible for plan implementation was mentioned at outset. Compartmentalized behaviour focusing on individual mandates, inadequate interaction, information sharing, networking, planning and plan implementation are persistent deficiencies. Clearly, a fresh approach is required to promote coordinated efforts to achieve both individual agency targets as well as sustainable development goals of the country. As suggested in the NSDS conceptual framework, inclusive participation in the decision making process improves governance. Adapting a suitable framework to facilitate stakeholder participation in budgetary allocation is an option to bring them together and improve the efficiency of making budget allocations, execution, reporting and evaluation.

5.2 Palau needs the NSDS process in place to ensure that the strategic planning targets are funded properly. Steps are being taken to strengthen the NSDS. SEDPF will develop the methodology and procedures required for aligning planning targets, including the Millennium Development Goals (MDG), with the national budgeting process. The Medium Term Expenditure Framework (MTEF), proposed as the most trusted approach for this purpose, is among the best current practices.

I. MEDIUM TERM EXPENDITURE FRAMEWORK

What is Medium Term Expenditure Framework?

5.3 MTEF is a transparent planning and budget formulation process, which facilitates the Cabinet and central agencies to establish credible contracts for allocating public resources to their strategic priorities, while ensuring overall fiscal discipline. The process entails two main objectives: **the first aims at setting fiscal targets, the second aims at allocating resources to strategic priorities within these targets.**

5.4 The definition of MTEF according to World Bank PEM handbook 1998 is: “The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy, and ultimately, the matching of these costs with available resources. The matching of costs should normally occur in the context of the annual budget process, which should focus on the need for policy change to reflect changing macroeconomic conditions as well as changes in strategic priorities of the government.”(WB...)

5.5 The ADB definition is: “ MTEF is a framework designed specifically to link planning, which has a medium term outlook, with the annual budget, and, as a consequence, to link budgetary expenditures more systematically with socially desired outcomes, e.g. gender balance, slower population growth, higher literacy rates, lower infant mortality rates. Its principal focus is on getting the government to allocate budgetary resources to programs, activities, and projects that promote the strategic priorities of the country.” (ADB ,,,,). MTEF is a type of budgetary reform which is different in its approach and mechanism, to general line input budget systems. It is a tool, increasingly practiced, to link planning targets and sectoral strategies with budgetary allocations. In essence, it is democratic and participatory and calls for administration-wide capacity building

5.6 Medium-Term Expenditure Framework (MTEF) is a framework consist of three key elements

1. The Resource envelope which is derived from macroeconomic framework and which estimates how much domestic and external resource will be available to the government.
2. Sector cost estimates which estimate how much resource will be needed for implementation of policies and programmes.

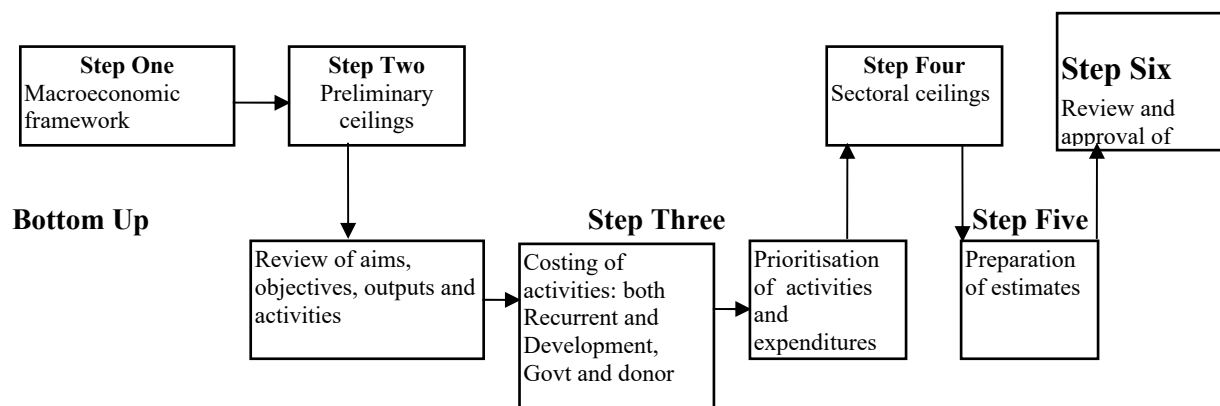
- Interactive decision making process to reconcile the mismatch between the availability of resources and needs for resources.

II. FLOW OF ACTIVITIES IN A MTEF

5.7 The MTEF process is a top down process which sets fiscal targets and allocates resources for the different sectors, and a bottom up process of estimating the actual requirements for implementing policies in each sector. The MTEF is a means of bringing these two processes together.

DIAGRAM 5.1

Top Down



Step One: Macroeconomic framework estimates resource availability based on GDP and domestic revenue collection, and foreign savings.

Step Two: Resource allocation to sectors based on government priorities as per plans and strategy documents.

Step Three: Each Ministry estimates its medium term requirements based on government policies and priorities. Sectoral priorities are determined through a sector review process.

Step Four: New information from the sector review exercise is used to review and, if necessary, revise the medium term sectoral ceilings

Step Five: Sector ministries make final adjustments to the three year estimates, at an aggregate level.

Step Six: Plans and estimates finalized by the Ministries are reviewed by Ministry of Finance, to assess whether the estimates are consistent with the policies, plan and priorities, and are within the ceilings.

Why does Palau need MTEF ?

5.8 The question that arises at this stage is, does Palau need to adapt MTEF for its budgetary process. The following observations on traditional budgeting practices in Pacific's are pertinent to this issue (David Hittington, UNDP).

- Five Year Development Plans and three year Public Sector Investment Programs (PSIP), which set out national and sector objectives, policies and specific projects, were not linked to the availability of resources through a macroeconomic framework
- The budget preparation process did not link the achievement of objectives and meeting of targets with the funds required.
- The recurrent budget was prepared on an incremental basis (adding a percentage to last year's estimates) without reviewing whether the activities being funded should be continued.
- Activities continued from year to year while resources were declining, and consequently some critical activities were under funded.
- The classification of the budget did not show programs or activities (e.g. provision of extension services) but only types of expenditure (e.g. fuel).
- Even where the budget format had moved to programs and activities, the structure often reflected the existing organizational structure and was not closely linked to performance management or to the national or sector planning documents.
- Chief executives and budget managers did not have much autonomy to utilize funds for better performance, rather proper accounting was emphasized.
- Where the budget had moved to programs and activities, this may have limited discretion even more, as the budget was now in smaller "parcels" with budget control over each item within an activity budget.
- The investment budget (PSIP) was itself often an unprioritised wish-list of project requests to donors.
- The investment budget was prepared separately from the recurrent budget, therefore the recurrent costs arising from the investment programs were often not provided for once project funds (often from donors) had been spent.

5.9 Although these issues are not having the exact form in Palau, to present budgetary system, many of them are relevant. And in the outset this document the gist of these issues has been clearly identified and this from PIFTAC also show some of the weaknesses in Palau existing system.

".... From discussions with various line ministries it appears that sectoral plans and the annual budget are not clearly and fully linked to the NMDP, although a broad linkage does exist. The process remains that of an annual line item, input based budget, with little resources and planning going into the desegregation of the NMDP into line ministry budget. Little capacity in line ministries exists to determine capital expenditure estimates in the medium term. While a degree of planning is undertaken for externally funded projects there is a clear need to extend this degree of examination and planning for the national resources to ensure that the line ministry plans fall within the broad parameters of the NMDP".

5.10 The proposal to use the MTEF is no doubt prompted by these findings. But some questions do arise. How does the new initiative differ from the business-as-usual situation? What are the advantages? What is its rationale?

5.11 The rationale for adopting MTEF is that it has a broader perspective which fits the NSDS principles. It is transparent and built on the principle of democratic participatory governance, and differs in perception

from the business-as-usual mindset. As an example ministers and line ministries are provided with greater responsibility for resource allocation decisions and resource use. It changes the psychology of budgeting from a "needs" to an "availability" mentality and enhances the predictability of resource flows and policy over the medium and short term. Technically, it satisfactorily addresses the unresolved issues that repeatedly arise with line budgeting. Invariably, the MTEF is preferred over line budgeting.

Specific Benefits of a MTEF

5.12 . What are the key benefits from moving to a MTEF? These can be considered in terms of the view of central agencies and line agencies. The general advantages of having a MTEF have been already discussed But this transformation has intensive interactions , change of perception, and shifting of authorities and therefore it is important to asses what benefit it will bring to the major players.?

Ministry of Finance

For the centre, the MTEF is an agreement between them and cabinet. In between central agency and line ministries it is a framework for planning and budgeting. Center will be able to make certain

1. More predictable funding
2. More credible policy
3. Transparent and predictable processes for allocating and reallocating resources
4. Rules and practices that support and demand efficient resource use
5. Ability to delegate to line managers and local governments power to manage

Line Ministries Bureaus and Agencies

For line agencies MTEF provides:

1. Clear sector development strategies
2. Incentives for using resources efficiently and effectively
3. Improved reporting on resource use and results
4. Greater emphasis on living within budgets

Lessons to be learnt

5.13 Since MTEF has been implemented in some other developing countries also the Palau has opportunity to learn mistakes and minimize them when implementing the MTEF in Palau.

5.14. A case study of two African Developing countries (Malawi and Ghana) had a useful summary of lessons:

- There needs to be political commitment to the process from the start
- All stakeholders should have involvement in design and implementation, rather than having new MTEF processes dictated from the central agencies.
- As the changes are difficult to introduce, pilot projects are recommended rather than a “big bang” approach that has a higher risk of failure.
- There is a need to manage expectations that a MTEF will provide more resources. It won't, but it will help a better approach to setting priorities so more funds are found for new activities.
- Change management is essential. This means taking time to include a careful communications plan so that stakeholders, such as senior staff of spending ministries are involved and well informed from the start.

- Link the MTEF closely to the budget implementation timetable.

- Ensure that the MTEF links closely with other reforms, e.g. changes to staffing. Ensure there is close involvement with donors.

III. IS PALAU READY TO EXECUTE MTEF?

5.15 The principal planner and other officials reckon that aligning strategies of development plans with budget allocation is a pressing need and welcome initiatives to introduce it. MTDS has developed a Fiscal Strategy Paper (FSP) which has, more or less, the elements of the Medium Term Fiscal Framework (MTFF), which facilitates the preparation process of MTEF. Similarly, FSP supports the idea put forward by the PFTAC in “Scoping.....paper”.(May 2008) PFTAC paper admits the importance of implementing MTEF for Palau and looks forward capacity building in that direction. All evidence suggests that Palau and other development partners consider MTEF as the best option.

5.16 The MTEF is an evolutionary process, and its different “compilations” may have different approaches. This paper sets out the commonly agreed features of a MTEF. However, what works in one country may not suit another. Adaptation to meet local requirements will no doubt be necessary. However, introducing a MTEF to a country without a similar experience before is challenging. When compiling a MTEF it is worthwhile following an exemplary and fully articulated MTEF

5.17 As mentioned previously setting up a MTEF is a lengthy process. Type and quality of the budgetary process it replaces and the capacity of the stakeholders are pertinent issues. Some preconditions have to be met before a MTEF becomes fully operative, but there is no “cookie cut” method to establish the system. The environment, in which Palau’s current budget system operates, already has some features that meet the preconditions for a MTEF, such as:

1. Long term political commitment
2. Macroeconomic Framework
3. Resource envelopes.
4. Hard budget constraints
5. Aligning policies & objectives, under resource constraints.
6. Linking policy, resources and means, by sector.
7. Reconciling resources with means.
8. Transparency and accessibility of information

IV. POLITICAL COMMITMENT

5.18 Palau’s long political stability size of its economy, and the powers vested in the President to make the budget call and his involvement in budgetary process are contributory factors to have a steady political commitment for MTEF. Introduction of MTEF to ministers as a process of linking ministerial policy, planning and budgeting over the medium term and an exercise that will be rolled over annually and guarantees the funds availability them in medium term will build confidence and encourage them to accept MTEF as a more suitable vehicle to achieve their development objectives. It was clear from interaction and consultations with the Chief Planner and MOF officials that they appreciate the MTEF’s potential and are resolute in their willingness to undertake reforms to the budget process so as to integrate budget and development plans and strategies in order to enter the path of Sustainable Development.

