

Asian Development Bank & Palau

FACT SHEET

Table 1. Palau: Development Indicators

| Non-MDG | |
|---|-----------------|
| Population in millions | 0.02 (2009) |
| Annual population growth rate (%) | 0.6 (2007–2009) |
| Adult literacy rate (%) | 98 (2005) |
| Percent of population in urban areas | 80.5 (2008) |
| MDG | |
| Percent of population living on less than \$1.25 a day | ... |
| Percent of population living below the national poverty line | 24.9 (2008) |
| Under-5 mortality rate per 1,000 live births | 15 (2008) |
| Percent of population using an improved drinking water source | 89 (2006) |

... = data not available, MDG = Millennium Development Goal.

Sources: ADB. 2010. *Basic Statistics 2010*. Manila.

SPC. 2010. Pacific Regional Information System.

World Bank. 2010. World Development Indicators Online.

Palau is an archipelagic microstate in the Northwest Pacific with a population of 20,300 and a gross domestic product of \$8,133 per capita. Despite relatively high income, Palau's small markets and dependence on aid and tourism make it vulnerable to external economic shocks, the impacts of climate change and extreme weather events. Palauan culture is strong, complex, and ever-evolving. Respect for tradition and the satisfaction of belonging to a community remain important in Palau. Palauans welcome economic development but want to ensure that it does not harm their culture, society, and environment.

The National Master Development Plan of 1995 established long-term strategies for Palau. These have been supplemented by the Medium-Term Development Strategy that provides a 5-year road map toward achieving sustainable development. The overarching strategic themes are getting the price right (cost recovery and targeted subsidies), reducing costs, and ensuring conservation in government spending and generating income opportunities for all Palauans. Priority areas for action include tourism, agriculture, fisheries, infrastructure development, private sector development, and creating a more sustainable government.

To meet these challenges, the Government of Palau will need to reduce expenditure and increase revenue. Many opportunities exist to improve cost recovery of government services through the privatization or rationalization of state-owned enterprises. Stimulating economic growth will require changes to the legal and policy environment for long-term investment and rationalization of the labor laws. Palau's tourism sector strategy provides a good blueprint to support tourism-led economic growth while maintaining Palau's unique environmental heritage. Existing strategies in agriculture, fisheries and agriculture will further help diversify the economy.

Relationship with ADB

After joining the Asian Development Bank (ADB) in 2003, Palau was reclassified as a Pacific developing member country on 16 December 2005. ADB enjoys a strong relationship with the government, its Congress, civil society, and the private sector, providing policy and economic advice on a range of issues affecting Palau's long-term sustainable development. The United States remains Palau's most significant development partner through the Compact of Free Association with their government. ADB works closely with both to provide development advice and assistance.

ADB recognizes that public investment needs to be prioritized to achieve Palau's development goals, and future lending is sharply focused on Palau's priority investments. Since 2003, Palau has received regional technical assistance (TA) and country-specific TA in support of its national planning efforts, financial management, and private sector development. Improvements in these areas are necessary if equitable growth is to continue after the end of the Compact of Free Association. ADB also works closely with other development partners and Palau to integrate its advice with support being provided by others in health and education.

Impact of Assistance

Since 2006, ADB has provided considerable assistance to the Government of Palau toward strengthening national development planning, economic management, and fiscal management. This collaboration began with the National/State Leadership Symposium, which was convened to gather inputs from national and government entities for a consolidated development strategy. ADB followed with assistance in economic management and planning, presenting 24 reports on various aspects of economic development, fiscal and environmental management, and strategies for tourism and agriculture. These reports and sector strategies culminated in public workshops, which underpinned Palau's formation of the Medium-Term Development Strategy.

ADB has also assisted with a Private Sector Assessment a Pacific Island Economic Review. This was followed with technical assistance to develop secured transaction legislation designed to improve Palauan's access to credit. A Country Environment Assessment has been prepared, as well as support to develop an action plan for climate change.

The cost of providing basic social services continues to grow across the Pacific. ADB has assisted Palau in a range of strategies and laws to improve the sustainability of education and health care financing. This has included establishing a medial savings plan and health insurance scheme. ADB has further supported government financial management through assistance to the national statistics office in Palau to bring standard statistical publications, including the household and income expenditure survey and poverty reports, up to international standards.

These publications and the analysis and in-country discussion that generate the advice have helped shape the future policy environment in Palau and are critical to facilitating the Government's economic management, and in planning infrastructure improvements and the delivery of health services.

Future Directions and Operational Challenges

The Government of Palau and ADB endorsed the Palau Country Partnership Strategy 2009–2013 in May 2009. The Strategy takes into consideration Palau's medium-term development goals, ADB's analysis on constraints to development and growth, and the work being done by other development partners. The Country Partnership

Table 2. Palau: Economic Indicators, 2005–2009

| Economic Indicator | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------------------|-------|-------|-------|-------|------|
| Per capita GNI, Atlas method (\$) | 7,760 | 7,960 | 8,250 | 8,650 | ... |
| GDP growth (% change per year) | 5.9 | 4.8 | 2.1 | -1.0 | -3.0 |
| CPI (% change per year) | 3.9 | 4.5 | 3.2 | 12.0 | 2.4 |
| Unemployment rate (%) | ... | ... | ... | ... | ... |
| Fiscal balance (% of GDP) | -0.8 | -5.9 | -4.9 | -4.8 | ... |
| Export growth (% change per year) | 128.1 | 1.3 | -25.8 | ... | ... |
| Import growth (% change per year) | -2.0 | 9.6 | -20.8 | ... | ... |
| Current account balance (% of GDP) | -3.3 | -13.3 | 6.0 | ... | ... |
| External debt (% of GNI) | 12.5 | 11.0 | 13.7 | ... | ... |

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2010. *Asian Development Outlook 2010*. Manila.
ADB staff estimates.
World Bank. 2010. World Development Indicators Online.

Strategy focuses on improving public sector effectiveness, facilitating private sector development, and managing the threat of climate change. This will be achieved through a combination of capacity development through technical assistance and infrastructure investments in water supply and sanitation that provide basic social services and support tourism growth. Additional technical support is provided through the ADB's regional program covering technical and vocational education, the promotion of access to renewable resources and improvements in energy efficiency, responding to the impact of climate change, and advice on economic policy and the development of the private sector. Delivery of the Palau Country Partnership Strategy 2009–2013 includes a pipeline of \$22 million of loans (including \$12 million of cofinancing) and \$3 million of technical assistance.

Palau is a relatively new nation-state and a new member of ADB. It has recently developed its first implementation plan for sustainable development, which includes areas for ADB's assistance. Our relationship is strong but it will take further experience of implementing projects to deepen our appreciation of each other and the development challenges of this unique microstate.

Partnership

ADB's diagnostic work and program planning have been prepared in close partnership with development partners. ADB's missions are coordinated with other major development partners, including Australia; Japan; Taipei, China; and the United States. Due to