V. MACROECONOMIC FRAMEWORK OF PALAU

(In Chapter 3 medium term economic targets represent many feature of a macroeconomic)

5.19 A sound macroeconomic framework is a prerequisite. It should, however, not be a political framework for public consumption but a realistic and pragmatic vision of the future expressed in key economic variables. There are many instances where macroeconomic frameworks have been prepared and embedded in development plans. In fact, very often they are for public consumption and to build confidence in the market for investors rather than to reflect real future projections. Although it is politically objectionable and bureaucratically resentful to acknowledge harsh realities, it is essential for good governance and to manage public finance in the best interests of the public. Therefore, preparing macroeconomic frameworks for public consumption should be avoided. The macro economic numbers should be interconnected objective and in consistency with each other.

5.20 The macroeconomic framework needs a solid National Account database. The soundness of the Palau NA database is yet to determined. The principal statistician is unable to commit enough time for data analysis and has no time to build expertise of staff in data analysis. Frequent revisions of data has become a common feature which makes the utilization of existing NA data for developing a realistic macroeconomic framework less reliable. Moreover, non existence of key macro variables such as savings, investments as well as reliable Balance of Payment financial data are some of the concerns to be attended and rectified. The report PIFTAC misson 2008 has suggestions to improve data quality of Palau.

5.21 In summary, development of consistent macroeconomic frameworks is not well rooted in the Palau planning process. As most of the plans are consultants' outputs, local skills have not been developed. Therefore, CDNDP will undertake the required capacity building as a necessary condition for MTEF development. Revenue forecast methodology paper has presented extensive instruction and procedures for compiling major economic variables but whether same methodology could be used to make the medium term projections should be studied.

VI. RESOURCE ENVELOPE

5.22 The preparation of a resource envelope needs detailed information on revenue as well as the source of funds. Compared to other developing countries Palau has more long term committed funding under compact agreement, and due to the size of its economy the feasibility of mobilising funds in the form of grants is higher. The MOF will have to estimate the foreign investment inflow for the foreseeable future which of course is a tough assignment. The Fiscal Strategy Paper in a way gives a medium term resource envelop but it is not directly link to the macroeconomic framework and it should be made consistent with the macroeconomic framework.

VII. MATCHING RESOURCE AVAILABILITY AND COSTS

5.23 The MTEF consists of a top-down resource envelope, a bottom-up estimation of current and medium-term costs of existing policy, and ultimately, the matching of these costs with available resources. The key question is who will decide on the best allocation of the available resources. Is it the Ministry of Finance or will it be left to the sector ministers. At first glance, the Ministry of Finance seems to be the most knowledgeable and right authority. But, it is only right that the allocation of resources to policies and programs in their sector, consistent with overall government policy and the determined budget, should be handed over to line ministers. This may seem a dilution of the role of Ministry of Finance but in fact it strengthens its role as a top manager while making the process more democratic and transparent. This entails a shift of bureaucracy from an administrative to a managerial culture. Managerial flexibility and innovativeness will be injected to the system and result in lower cost per output, and greater effectiveness of programs/policies

5.24 What transpired from the above analysis is that Palau has many elements, identified as prerequisites for successful implementation of MTEF. Some are strong and some are embedded with others and do not

operate independently. The tasks ahead is to strength existing ones and develop others as separate and independent function with clear ownerships. .

VIII. CURRENT BUDGET PROCESS IN PALAU

5.25 Unless the existing budgetary process is known the implementation of a new system will not give the expected results. The existing Budget process is expected to be aligned with Development Plans but it hardly takes place. During discussions the Principal Planner reiterated his concern and expressed willingness to take suitable action to rectify this short coming. There is no budget document per se available to the public. It is said to be available and circulated among senior government officers. The Budget Reform Act 2001 (RPPL) states what the annual budget shall contain. Amongst them, it expects a budget report from the President, as specified below:

(a) "... a budget report by the President summarizing the last fiscal year and a statement of objectives and strategies explained with reference to the NMDP and the Economic Development Plan.".

(b) "... such other data that the President includes to explain and justify the proposed annual budget."

5.26 The national budget process starts with budget call. Detailed guidelines have been issued explaining the methodologies of filling the budget worksheet and other procedures to be followed. Specific instruction have been given to include the "Mission Statement", "Priority and Critical Achievement Area" (i.e. the priority areas in which the efforts are being focused to achieve desired measurable outcomes) and "Medium Term Goals" (i.e. a list of specific goals). It is emphasized that goals must be consistent with those stated in the Management Action Plan (MAP). Apart from this, there are no clear cut, detailed instructions spelled out in budget guidelines on how to integrate plans into the budgetary process. The existing process is loosely knit, and the budget is mainly scrutinized with a view to fitting it to the available funds by trimming less urgent items. The process shuttles between the President, Ministers and Ministry of Finance. The Budget Reform Act 2001 (RPPL) allows the President to reprogram the budge up to a ceiling of 10 percent.

5.27 The following documents were referred to and a large part of the documentation is about procedures for maintaining accounting discipline.

- Budget call,
- The budget work sheet
- Budget request form,
- Budget procedures,
- Budget preparation instructions,
- Financial Instruction document
- Forecasting plans
- Manual for Procedures for Grants

5.28 The Revenue Forecasting document is described as a macroeconomic framework. But it mainly concentrates on the immediate budget year and there is no reliable medium term forecasting methodology built into it. Some documents or procedures have been developed to enhance the public management system but they are not in operation. A good example is the IPP or the strategic plans of the ministries, bureaus and agencies. A number of workshops were conducted to upgrade the skills required for IPP, and "blue prints" of the IPP have been used to develop structured IPPs, but no progress has been made thereafter. The medium term fiscal strategy is another document built as a part of the MTDS work and the ministry intends to use it as a budgetary framework.

5.29 Incidentally there are some confusions with another two frameworks which appear next to or parallel with the MTEF and widely appear with budget work in Palau.

IX. MEDIUM TERM FISCAL FRAMEWORK (MTFF)

5.30 MTEF provides a statement of fiscal policy objectives and sector strategies and a set of integrated medium-term macroeconomic and fiscal targets and projections. For example, some of the key macroeconomic variables include GDP growth, inflation and exchange rate projections that allow estimation of tax and non-tax revenues. This is positioned above the MTEF and sometimes can be used as a source for resource envelop.

X. MEDIUM TERM BUDGET FRAMEWORK (MTBF).

5.31 It incorporates projections of revenues and of spending by individual agencies that allocate resources in line with strategic priorities, consistent with the overall fiscal objectives of the MTFF. The objective of an MTBF is to allocate resources to the nation's strategic priorities and ensure that these allocations are consistent with overall fiscal objectives. This gives some degree of budget predictability to spending agencies, while ensuring overall fiscal discipline.

5.32 Often, the MTBF is referred to as MTEF. This is not an issue that impacts the MTEF. In Palau there is a Fiscal Strategy which country is obliged to follow under MTDS. It can be called as a MTFF and combining it with the macroeconomic forecast done under Revenue forecasting together can be identified as the MTBF. In essence the most important thing under NSDS is how to align planning targets and budget allocation to attain SD. In spite of bogged down in the definitions and jargons the immediate need is how existing frameworks can be used for the development of MTEF in Palau.

5.33 However, considering the level of development in Palau and the capacity available to handle a new initiative it is suggested to implement the establishment of MTEF initially to cover the expenditure directly coming under the budget. A new administration is coming to take the public administration soon and it is the most suitable time to introduce MTEF.

5.34 Introduction of the new system does not entail completely scrapping the old one. It is, in fact, a rearrangement of the way things are done. Although the process looks simple a fairly high level of competence is needed to implement it. Upgrading of some inputs already in place and introduction of new micro level activities to the work programme of ministries will be required. Major elements in place under business-as-usual that need further development are:

- Macroeconomic frameworks prepared for the annual revenue forecast should be extended by another two years. MTEF is a multi year budget.
- Resource envelope also should be extended in consistent with the macroeconomic framework..
- Improve the IPP preparation process I all the ministries
- Transform the input budget to output budgeting and costing of activities. .

Thus setting up of MTEF in Palau means developing the capacity to handle the above issues.

XI. RISK VS OPPORTUNITIES

a. OPPORTUNITIES

5.35 Although the MTEF approach is quite different to top-down resource matching, its introduction to line ministries should not be difficult. It provides line ministries and other government agencies an opportunity to better target, and take responsibility, for their investment and expenditure decisions. The three-year budget horizon, and the assurance of resources that goes with it, should inspire hope and commitment to go forward with confidence to implement the planned tasks. MTEF is a mechanism for disciplining the budgetary process to focus more on strategic policy issues. Line ministries and other government agencies could engage closely and productively with MOF with the confidence that funding will be in accordance with the scheduled estimates, barring a change of government policy.

5.36 The MTEF will not lend itself to perpetuate the present practice of incremental growth of budget requests. Having to abandon the less demanding traditional approach may induce some apathy among line ministries for the new system. MTEF will improve macroeconomic balance by developing a multi-year resource framework (expenditure & revenue), assist in improving resource allocation between and across sectors, and improve predictability of funding for line ministries. With the completion of these steps government can significantly reorient expenditure to reflect the core strategic priorities mentioned in the MTDS.

b. RISKS

5.37 Of course, the MTEF is not without risks and nor is it a panacea of all budget ills. The lack of understanding about the MTEF in the central agency is a concern. But as a key agency geared to implement changes these concerns are likely to be short-lived. MTEF will strengthen the position of the apex ministry as leader rather than the financial administrator. Yet, a competent manager may initially see this as a process of diluting the authority of central ministries like MOF and Treasury.

5.38 Although this process gives more responsibility and the opportunity to manage funds in a manner best suited to the line ministry, there is a tendency at the higher levels to follow the old fashioned incremental budget programming. However, once it is introduced the line ministry is likely to adopt it enthusiastically even though it is more demanding. The major constraint in line ministries is the staff shortage but overall it will inject dynamism into the system.

5.39 All these factors are, more or less, related to one's perception of the proposed changes and can be overcome at very little cost. However, overcoming the technical intricacies involved in producing frameworks such as the macroeconomic framework may be hampered due to two reasons: non availability of time reliable time series for key macro economic variables and the skills shortage both in numbers and quality-wise.

XIII. LINKING THE MTEF TO MDG

5.40 The challenge ahead is to develop pro poor MDG strategies/interventions for Palau. Palau does not have any specific Poverty Reduction Strategies (PRS). Poverty issue has not been addressed directly but there is this notion that growth alone is sufficient and poverty can be addressed through so-called safety nets. This appears to be the implicit strategy. At the same time there are no development strategies designed at macro level such as a labour intensive development strategy that could bring about a wider income distribution in the country..

5.41 **Linking of planning targets to budget allocation is the major objective of MTEF.** As MDG is an explicitly designed strategy one way of achieving its objectives is through the interventions. **The linking of MDG with the budget allocation is a way of intervention and MTEF goes between MDG and the budget allocation.**

5.42. It is hard and unwise to introduce MDG as an alien concept when. Incorporating MDGs into planning process and budgeting. The major reason for localizing MDGs is to make them relevant to the country specific objectives and integrate them to the existing system of the planning and budgeting. The first MDG report produced has shown some development in that regard but attempts should be made to do more sub national level oriented.

5.43 The first step is to develop strategies and interventions to achieve the said goals of MDGs. Secondly, the immediate task of MDG task force is to arrange the costing of MDGs and have realistic cost estimates to integrate into the planning and budgeting process.

5.44 Well developed methodologies are available. Considering the weakness in macroeconomic skills in the MOF, it is not advisable to follow the MDG based macroeconomic framework development. Need Assessment will be recommended as a costing methods which supplements or facilitates the introduction of MTEF costing to the budgetary process. As the finance crunch deepens it is important to find ways of financing MDG. The MDG related to the social dimension can be introduced through the programmes of health, education and social development ministries, and divert budgetary resources to carry out those targets. The advocacy for MDG and ownership of the budgetary process by LM level can play a large role in implementing pro poor strategies. Full implementation of MTEF is needed to carry forward the proposed strategy.

5.45 As mentioned above MDG Needs Assessment is the starting point of integration. This assessment provides information on the total resources required to achieve the MDGs. This is done by identifying each target and the population in need, and the resources required. Hence, it estimates the cost of the outputs and activities required to implement MDG-based policies and strategies. Further, NA assists policy implementation by providing an indication of the quantity as well as the distribution of budgetary resources required to finance the implementation of MDG-related activities.

Need assessment.- Identify infrastructure, human, and financial resources that correspond to budgetary outlays or expenditures, laying the ground for aligning public medium-term expenditure frameworks with national MDG

5.46 The second step is to link the MDG NA with the macro-economic framework and the financing strategy, and translate them into MTEF and annual budgets. This links the MDG-based plan to annual budgets through a credible MTEF, in an integrated manner. Finally, for successful integration, the strategy must analyse the macro-economic implications of financing the costed activities and outputs identified in the MDGs Needs Assessment. Analysis of macroeconomic framework not only estimates domestic revenue and financing capability of the economy but also enables a proper assessment to prevent the potentially destabilizing effects of excessive fiscal expenditures. Lastly, monitoring of the MDG completes the cycle.

5.47 In summary after the goals are defined and the targets are set, translating them into interventions is the next step. The interventions are then incorporated into plans and followed up to assess their impact on the macroeconomic framework. Aligning with the budget, financing, implementing and monitoring their progress should follow. In a way there is a vehicle to integrate but MDG has to go some way ahead.

5.48 However integration of MDG into MTEF can be done at programmes levels but to achieve long term goals of achieving MDG needs a MDG-Consistent MTEF is the best approach but need further upgrading of skills which are not developed enough to handle MTEF. A MDG-consistent MTEF is a framework that aims to align annual budgets, medium-term and long-term financial programming. The MDG-consistent MTEF will establishes systematic linkages and ensures consistency between the long-term and medium-term macro-fiscal frameworks and the translation of these fiscal targets into consistent annual budget allocations. However, country is not yet ready to encompass complicated methodology and therefore the immediate steps can be taken to link pro poor ministerial strategies to budget allocation.

5.49 To make it explicit a concept format has been developed in order to integrate planning targets and MDG into budget. The major debate had among planners was how to select new projects and by inclusion of the statement in budget call saying that the current year request must not exceed the last year request and if it exceeds it should be justified. There is no concrete methodology given to project proponents to how to justify his request. There are explanations but they are not explicit and mere adversary statements. To avoid that ambiguity and make it transparent and allow every one to submit their request on equal ground a draft project format is submitted. This is a adaptation of a format developed by the consultant previously and he recommends that this should be developed further to make acceptable to all and Palau requirements. It is strongly recommended to develop it through a participatory method. Conducting interactive workshops are recommended. **Please see annex 4 for the format.**

XIV. BUDGET WORKSHEETS

5.50 The implementation of MTEF will change some processes and the costing of policy/strategy is the most important element that will be introduced to the system. Other than the change of perception of the staff this is the most technically demanded area of work. At this stage this document will present the general formats just to give an idea about the nature of the work.

5.51 The format submitted in response to budget call take the name of “Budget request” has the mission and vision of the entity and the deliverables. However there is no serious debate evolved around the budget estimates since there is no monitoring or stock taking process of the outputs or outcomes. The final decision of budget allocation is mainly done by the MOF. In MTEF process the interconnection of policies and strategies should be well established from input to output and outcome and to indicators and the allocation to policies should be done within the ceiling.

5.52 Therefore the budget worksheet while having the “preamble” of vision and missions as in the previous one, it may be more detailed and can take any form but may become better if it submits the estimates in a form which enables analyse and measure of the impact of the inputs.

5.53 But the standard form may have the inputs required using standard items at the top of each of the costing tables. Standard items are the broad categories of expenditures within which the specific types of expenditure will need to be identified in the table. However, the process is as follows for each activity:

- 1) Identify the type of inputs required e.g. the type of transport costs such as transport claims
- 2) Assess the quantity required for one activity
- 3) Estimate the cost per unit of input, and
- 4) Calculate the total cost, i.e. multiplying the number of inputs by the cost.

5.54 The sheet given below is one of the sheets of the total budget worksheet which is used in the MTEF process. It requests aggregate policy cost, with finance options. Under each policy the recurrent and investment costs have been requested. These issues have different importance to different countries. Another MTEF may request regular cost and investment costs. However, this process is called the classification of expenditure. In this scenario MTEF is interested in the recurrent cost and capital costs. It is not clear whether the MTEF wants the recurrent costs of capital projects separately under the recurrent cost. Therefore as it happens in normal budget calls all the details should be supplied under treasury or MOF guidelines for MTEF.

SAMPLE BUDGET SHEETS FOR A MTEF

Sheet 1

Data on all financing sources and expected results should be provided for all years as showed for Year 3								
	Past YEAR	Current YEAR	YERAR 1	YERAR 2	Total	YERAR 3		
	Actual		Budget Year		Budget	Finance	Other	Results
						Govt	Finance	
Policy 1								
Recurrent								
Investment								
Policy 2								
Recurrent								
Investment								
Policy 3								
Recurrent								
Investment								
Policy 4								
Recurrent								
Investment								
Policy 5								
Recurrent								
Investment								

This sheet goes further steps and has sought further breakdown of the costs.

Sheet 2

Data on all financing sources and expected results should be provided for all years as showed for Year 3								
	Past YEAR	Current YEAR	YERAR 1	YERAR 2	Total	YERAR 3		
	Actual		Budget Year		Budget	Finance	Other	Results
						Govt	Finance	
<i>Policy 1</i>								
Programme 1								
Recurrent								
Salaries								
Non salaries								
Investment								
Programme 2								
Recurrent								
Salaries								
Non salaries								
Investment								
Programme 3								
Recurrent								
Salaries								
Non salaries								
Investment								
Programme 4								
Recurrent								
Salaries								
Non salaries								
Investment								

5.55 By now the MTDS has developed the strategies and policies and the task ahead is to enter them in these sheets wit their cost to arrive the fund requirement for the implementation of the policy.

5.56 These formats are just specimens and many countries normally demand information at very detailed level although they do not have any MTEF. Therefore seeking details information in budgeting is not a feature limited to MTEF system. In fact budget call Palau also request many details and justifications of expenditure. The difference is that MTEF is policy driven and the funds are exactly allocated to particular policy and demand its monitoring too. After the cost were calculated the cost may go over the limit of the hard budget but the ministry itself has to revise ministry budget . The solution is through the reprioritisation of projects.

XV. PRIORITIZATION OF OUTPUTS AND ACTIVITIES

5.57 This is an issue line ministry always faces. This is an important part of the MTEF process and this action is broadly explained under 4.19 matching resources and costs. As line ministries are given the responsibility of budgeting and costing the total estimated costs of all the activities are likely to be well in excess of the preliminary ceilings to be provided for by the MOF. Previously the decision of trimming the cost were with the MOF who made the decision mainly because line ministry is reluctant to back down from their original estimates and they have no responsibility of their own to bring it down. But under MTEF it is the responsibility of line ministry to reprioritize within the hard budget ceiling. These are the areas where no hard and fast rules are recommended. But some examples can be taken from other countries. And can be used only as guidelines. These are some recommendation given below. The criteria given below can be used to determine the exit of a project or its postponement.

- **Direct impact**: those outputs and activities that contribute to achieving the Ministry's objectives in the most direct way.
- **Time frame**: those outputs and activities that can solve a problem in the shortest time and with a lasting impact should have a higher priority.
- **Effectiveness**: those outputs and activities that can achieve the objectives with the lowest levels of expenditures should have a higher priority.
- **implementation capacity**: the capacity of the ministry and its departments and spending units should be an important factor in prioritizing between outputs and activities.
- **Funding requirements**: some activities may have higher funding requirements even if they are lower priority. For example, the construction of new roads may have a lower priority than rehabilitation of existing roads.

5.58 Thus, key unsolved challenges addressed were (a) coordinating plans with the national budget (b) coordinating with other national-level strategy processes . But yet to address (c) monitoring performance, and (d) building capacity of the staff.

5.59 Over all what transpires is that the integrating MDG or other planning targets are not different two methods. There are no hard and fast rules. But MTEF system gives great flexibility and opportunities to integrate the interventions. This is a process of democratization of budgetary process which need vigorous leadership which has a capacity to think out of the box.

XVI. STEADY AND COMPREHENSIVE IMPLEMENTATION OF MTEF IN PALAU

1. The MTEF process in Palau should be implemented gradually and intensified at a later stage by introducing more complicated concepts, including the MDG based Long Term Expenditure Framework.
2. Initially, the MTEF should be implemented to cover only the projects/programmes funded through the government budget. But it should cover all the ministries, bureaus and agencies.

3. To ensure political commitment to and ownership of the MTEF a Steering Committee (SC) should be formed under the President as he is the one who do the budget call.. It is advisable to have key cabinet ministers in the fold of the SC. The SC will strengthen the MTEF process and not contravene the existing arrangement of the President making the budget call.
4. Ensure that individual preference and subjective decisions are minimal in the MTEF process. To support the SC and lead the project a Technical Committee (TC) should be formed under the Ministry of Finance (MOF).
5. The TC should include heads of the key ministries and they should be given international exposure to study the success stories and also the theoretical and technical skills to develop the MTEF. TC should be responsible for implementing the various components of the MTEF.
6. The TC should act as change drivers and take the responsibility of conducting training in all the other ministries and bureaus. Later, MTEF training should be extended to state governments to expand the level of participation of local bodies, which NSDS envisages as a further democratization of governance.
10. To prepare **the minds of** politicians and government officials for the impending changes, and to ensure general acceptance, change management workshops should be held, at the outset.
11. Donor coordination is also a factor that needs attention because there are independent donors whose funding is not under the purview of the national budget. MTEF presents them a good opportunity to increase the efficiency of their investments and be flexible.
13. Every effort should be made to make donors active participants of the SC meetings, if not regularly, at least periodically.

CHAPTER 6 : MONITORING OF PLANNING TARGETS INCLUDING MDGS AND CAPACITY BUILDING FOR PLANNING BUDGETING AND STATISTICS

I. EXISTING MONITORING SYSTEM

6.1 There is no particular systematic monitoring in place to monitor the outcomes and to determine the efficiency level of the delivering of services or to improve the process and check whether the objectives have been achieved. . . . It was hard to find monitoring system of physical output. The performance report submitted by each agency to MOF is the reporting mechanism that exists. Some agencies have supplied extensive reports about their performances but there is no proper data base built or maintained to record them. In spite of having some data gathering across the institutions there is no proper mechanism for monitoring any of the occurrence other than using them by the statistical office

6.2 Further monitoring of economic and social development is impeded by some factors already inherent in the system for a long time. Non availability of a conducive organization structure at any level for monitoring and the lack of relevant data to measure the indicators are two among many impediments. **Although a performance-based budget monitoring system has been introduced, there is very little to show for it in practice.**

6.3 Considering the volume and quality of the monitoring work that will become necessary, with the introduction of MTEF and the MDG, new approaches have to be explored for monitoring of the plans, strategies and process. Thus key issue emerge in the new system is what is monitored and by whom. In addition MTEF process requires different skills and staff. Therefore it is proposed to develop a monitoring system that will not overburden the key personnel. The proposed system will delegate and make all stakeholders accountable and participatory. As monitoring is an important element of NSDS process with planning, budgeting and achievement of MDGS it is more appropriate to establish a

organisation structure and capacity building effort that improves the whole process including planning, budgeting and monitoring as integral part of NSDS.

II. CAPACITY BUILDING FOR PLANNING BUDGETING AND STATISTICS

6.4 The definition of NSDS says. “A national sustainable development strategy is a coordinated, participatory and iterative process of thoughts and actions to achieve economic, environmental and social objectives in a balanced and integrated manner. The process encompasses situation analysis, formulation of policies and action plans, implementation, monitoring and regular review. It is a cyclical and interactive process of planning, participation and action in which the emphasis is on managing progress towards sustainability goals rather than producing a “plan” as an end product.”.

6.5 This definition of NSDS suggests that the appropriate planning structure is multifunctional and not limited to compilation of plans, which may well be abandoned due to lack of funding. Planning, budgeting, implementing and monitoring have become integral parts of a process to achieve sustainable development. The multifunctional capability is relevant for Palau because of its small size and the support already available under Compact Assistance for the major part of its financing requirements. Also, Palau has long term and short term development plans and strategies for many more years. Therefore, just at the moment, Palau does not need a large planning structure. What it really needs are structures capable of integrating the planning targets and strategies to the budget allocation and to monitor them. It is this ability to execute these diverse tasks, in coordinated manner, that is required of the planning cadre. However, the Palau is lagging far behind these ideal conditions. The weaknesses are not only in planning but in all areas related to planning and plan implementation.

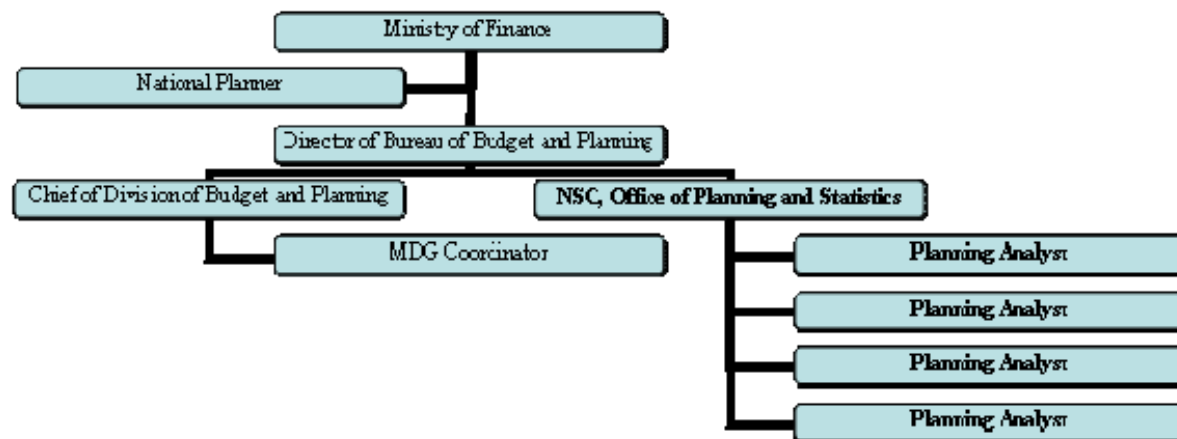
6.6 “The budget formulation and monitoring staff is limited to just one full time position working with the National Planner. However, the introduction of a medium term budget would necessitate a constant analysis of in-year budget execution data, its feedback to line ministries for taking corrective action and, if necessary effect mid-year reviews and attendant corrections. MOF staff would also need to act as trainers for line ministry staff. These tasks would require a very significant augmentation of budget staff at MOF. A similar augmentation of accounting and budgeting staff in LMs is also required before medium term budgeting can be initiated.” (Scoping Study. PIFTAC.). As MTEF is in the implementation agenda, the above statements from the PIFTAC scoping report very clearly stressed the necessity of expanding the cadre in the MOF. If the cadre requirement is not filled within a year it is unlikely to bring any improvement in the planning process or achieve the planning targets which were well defined in MTDS. Therefore it is decided to propose a organisation structure that would facilitate not only the monitoring but planning, budgeting and statistics.

III. ORGANISATION STRUCTURE OF PLANNING, BUDGETING AND CAPACITY BUILDING

6.7 The need for reevaluating the existing planning system and ascertaining the capacity building requirement are not limited to Ministry of Finance and Planning. Considering the important role of the Bureau of Budget and Planning (BBP) capacity building at the BBP should be treated as a matter of urgency. It should be made compulsory and implemented immediately. Other capacity building initiatives should be taken up thereafter, following training needs assessments, in each line ministry.

6.8 First and foremost, however, is to have a proper organisational structure in place. Before proposing any doable structural changes it is important to analyse the existing organisational structure of the BBP of Ministry of Finance. The existing structure is presented in Diagram 1.

DIAGRAM 6.1. EXISTING ORGANISATION STRUCTURE



National Planner	1
Director of Bureau of Budget and Planning	1
Chief of Division of Budget and Planning	1
NSC Office of Planning and Statistics	
MDG Coordinator	1
Planning Analyst.	$\frac{1}{9}$
	9

The existing system is not well defined. The National Planner and the Chief of Bureau of Budget and Planning is one and the same person responsible for both. There are three planning analysts and are fully involved in statistical work. MDG coordinator is the only planning analyst responsible for planning not yet fully engaged in planning work..

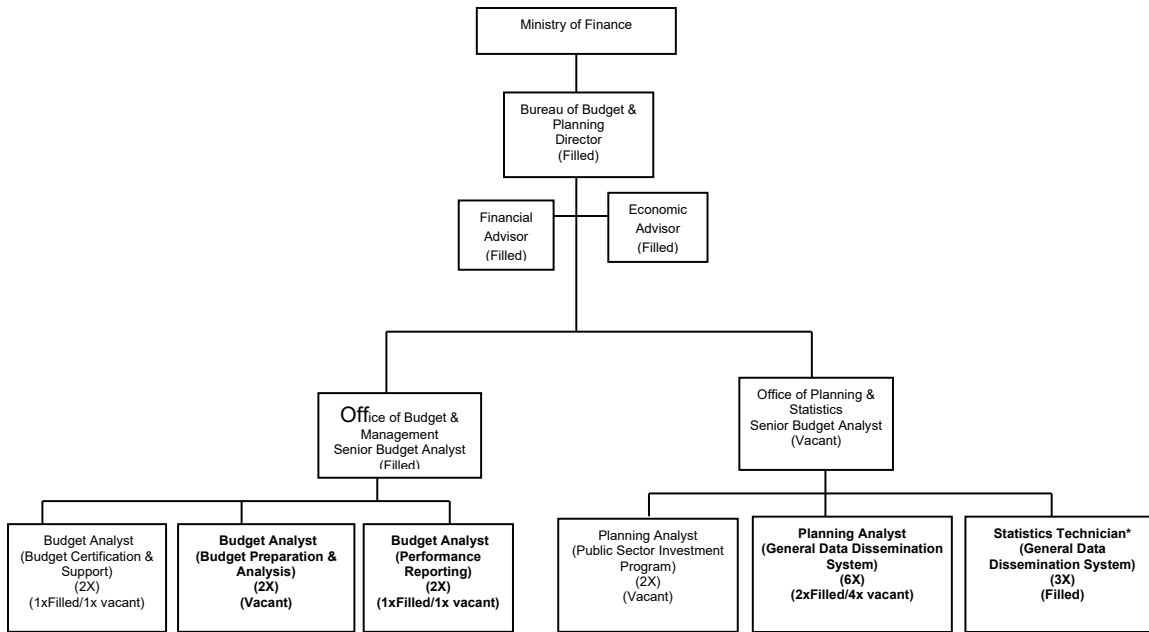
IV. ORGANISATIONAL STRUCTURE WITH FULL STAFF

6.9 The Diagram 1 illustrates the organisation chart of the BBP. The other divisions and sections of the MOF are not included in the chart. Apart from that deficiency, the chart does not illustrate the interrelationships, and nor are all the budget analysts included in this organisation chart.

6.10 Clearly, this structure is totally inadequate as a viable option to perform the complicated responsibilities that may be required in the not too distant future. This arrangement is unclear in terms of structure and poor in terms of staff numbers. Obviously this should be restructured in order to respond to the new demand.

6.11 A Full Staffing Plan has been prepared for BBP that shows the Government is seriously considering the restructuring of MOF or at least BBP. The full staffing plan has 11 positions to be filled. Although, the responsibilities attributed to the positions have not been elaborated, the designations are indicative of the type of work. The scheme has a sufficient number of positions and should be able to cover the envisaged responsibilities.

DIAGRAM 6.2 ORGANISATION STRUCTURE AS PER FULL STAFFING PLAN



	FILLED	VACANT	TOTAL
Bureau of Budget & Planning Director (Filled)	1	0	1
Financial Advisor	1	0	1
Economic Advisor	1	0	1
Office of Budget & Management Senior Budget Analyst 1	0	1	
Office of Planning & Statistics Senior Budget Analyst	0	1	1
Budget Analyst (Budget Certification & Support)	1	1	2
Budget Analyst (Budget Preparation & Analysis)	0	2	2
Budget Analyst (Performance Reporting) (1	1	2
Planning Analyst (Public Sector Investment Program)	0	2	2
Planning Analyst (General Data Dissemination System)	2	4	6
Statistics Technician*(General Data Dissemination System)	3	0	3
	11	11	22

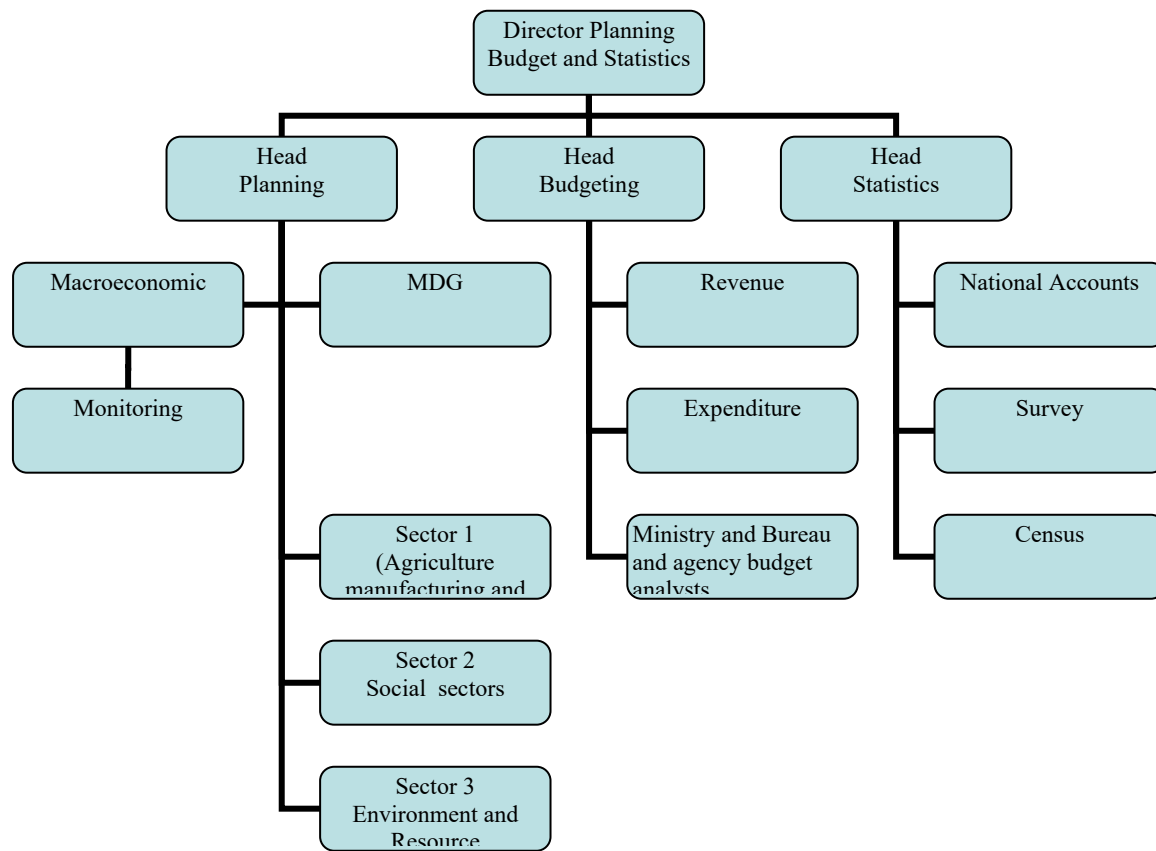
VI. PROPOSED ORGANISATION STRUCTURE FOR BBP

6.12 The organization structure shown in Diagram 2 is not yet in operation. Therefore, an organisational chart, devised to suit current planning needs, is submitted for consideration. The planning structure under NSDS is an evolving system. The organisational chart proposed now (Diagram 3) is designed to address the pressing issues of the current planning process. It would serve as the foundation that can evolve along with the planning process into an ideal system in time to come.

6.13 The major components of NSDS can be categorized under planning, budgeting, monitoring etc. As mentioned at outset, they are not isolated activities but elements of an integrated and dynamic process. They are performed by many stakeholders that include government, private sector, NGOs and others. But at this stage, government sector capacity building should receive priority as it is the dominant player in the management of the economy of Palau.

6.14 To effectively manage the public sector, the Ministry of Finance, as the ministry responsible for planning, budgeting and monitoring, should have staff with the skills required to perform those duties. The proposed BBP organization structure (Diagram 3) is indicative but further analysis of its functions will confirm its appropriateness for the duties entrusted and to achieve the goals. However, a logically designed organisation chart alone will not ensure efficient and effective performance. The clearly defined job descriptions and how and who will execute them are the other important elements that will guarantee successful implementation of plans. The line of responsibilities should be synchronized to achieve the intended outcomes. Although listing the responsibilities of all the positions is out of scope, an attempt will be made to identify the job descriptions of notable posts which are most relevant for planning, budgeting and monitoring where capacity building is needed.

**DIAGRAM 6.3
PROPOSED ORGANISATION STRUCTURE FOR BBP**



6.15 The organisation chart has three tiers. First and second tiers are managerial positions and their incumbents should have a wide understanding of the big picture rather than specific technical skills. The capacity building project of UNDP, while admitting the need to enhance the knowledge of senior management on the new developments in planning, budgeting and monitoring, laid more emphasis on developing the technical skills at the third tier.

6.16 In the third tier, capacity building is required mainly in the areas described below. Planning and budgeting staff should not only possess the relevant technical know-how but also maintain good contact with other organizations to get inputs and deliver outputs, in a timely manner, and facilitate the smooth functioning of the whole system

Staff structure

1. BBP Headed by the Director of Planning Statistics and Budget
 - a. Divisional heads
 - i. Subordinate Staff

Divisions

Planning
Budgeting
Statistics

Divisional Functions

Planning Division:

- a. *Macroeconomic planning and Monitoring*
- b. *Sectoral Planning (Agriculture, Manufacturing and Infrastructure sectors)*
- c. *Sectoral Planning (Social Sectors)*
- d. *Sectoral Planning (Environment and Resource Sectors)*
- e. *MDG*

Budget Division

- a. Revenue Division
- b. Expenditure Division

Statistical Division

- a. National Accounts
- b. Surveys
- c. Censuses

VII. STAFF FOR PLANNING FUNCTION

6.17 ***Macroeconomic:*** Macroeconomic sector is a crucial sector not only in planning but for the economy as a whole. Prudent macroeconomic policies are what investors expect from any government. Good macroeconomic management will build people's confidence in the government. However, the macroeconomic management has to be supported by many technical inputs, and the staff should have capacity to build and use them for macroeconomic planning. This area is generally underdeveloped within the planning process. The major responsibilities in macroeconomic planning and the line of contact to get inputs and deliver outputs are:

Major responsibilities:

- Construction of the macroeconomic framework
- Preparation of resource, source and use tables.
- Establishment of sector ceilings.
- Integration of MDG into the macroeconomic framework (If it is the way chosen to integrate MDG)
- Responsible for managing the monitoring.

The line of contact:

- National Accounts (Inputs-GDP, BOP and macro economic data)
- Three major sectors (Input: sectoral demands; Output: sector

ceilings)

Revenue (Input: Revenue forecast; Output: Revenue targets)

Expenditure (inputs – PSIP costs current and capital, outputs-Total ceilings)

MDG (Input: cost of interventions; Output: MDG integrated into budget)

VIII. SECTORAL PLANNING

6.18 The economy is comprised of three major sectors: economic, environment and social. They are the major pillars of sustainable development and their integration into the planning process is vital. Therefore, the responsible staff should be knowledgeable about the key issues and elements of these sectors that contribute to overall sustainable development. The planners should be well informed about the sector outputs, contributions to the economy, job creation, investments, domestic as well as international demand etc. There is no limit to the knowledge they should have about their sector. The planner should always be prepared to meet the demand for information exerted by other sectors or divisions.

6.19 In addition, there are ministries, bureaus and agencies that are responsible for many of these sector activities, and BBP is responsible for financing their current and capital expenditure. The planner is concerned with the whole sector, and the ministries, bureaus and agencies play their part within the larger sector. Therefore, the sector planner's role is between the macroeconomic planning and budget on the one side, and the ministries, bureaus and agencies on the other. Therefore, when the MTEF is introduced the sector planner will have a vital role supporting the head of planning and budget to decide on sectoral ceilings, and assisting the line ministers and agencies to prepare their plans within the ceiling. A consultative process between the three tiers, vertically and horizontally, is the only way of integrating the planning tasks and the budget allocation. Therefore the sector specific planners have a major role in linking budget and plans.

Major responsibilities:

- Estimate and gather information about output of the sectors.
- Estimate growth scenarios for the sector.
- Estimate job creation potential
- Priorities the investment proposals
- Assist ministries to prepare their corporate budget.

The line of contact

- Macroeconomic division
- Sectoral line ministries, bureaus and agencies,
- Submit sectoral budget to budget division for funding.

IX MILLENNIUM DEVELOPMENT GOAL INTEGRATION.

5.20 The MDGs do not come under the purview of a particular sector. Sometimes it may be of greater concern to a particular sector but generally it cuts across different sectors of the economy. Integrating MDGs into the macroeconomic framework will require a different approach and an expenditure framework longer than three years. Macroeconomic sector has a larger role to play in estimating the long term expenditure framework. The other option is to integrate them through the sectoral interventions. MDG coordinator has to work with macroeconomic section to get the financing space in the macro framework and to advocate the integration of the interventions at sector level, bureau and agency level. However, the MDG process itself has to be further developed beyond target status to enable integration into the planning process. The current responsibilities of the MDG coordinator are organizing:

Major responsibilities

Setting goals

Targets

Identify interventions

Priorities interventions

Costing interventions/Need Assessment

Integrate interventions into planning process

Determine funding sources

Monitor the implementation

Line of contacts

Macroeconomic

Budget

Sectors

Line Ministries

Statistics

X. MONITORING FUNCTION

6.21 Monitoring is not a separate section under planning. It is a unit under the macroeconomic section. All sectors, except the macroeconomic sector, have project and programme level activities. Hence monitoring should be under the macroeconomic division to ensure effective and unbiased performance assessment of line ministries, bureaus and agencies. It has the responsibility of developing indicators, reporting formats, reporting patterns and all the other relevant tasks described under the monitoring section of the report.

a REVENUE AND EXPENDITURE FUNCTIONS

6.22 The introduction of MTEF into the budgetary process will bring about sector wide changes in responsibilities. The budget staff would have to work closely with the planning cadre and jointly handle the line ministry work. However, the revenue and expenditure persons have special responsibilities. They will coordinate the revenue forecast work, which is well documented in the Forecasting Plan, and update the procedures and collect the required information.

6.23 The expenditure person is responsible for overall management and approving the release of funds. The National Treasury is involved in revenue collection, and Public Service Bureau (PSB) in approving and purchasing services. But the functions of planning and budget discussed above are in the nature of economic activities, not audit or accounting activities.

b STATISTICS

6.24 Statistical division has the responsibility of maintaining data bases of the country, compiling National Accounts, conducting surveys, censuses and other related work. The planners can recommend and request the statistics office to compile the statistics needed for planning and monitoring. Thus the statistics service should be oriented towards producing data on demand. However, the understaffed Statistics division is struggling to produce accurate National Account data, in time. Nor is it able to produce volume outputs of the sectors, or adopt the indirect income method to compile the National Accounts. Lack of supporting data and weaknesses in the analytical process in data compilation undermine the credibility of accounts. Consumption, investment and savings, a set of key macro variables are not produced systematically. Despite all this the National Account has a key role in planning, and the macroeconomic framework is basically built on the National Accounts. Unlike in the case of planning, the functions of the statistics section are well defined. What is needed is a proactive approach to produce the data required by planners and the MDG unit for monitoring purpose.

6.25 There is no definite commitment to fill the available vacancies. Even if this is not done soon, the most appropriate and must do job is to approve the proposed organisational structure or, at least include all these

functions in a revised structure.

6.26 The immediate challenge is to build staff capacity. Planning staff lacks capacity particularly in the macroeconomic area and MTEF. Statistics staff is inadequately trained in data analysis and methodologies.

6.27 Areas for capacity development, type of training required and a tentative time frame are given below.

**TABLE 6.1
TRAINING REQUIREMENT RELATED TO MTEF**

Division	Sector	Type of training	Time tentative
1. Planning	Macroeconomic staff	Macroeconomic framework & Resource envelope	2 weeks
2. Budgeting	Revenue staff	Macroeconomic framework & Resource envelope	2 weeks
3. Planning	3 Sector staff	MTEF	2 weeks
4. Budgeting	Expenditure & sector staff	MTEF	2 weeks
5. Planning	MDG	Costing /Need Assessment	2 weeks
6. Statistics	National Accounts	Industrial survey and analysis	2 to 3 months

6.28 Inability to retain staff and the high turn over of MOF staff are concerns. Creating opportunities for development and a challenging environment within the establishment, and training and retraining staff should help to retain staff and reduce the turn over. The impact of high turn over can be reduced to some extent by introducing “How to documents” and guidelines. At the end of each quarter the staff person should update the “how to” paper. This method is used to advantage in some other governments that experience a high turn over.

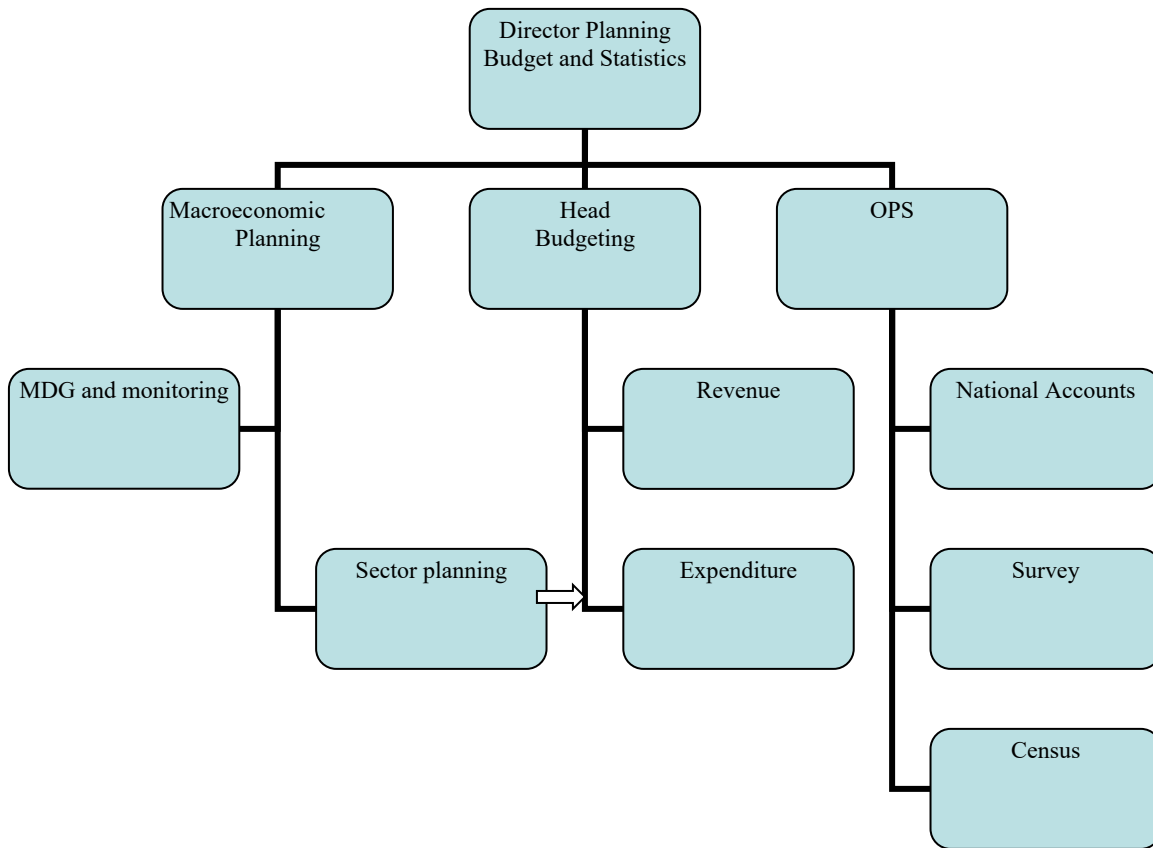
6.29 However, the above scheme is the ideal planning, budgeting, statistics and monitoring arrangements for the BBP. It is not always possible to implement the ideal programme due to staff and resource constraint.

6.30 In such a situation the suggestion for BBP is to capture the core activities of the scheme and appoint staff to take responsibility of those key functions and attach the relevant sub activities not to a one of the major function. It will keep the line of responsibilities as in the ideal scheme but linked to a core function.

6.31 Since the new planning approach is more or less integrated with the budgeting process there is a possibility to substitute the staff of sector planning and the budgeting. Therefore the most feasible scheme with the available staff is to adopt the following scheme till filling of the staff is supported by funds. (This proposal has been endorsed at the end of this project and now working on the staff numbers)

DIAGRAM 6.4

**THE INTERIM ORGANISATION STRUCTURE ALREADY APPROVED
(THE MACROECONOMIC AND OPS ARE TOGETHER AT THE MOMENT).**



XI. PROPOSED MONITORING MECHANISM

6.32 There is a organisation structure accepted in place for planning, budgeting and monitoring. . According to OECD definition “Monitoring is a continuous function that uses the systematic collection of data on specified indicators to provide management and the main stakeholders of an on-going development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds”. MDG monitoring is a mechanism for trailing changes in key poverty indicators and evaluate whether the changes are results of the deliberate policies instituted to reduce poverty.

6.33 There are issues what to monitor and how to monitor. For instant there may be input indicators, output indicators, outcome indicator and final indicator. To make it clearer let’s take the case of monitoring of child mortality. The strategy has been assessed and the financial and physical resources allocated (input indicators) for that strategy is given in the budget. Whether the government has fully funded or under funded will be revealed by comparison of cost of the strategy and the funds allocated in the budget. .Next indicator is the output indicator which determines whether resources were spent on infrastructure, training and retention of midwives and doctors. This is a translation of input to output and next comes the measurement of out come. What is the outcome of the inputs and outputs? As a result of implementing this strategy did pregnant women actually visit the clinics and hospitals? (outcome indicator). If they visited then we expect decline in mortality rates. It is the final indicator. And question is which one to monitor. In our MDG 4 the indicator is “reduction of child mortality”.

6.34 This leads us to decide whether we monitor the final indicator or the intermediate indicators. In other words outcome monitoring or the process monitoring? Process monitoring is the monitoring of the indicators at different stages. Process monitoring is crucial as opposed to outcome monitoring. Once the relevant indicators are identified tracking progress becomes easier, mainly because indicators can be divided into two: final and intermediate. The process monitoring has some more advantages and where any one can find whether a country is moving towards the direction to achieve MDG and if not on correct course then corrective measures can be taken early. When it come to this level special institutional arrangement is required to coordinate monitoring systems

6.35 While monitoring final indicators is a long-term process, which requires expensive surveys, intermediate indicators can be monitored relatively easily, mainly because data is available from line ministries or as administrative data form any public institution. Once progress is made on intermediate indicators, various surveys can be conducted to examine whether the poverty reduction strategy is having the intended outcome and impact.

6.36 After establishing the system of monitoring, preferably it will be process monitoring, and the next challenge is the selection of indicators. Invariably the MDG has already selected the indicators for the targets but the process monitoring needs much more indicators in between. Thus selection of indicators is equally important task. Common but best features of a indicator are

- Acceptability
- Relevance
- Links
- Cost
- Clarity
- Flexibility
- Predict trends
- Ability to be unbundled

Although the features are self explanatory, developing indicators is not simple. They must be reliable, valid, comparable as well as cost effective and useful.

6.37 However, it is said that the budget performance is preferably measured in terms of. Quantity Indicator:- Quantity of service provided, Quality Indicator - Quality of service provided according to customers or stakeholders. Efficiency Indicator - Cost per unit of output; processing time. Effectiveness Indicator - The degree to which the intended objective of the service is being met. But there is no reason to confine monitoring to a strict framework when monitoring becomes an element of broad spectrum of activities.

6.38 Incidentally, the selection of best featured indicator for monitoring the process may come across the difficulty of measuring it due to difficulties of data collection. There must be options to use alternative indicators or proxies where data collection is not feasible,. As a principle and most importantly, indicators should be specific to the goal to be monitored and useful to all levels of monitoring

6.39 The methodology for monitoring of indicators is therefore based on the proposed organisation structure. Although NMDP is the Planning Document for the country, with the passage of time, government opts to consider MTDS as the current version of NMDP. Implementation of MTDS implies the implementation of the updated NMDP. Therefore this monitoring mechanism will be developed to assist monitoring the MTDS as well as the performance of MDGs.

6.40 MTDS has developed strategies, action plans and indicators. Action plan matrixes have been developed prioritizing the activities, naming the responsible ministry, bureau and agency and timing and costing the inputs. To facilitate the integration of planning targets to the budget allocation, under the budgetary process it has been proposed to include in budget call, to clearly mention, from which national planning document the strategy or the action plan has been selected. In the same manner question is asked

whether MDGs have been selected and reasoning for the decision. This will allow the LM, bureaus and agencies to focus their selection and monitoring person can keep a record of programmes, projects and action plans put into implementation through the budget.

6.41 The MTDS has very clearly put all its strategies into the following format. Any strategy coming from any other planning document may have all the information except action number, which is not important for budgeting. But under columns responsibility the MTDS may have more than on executing agencies and when the budget is finalized it will be known exactly who is responsible for the project in the budget document. In addition MTDS has the performance indicators to monitor the success of the strategy. The real example is used below to elaborate the process further. This is the strategy 2 of the tourism development goal. (For details MTDS page 158).

Goal: To upgrade the image of Palau as a tourist destination and position Palau as the island of choice for environmentally conscious visitors, with quality visitor experiences and high financial and other benefits to Palau on a sustainable basis.

A Strategy and activities of sustainable tourism development has been analysed as an example.. It has a very high priority scores.

Strategy 2	Action No	Action	Priority	Responsibl e	Cost	Timing
Refocus the national tourism product, rebrand the destination, properly fund destination marketing and build effective public/private/ partnerships for implementing destination marketing	4	Refocus Palau’s position as a quality holiday destination	9.25	TAP and PVA	Nil	Year 2
	5	Reform the taxes paid by tourists and include a charge to fund destination marketing.	8.75 (9)	Tri-Org	Nil	Year 3
	6	Target destination marketing activities to encourage low volume / high spend styles, discourage high volume / low spend styles and avoid undesirable segments	9.5 (2)	PVA	\$1,300,000 R	Year 2

6.42 Subsequently the performances indicators are given in the same document but separately. Therefore monitors have a challenge to select the appropriate performances indicators, because the MTDS does not link them. The discussions in above paragraphs of 7.2 to 7.8 give basics of methodology to select the most relevant indicators to monitor the given three activities. If there are other indictors which are more suitable and where data is reliable and easy to obtain the monitors have the option to make the best judgment of selection. Else monitors can develop new indicators to monitor the activities.

6.43 The table given below is the indicators relevant to monitor the strategy 2 of tourism of MTDS .In this situation it is clear, that to monitor the activity 6 the most relevant indicators are “ Cruise ship visitors as a proportion and the High quality accommodation room as a proportion”. The dialogue and discussions should be developed among planners and extended to LMs to find indicators accordingly.. .

PERFORMANCES INDICATORS TO MONITOR ACTIVITIES OF TOURISM DEVELOPMENT STRATEGY 2.

<i>Total visitor numbers.</i>
<i>Expenditure per visitor per day.</i>
<i>Average length of stay.</i>
<i>Scheduled flights as a proportion of total flights.</i>
<i>Cruise ship visitors as a proportion of total visitor numbers.</i>
<i>High quality accommodation rooms as a proportion of total rooms available.</i>
<i>Palauan workers as a proportion of tourism workforce.</i>
<i>Visitor survey results.</i>
<i>Adherence to guidelines established in tourism site capacity assessment.</i>

Source : Medium Term Development Strategy

6.43 Against this backdrop the monitors have to prepare a master file of Matrices to facilitate the monitoring process of the strategies and activities already received funds. Further reading of the tourist master plan will give much information that enable then development of more relevant indicators. There may be more than one indicator to monitor the activities, and among them may exists the core indicator.

6.44 As there is no experience in log frame analysis in the divisions it is highly recommended to develop the knowledge of terminologies so that monitoring staff can include in the formats what to monitor| and send them to LMBAs and train staff to gather information.

XII. KEY DEFINITIONS

Monitoring *A continuing function that uses systematic collection of data on specified indicators to provide management and the main stakeholders of an ongoing development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds.*

Development objective *Intended impact contributing to physical, financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more development interventions. Meaning longer-term benefits to beneficiaries and other groups which the project aims to contribute to, e.g. change in socio-economic conditions.*

Indicator *Quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor.*

Inputs- *The financial, human, and material resources used for the development intervention*

Activity *Actions taken or work performed through which inputs, such as funds, technical assistance and other types of resources are mobilized to produce specific outputs.*

Output *-The project output is reflected in the expected results– services to be delivered to the beneficiaries, these are project outputs of a series of activities related to this result.*

Outcome *- The likely or achieved short-term and medium-term effects of an intervention's outputs. short/medium-term benefits received by the project beneficiaries by the end of the project or shortly after, e.g. raised awareness, skills, or behavioural changes, changes on policy level, etc*

Performance indicator

A variable that allows the verification of changes in the development intervention or shows results relative to what was planned. Related terms: performance monitoring, performance measurement

Assumptions and Preconditions *– conditions which could affect the success or progress of your project which you cannot directly address through your project design or management, e.g. if your trainees soon after the training leave their job your training will not have a lasting impact, so that the assumption you have to make related to your objective would be “little job rotation”. If the assumption does not hold true you will not achieve your objective.*

6.45 The most appropriate way of entering the monitoring process is by developing the monitoring formats. If log frame knowledge is available it would be very advantageous.

A simple format defining what to monitor.

Goal : To upgrade the image of Palau as a tourist destination and position Palau as the island of choice for environmentally conscious visitors, with quality visitor experiences and high financial and other benefits to Palau on a sustainable basis				
MAIN ACTIVITY	INPUT COST	OUTPUT	INTERMEDIATE OUTPUT	PERFORMANCE INDICATOR
Target destination marketing activities to encourage low volume / high spend styles, discourage high volume / low spend styles and avoid undesirable segments	US\$ 1,300,000	Promotion work. International marketing. Staff training	Cruise ship tourist visits increased. Divers from new destinations increased by x%.	Tourism income receipt of BOP increased as a percentage from X% to Y%

6.46 In the same manner the MDG coordinator has to expand the indicators

Millennium Development Goal Achievement				
MAIN ACTIVITY	SPECIFIC OBJECTIVES	OUTPUT	INTERMEDIATE OUTPUT	PERFORMANCE INDICATOR
Provision of maternal and child health services	<i>To achieve the UN Millennium Development goals related to health</i>	Reduce child mortality	Immunisation coverage rate as a % of registered live births increased from 98% in 2005/06 to 98.5% in 2007/08	Infant Mortality Rate (IMR) reduced from 13.4 per thousand live births in 2005/06 to 12.0 in 2007/

6.47 This process should be continued to cover all the strategies and activities chosen from the national development plans including the MDG reports and maintain a master file. But the most important assignment of monitoring is the preparation of the reporting formats. It will demand collection of statistics too,

6.48 .The specimen format for reporting has been designed. This will be sent to LM, Bureaus and Agencies and they should fill it with the information and should be returned to MOF. The name and contact details of the person who fills the questionnaire should be entered.

6.49 There is no particular recommended format. But the activity, output, outcome and target relationships are expected. The knowledge and definitions should be known well. To this it can be added summary of Issues and recommendations meaning something like key achievements and also constraint and issue to be reported. And can ask for suggestion for improvement.

6.50 A well developed format for MDG monitoring, has been filled to demonstrate to relevance to indicators, outcomes, outputs and activities. This format can be copied, redeveloped, added with any information required under undefined columns and sent with instructions added. Further development can be done with the participation of MDG working group.

Monitoring of performances; Financial Year 2009/2010

Admin Unit: Ministry of education
Division/Bureau: Department of

Operational unit:
Programme :

Contribution to National and international galas & targets

Classification	Category	Goal	Targets/Indicators	Progress
MDG		Goal 2: achievement of universal education.	.Target 3: Ensure that all boys and girls complete a full course of primary education Proportion of pupils starting grade 1 who reach grade 5 (%)	Xx%

Programme Outcomes

Outcome	Indicator	Base line	Plan targets	Progress
Enhance enrolment of children age 6-12	% net primary enrolment	Xx%(year)	Near 100%	Xx%(year)

Activity progress details

Programme Output and activities	Implementation	Indicators	Annual targets	Physical progress	Budget	Expenditure	Funding				
Output 1 Functional primary schools (PS) in place		No of PS functioning									
Activity 1 Establishment of new primary school and expansion of existing ones	Xx% complete	No of new PS constructed									

Output 2													
Inclusive education programme													
Activity 1 capacity building of teachers		No of teachers trained											
Activity 2													
Output 3													
Activity 1													
Output4													

Key achievements													
Constraint and issues													
Recommendations													
Additional comments													

Person's involved	Position	Institution	Address	Contact TP Number	Email
Prepared by					
Date					
Verified by					
Date					

6.50 As this is the most important monitoring vehicle sent for reporting it should be a document with elegant. The below is to show how a policy strategy implementation is monitored. This is very different from the MDG strategy but monitors have to develop the skill to find indicators, outputs , outcomes and activities to suit the strategy This is from MTDS and strategy under Ministry Land and Environment of

Programme : Land Tenure

Matrix 1: Economic Policies and Institutions Action Plan.

Admin Unit: Ministry of Environment Operational unit:	Division/Bureau: Bureau of Land and Survey Programme : Land Tenure
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Strategy	Goal	Targets/Indicators	Progress
Improve Access to Land for Economic Development	Goal: Establish an enabling environment to support sustained and widespread private sector development	Issuance of certificates of title relative to total land claims.	60 % work done

Programme Outcomes

Outcome	Indicator	Base line	Plan targets	Progress
Increase use of land for farming	Lands put into cultivation	20%	60%	35%

Activity progress details

Programme Output and activities	Indicator	Base line	Plan targets	Progress
Output 1 Lending banks	Number of Commercial Banks	1		

Person's name who fill this form	Position	Institution	Address	Contact TP Number	Email
Approved Bu					

6.51 The proposed Planner-in-charge of monitoring would be responsible to collate and analyze monitoring data and take overall responsibility for the monitoring process. It is unwise to have a separate monitoring for MDGs. The MDG should be included in the format so that MDG progress also get monitored. Since both monitoring and MDG are in the same cell, under macroeconomics, and in absence of staff the functions of monitoring and MDG coordination may be handled by one person.

6.52 The Planner responsible for monitor should send a summary report monthly to the Director of BBP, and prepare a report for the bi-annual PMC meeting. PMC is the central command body to asses the monitoring process and thereby the progress of implementation of MTDS. This is similar to the former Project Steering Committee (PSC) that functioned to monitor and advise the MTDS preparation process. PMC should have on board the representatives from private sector and NGOs.

6.53 The NGO's monitoring role should be an integral part of the monitoring framework. This will be new idea to be considered by the MOF after the government led monitoring system is introduced. In discussions with the private sector, especially with the Chamber of Commerce of Palau, it was revealed that private sector actively participated in drawing some sectoral plans and also in the preparation of MTDS. Their great concern then was, and continues to be, is the sincerity of the government to implement the plan. Consistency and a level playing field are their primary demands. Most of the structural reforms in the legal and regulatory framework are to facilitate private sector development. There is a distinct possibility of monitoring the process of approving such reforms, as well as their outcome, using indicators such as new investment and area of investment. This monitoring will strengthen the private and public sector partnership in development.

6.54 Overall neither plans nor studies have tried to fully utilize the state government capacity to gather data or intervene in poverty alleviation. Therefore they will be encouraged to gather economic and social data at state level and analyse the data to find out the economic potential and the possible implications of economic development on the state population.

CHAPTER 7 : CONCLUSION AND RECOMMENDATIONS

7.1 Republic of Palau is looking forward eagerly to better serve its people by eliminating all forms of poverty, sustaining the democratic form of government and achieving sustainable development in the true sense by integrating social factors into economic development and environment management. UNDP, as a development partner of Palau, has been of much assistance in this endeavor. Palau has had a CDNPMP in operation for some time. This document, a product of the CDDNMP, aims to bring cohesiveness to the planning effort of Palau by integrating the social aspects of development including the MDGs which, Palau has agreed to achieve by 2015.

7.2 This document sets out the results of a systematic review of the planning process in Palau. The review shows that Palau's potential for achieving sustainable development is relatively high due to some historical political and economic developments but it is also highly susceptible to short falls in assistance from USA and other donors. Therefore, it is clear that building a "Self reliance" economy as envisaged in the first national development plan, and repeatedly expressed by both the incumbent President and President-elect, is the way forward.

7.3 This document aims to set out a cohesive approach to sustainable development by strengthening the NSDS process. As per the October 26th 2005 declaration, when Pacific Island Forum Leaders adopted the Pacific Plan, the NSDS process was to be completed by 2008. Time is running out. The vigour and passion of the nation, as a whole, must be unleashed with the participation of all the stakeholders of the country.

7.4 A single agency or discipline cannot strengthen the NSDS to achieve national development goals (NDG) and MDGs. It is important to address the whole spectrum of issues in a coordinated and sequential manner for cost effective outcomes. The needs and aspirations of the people should be addressed by adopting participatory processes, and explicitly building links between the national development plan, prioritized sector and cross sectoral strategies, and annual budget allocation. The integrated decision-making processes should be supported by the institutional setting, data and capacity.

7.5 It is not easy for the country to take these strategic steps in a participatory and democratic manner, by itself. This apparent reluctance or unwillingness was actually due to the nature of the existing institutional and bureaucratic arrangements where there is no room for an upbeat team work culture. Therefore, attempts were made to improve the system by integrating the vital functions to the existing system, and enhancing the procedures by adding the NSDS elements to the existing processes.

7.6 In summary, methodology has been developed for Palau to use ideal and best practice methods for integrating social statistics into national development plans, and inclusion of planning targets (including MDG) into budget allocation and monitoring of indicators. Considering the country situation the methodology of implementation will take different forms and therefore, some options have been discussed and even put into practice already.

7.7 Finally, the following action plans, both long term and short term, were recommended to ensure that a NSDS process will be strengthened to achieve the said objectives of the project.

Political

1. Advocacy for the new administration's commitment to establish NSDS to achieve sustainable development. NSDS to include MTDS, MTEF and MDG, rather than promoting each one separately.

The adoption of a coordinated approach in the public sector is not a common feature due to inherent weaknesses in public sector administration. A compartmentalized approach, non-commitment to shared responsibilities and leniency towards perpetrators of irregularities are the major culprits. Implementation of different political agendas, various donor assistance programmes, and execution of international mandates, on an individual and separate basis, further consolidated the status quo and the country failed to achieve its goals. It is therefore recommended that a coordinated approach should be accepted officially, and political and government energies be committed to achieving it. The NSDS encompasses the major elements of sustainable development, and is an evolving process which can accommodate changes and participatory decision-making. A conceptual framework and policy brief for discussion has also been developed. Many governments, developed and developing, provide the necessary political clout for their NSDS.

2. Government prepares a realistic time frame to deliver NSDS and establish a NSDS secretariat with members from new Government, Council of Chiefs, private sector, NGOs and civil society, representing economic, social and environment interests and restructure PSC of MTDS and SC of MTEF.

Political endorsement of NSDS process is essential but that will not be sufficient to achieve its objectives. Therefore, a realistic time frame for achieving NSDS has to be developed and the process monitored carefully. Instead of forming a new task force for this purpose, and over burdening the members, the NSDS steering committee could serve as an umbrella organisation which represents all the other committees and taskforces. NSDS should not become a supreme organization, but a means of participation for all the stakeholders to monitor the whole process.

3. Request donor assistance for wider capacity building (for politicians and bureaucrats) to strengthen NSDS

Establishment of NSDS is a global requirement which Palau has agreed to, and has been reporting on the progress made at many forums and discussions. Although the government has, in the past, publicly expressed the measures taken to implement NSDS, it has not been properly established, and nor is it visible as it should be. Therefore, it is a must to create awareness among politicians of the NSDS and its integral parts which play large roles in the economy and society at large.

Policy

4. Take a ministry level decision to train officers of line ministries, bureaus and agencies in MTEF implementation.

The capacity for proper budgeting across the ministries is generally weak. However, adapting to work with a more responsible and realistic budgeting model needs a fair degree of competence. Assigning full responsibility to the LMBAs to develop and execute the MTEF is being gradually implemented. Staff training should start during the interim period and therefore it is advised to start training in year 2009.

5. Take a policy decision to implement statistical act and start conducting enterprise surveys to collect data directly and subsequently develop analytical skills of the staff.

This is a much discussed issue during the present as well as previous assignments, including PIFTAC report. The National Accounts are produced using data collected by other organizations. However, the non availability of a proper system and adequate staff to verify and ensure the credibility of data raises questions very often. Therefore it is recommended to make a start now with the available staff to collect data directly from the firms and use the production method to compile the national accounts, as a parallel exercise. The non availability of volume data for the production sector hinders the development of a credible macroeconomic framework and requires projections for sectoral output and analysis.

6. Take a policy decision to fill the new vacant position in OPS to strengthen the planning process as soon as possible.

This issue has been widely discussed and is now a matter for implementation. Failure to do so will have a large impact on all aspects of planning and budgeting, and the compilation of national accounts.

Technical Assistance

- 7. MOF and key line ministry staff to be trained on MTEF to serve as trainers.*
- 8. Macroeconomic staff to be trained in the preparation of a credible macroeconomic framework.*
- 9. Raise monitoring staff skills in log frame analysis. Train one or two key persons to develop Logical Framework and identify acridities, outputs, outcomes etc and use them as trainers line ministry level*
- 10. MDG costing/need assessment training for the MDG working group*
- 11. Developemnt of concept format for new projects through workshops*
- 12. Re develop the formats available in this document to monitor planning targets and MDG indicators collectively.*

Persons who could independently undertake the above noted tasks other than No 11 and tarin others may be difficult to find. None of these tasks, development of MTEF, macroeconomic framework, log framework and MDG costing have been done seriously in Palau because they were not considered as important tasks. Even major national development plans do not have macroeconomic framework or resource use and source tables. Therefore, it is necessary to seek technical assistance to train key staff members in the above areas in countries where these tasks are implemented successfully. MTEF training has many aspects and more detailed discussions can be found under the MTEF sector of this report to identify the areas in which training is required.

Inclusiveness

- 13 Planning office to prepare a detailed strategy to include state governments in planning, monitoring and economic and social data collection processes and submit a proposal to the development partners for funding.*
- 14. Steps to be taken to bring private sector and NGOs participation to monitoring process as proposed in the paper.*
- 15. Give more emphasis to develop the participatory planning process while continuing the consultation process which has some route in the system.*

Promoting and ensuring inclusiveness does not cost anything more but is the most appropriate way of developing good governance. Democratic norms of government administration, transparency and pluralism are some major elements of good governance. However, these

elements are not yet developed. Central government must open a dialogue within to find ways to mainstream the inclusiveness process into government administration and planning. The working group of MDG has made some progress in this direction. Hope they will continue to do so, and progressively influence other players engaged in the development effort.

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ANNEX 1

Conceptual: Framework National Sustainable Development Strategy (NSDS)

ANNEX 2

Sectoral GDP and contribution to total GDP as a percentage

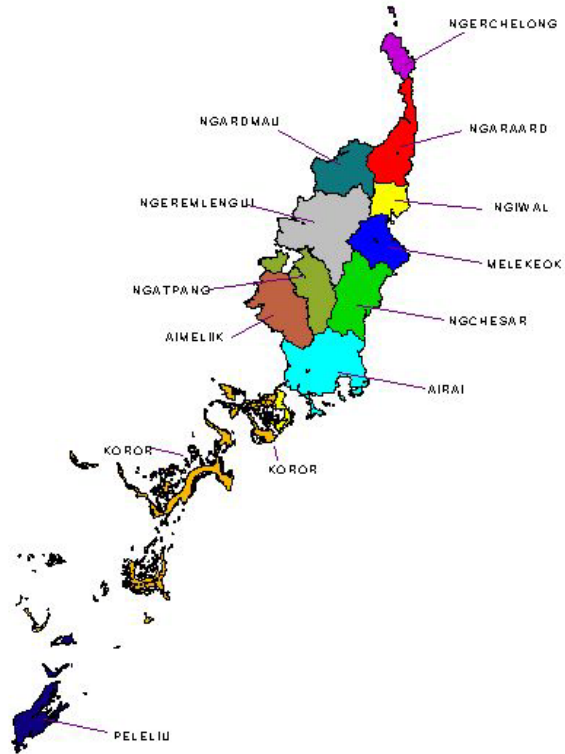
Industry Sectors	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Average %contribution to GDP 2002-2007
Agriculture, Hunting and Forestry	1.1%	1.2%	1.3%	1.6%	1.9%	1.8%	1.56%
Fishing	1.9%	2.0%	2.2%	3.9%	5.2%	4.0%	3.49%
Mining and Quarrying	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.26%
Manufacturing	3.0%	1.1%	1.2%	1.6%	1.4%	1.6%	1.39%
Electricity, Gas and Water Supply	1.4%	1.5%	1.4%	1.4%	1.9%	1.9%	1.60%
Construction	13.0%	13.8%	13.6%	13.6%	10.1%	6.8%	11.59%
Wholesale and Retail Trade	19.2%	18.3%	17.3%	17.8%	18.3%	18.4%	18.03%
Hotels and Restaurants	7.1%	8.7%	11.0%	10.7%	10.3%	11.3%	10.39%
Transport, Storage and Communications	8.2%	7.9%	8.3%	6.9%	7.1%	8.8%	7.80%
Financial Intermediation	6.5%	6.0%	4.9%	5.6%	5.7%	5.8%	5.61%
Real Estate, Renting and Business Activities	8.3%	8.9%	8.7%	8.3%	9.1%	10.0%	8.99%
Public Administration	25.6%	25.2%	23.7%	22.2%	22.7%	23.0%	23.35%
Health and Social Work	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.29%
Community, Social & Personal Service Activities	1.6%	1.7%	1.5%	1.4%	1.7%	1.7%	1.60%
Private Households with Employed Persons	1.1%	1.4%	1.7%	1.9%	2.1%	2.1%	1.84%
Indirect Taxes less Subsidies	6.1%	6.1%	6.2%	6.3%	6.3%	6.3%	6.23%
Less Bank service charge	-4.7%	-4.3%	-3.6%	-4.0%	-4.1%	-4.0%	-4.01%
GDP %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.00%

ANNEX 3 Annual sectoral real GDP growths

Industry Sectors	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Compound GDP growth 2002-2007
Agriculture, Hunting and Forestry	=	11.6%	22.0%	25.4%	13.3%	-0.7%	13.9%
Fishing	-6.4%	6.3%	15.5%	87.1%	29.3%	-22.6%	18.1%
Mining and Quarrying	11.3%	-11.8%	17.2%	15.8%	-46.5%	-20.2%	-12.6%
Manufacturing	-14.3%	-62.2%	12.5%	40.5%	-12.5%	9.3%	-10.6%
Electricity, Gas and Water Supply	-4.3%	5.5%	0.4%	10.1%	27.1%	-1.6%	7.8%
Construction	25.2%	7.4%	5.9%	4.9%	-28.2%	-32.4%	-10.4%
Wholesale and Retail Trade	-7.4%	-3.4%	1.4%	7.6%	-0.2%	0.8%	1.2%
Hotels and Restaurants	-2.8%	23.8%	34.7%	1.8%	-5.8%	8.8%	11.7%
Transport, Storage and Communications	16.4%	-1.9%	12.5%	-12.6%	-0.8%	24.1%	3.5%
Financial Intermediation	-6.8%	-6.3%	-11.7%	19.0%	-1.5%	2.4%	-0.1%
Real Estate, Renting and Business Activities	-7.0%	8.2%	3.9%	0.2%	7.0%	9.2%	5.7%
Public Administration	1.8%	-0.2%	0.7%	-1.8%	-0.7%	1.1%	-0.2%
Health and Social Work	22.8%	12.4%	56.0%	-1.2%	-8.3%	64.3S%	
Community, Social & Personal Service Activities	22.8%	12.4%	56.0%	-1.2%	-8.3%	64.3%	2.9%
Private Households with Employed Persons	7.0%	6.2%	-4.8%	1.1%	13.0%	0.0%	15.3%
Indirect Taxes less Subsidies	10.2%	30.2%	26.3%	16.4%	8.0%	-1.5%	2.5%
Less Bank service charge	1.0%	1.3%	8.1%	7.2%	-3.1%	-0.7%	-1.2%
Real GDP Growth	1.7%	1.3%	7.1%	4.7%	-2.7%	-0.2%	2.0%

MAP 1

Palau Map



FORMAT FOR PROJECTS SUBMISSION

1. Project Information

1.1 Description of Project/Programme/Strategy/

.....

1.2 The relevant planning/policy documents (NMDP,MTDS,IPP,PSIP, MDG report) from where the project/programme/strategy selected. If it is found in more than one document please name all of them.

.....

1.3 Is the project/programme/strategy prioritised in the plans?

.....

1.4 Is there any project/programme/strategy which has been given more priority than the project you have selected please give the reason for selecting it.....

.....

1.5 If it is a new project developed independently outside the planning documents please say how is related to national development framework

1.6 Thematic Area

.....

Human Resources Development, Capacity Building and Institutional Strengthening
MDG and Poverty Reduction
Rehabilitation& Reconstruction
Rural, Regional and Outer Island Development
Women & Children Differently Able

1.7 Total Project Cost

1.8 Proposed Duration of the Project

- (a) Unit : Months
- (b) Duration

1.9 Sector and Sub sector (Please mark the relevant sub sector and add if the sub sector is not given here)

Main Sector	Sub Sector
Agriculture	Food Crop Development
	Livestock Development
	Horticulture
	Agriculture Extension / Research
Culture Heritage and Tourism	
Education	General Education
	Higher Education
	Technical/Vocational Education
	Non-formal Education
Environment and Natural Resources	Forestry
	Wild Life / Conversation
	Water Resource
	Protected Area
	Coastal Resources
	Land Development
	Industrial Pollution
	Marine Pollution
	Disaster Management
	Urban Environment
	Flood Protection
	Solid Waste Management
Finance and Banking	Banking
	Capital Market & Funds
	SME Financing
	Micro Financing
Fisheries and Aquatic Resources	Marine Fisheries
	Inland Fisheries
	Fisheries Harbour
General	
Governance	Economic Management
	Public Administration
	Law and Order
	Human Rights
	Foreign Affairs
Health , Nutrition and Social Protection	Health Care
	Nutrition
	Social Protection
	Public Health
	Other
Housing	
Urban Development	

1.10 Type of the Proposal

(Tick one project type only. In case where more than one is involved, indicate the type with the largest component)

i. Project Type Assistance

- Goods , Services and Equipment Supply
- Facilities Construction
- Both

ii. Technical Assistance

- Legal and regularaty framewrok related
- Training and Human Resources Development
- Project Development
- Other

2. Project Proponent Information .

2.1 Project Proponent

2.1a) Name

2.1b) Address
.....

2.1c) Phone
.....

2.1d) Fax
.....

2.1) Contact Person

i.) Name
.....

ii.) Designation
.....

iii.) Phone
.....

iv.) Fax
.....

v.) E-mail id
.....

2.2) Forwarding Ministry/State Government

2.2a) Name
.....

2.2b) Address
.....

2.2c) Phone
.....

2.2d) Fax
.....

2.2) Contact Person

i.) Name

ii.) Designation

iii.) Phone

iv.) Fax

v.) E-mail id

3. Project Rationale

(Do not indicate/explain the objective of the project. Answer to each sub section should be in brief.)

**3.1) Introduction to the Project
(General sector information and information specific to the area)**

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References if any:

3.2) Specific Problem to be Addressed by the Project

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.....

References if any

3.3) Mode of Intervention in Terms of this Project (Justification)

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.....
.....
.....
.....
.....
.....

References if any

3.4) Composition of Target Beneficiaries/Stakeholders (indicate Gender Ratio)

	Beneficiary / Stakeholder	Description	Gender Ratio	
			Male	Female
1				
2				
3				
4				
5				
6				
7				

References if any:

3.5) Coherence with Sectoral Policies and Strategies

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3.7) Considered Project Alternatives and Reasons for Rejection

(Indicate the identified possible alternatives to achieve the project objectives and explain the reasons for rejecting them)

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.....
.....

References if any:

3.8) Whether a Feasibility Study for the Project has been carried out

Yes No

References if any

4 Project Objective & Purpose

(Indicate the main objective and the purpose of the project without adding project justification)

4.1) Goal of the Proposed Project

No is the Primary Objective

No is the Secondary Objective

(Select and Indicate the Number(s) Pertaining to the Primary Objective and the Secondary Objective from List below)

- 1. Economic Development/Reform for Economic Growth
- 2. Poverty Alleviation
- 3. Social Development
- 4. Environmental Management
- 5. Capacity Building/Institutional Strengthening
- 6. Other

4.2) Purpose of the Project

.....
.....
.....
.....

.....
.....
.....
References if any

5. Project Outputs, Activities and Duration

5.1) Expected Project Outputs

	Output	Unit of Measure	Quantity
1			
2			
3			
4			
5			

5.2) Project Activities

	Activity	Unit of Measure	Quantity
1			
2			
3			
4			
5			

5.3) Proposed Duration of the Project

5.3.a) Unit : Months

5.3.b) Duration

.....

6. Project Location & Land Requirement

6.1) Is the Project Location in Islandwide or Area Specific or State Specific:

- Islandwide
- Area Specific
- State Specific

6.2) Give detail about if Area or State Specific

6.3) Total Land Requirement:

Unit of Measurement

Extent

7. Environment and Environment Impact

7.1) Please Indicate if any of the Following Land Uses are Within the Project Site or Within 1 km Distance from any Boundary of the Project Site :

National reserves, Sanctuaries, Forest reserves and proposed forest reserves, National Heritage wilderness areas, Coastal zones, flood areas and flood protection areas, Reserves, Ancient protected monuments, Schools, Religious places and Hospitals

Yes, one or more of the above land uses are within the site boundary

Yes, one or more of the above land uses are within 1 km of the site boundary

No, none of the above land uses are within the project boundary or within a

1 km distance from any boundary of the project site.

If the answer to this question is affirmative, please list land use(s) and provide a map (1:50,000 or smaller scale) showing the project boundary and a distance of 1 km from each boundary.

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.....
.....

attachments:

7.2) What are the Possible Environment and Natural Resources Constraints to the Existing Activities due to the Proposed Project?

.....

7.3 Indicate which of the Following Resources may be Required for the Project. If possible, specify quantities and from what sources (i.e., name of source or location if available).

Resource	Required for this Project	Unit of measurement	Extent (if known)	Location (if known)
Surface Water	Yes/No			
Groundwater	Yes/No			
Quarry Stone or Earth fill	Yes/No			
Energy:	Yes/No			
Forests	Yes/No			
Other(Specify).....	Yes/No			

7.4) Will the Project Require Relocating 50 or more Families? Yes No.

.....

7.5) Whether the Project Location is Inside the Costal Buffer Zone? YesNo

.....

7.6) Is the Proposed Project a Prescribed Project? (Please refer to Prescribed status).

Yes No

8. Gender Perspective

8.1) Does the Project Identify any Gender Gaps? If so Describe.

.....

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.....

8.2) Is there any Strategy in the Project to Address the Gender Imbalances

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8.3) Which Project Activities are Designed to Bridge such Gender Gaps and What will be their Impact on Gender Imbalance?

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9. Cost & Financing

9.1) Total Project Cost in US\$ '000.....

9.2) Cost Components

Component	Activity	Cost in Local Currency (LKR mn)
1.	1.1	
	1.2	
	1.3	
2	2.1	
	2.2	
	2.3	
Total		

9.3) Financing Plan

Financial Source	Cost
	US\$'000
External Source	
Proponent (Implementing Agency) Funding	
Beneficiary Contribution	
Consolidated Fund	
Other (Specify).....	
Total	

9.4) Details of Already Offered External Assistance to Projects in the Related Sector in the Last Five Years.

Donor	Related Field	Project Title: Assistance Already Offered	Amount US\$ '000	Year of Commencement	State whether Completed or Ongoing

10. Project Implementation

(If the Project Proponent is the Implementing Agency the Information at 2.2 should Appear Here)

10.1) Implementing Agency with Overall Responsibility.

10.1a) Name of the Agency.....

10.1b) Address

10.1c) Phone

10.1d) Fax

10.1e) Contact Person

i) Name

ii) Designation

iii) Phone

iv) Fax

v) E-mail id

i)

10.2) Functions of the Implementing Agency with Overall Responsibility

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10.3) Implementing Agency /Agencies and Their Functions and Prior Experience with Similar Projects / Activities

	Implementing Agency/Agencies	<i>Functions</i>	<i>Prior Experience</i>
1			
2			
3			
4			

10.4) Responsibilities of Other Entities (Other Relevant Agency)

10.5.a) Applicable / Not applicable

10.5.b) Narration

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10.5) Staff Availability for Implementing the Proposed Project (Specify any Additional Staff Required)

Implementing Agency	No of Staff Members Available
	Additional Staff Required

Monitoring & Evaluation (max half page)

Please specify objective verifiable quantitative and qualitative indicators for outcomes and outputs indicated in the proposal and describe the means of verifications and the methodology for their measurement.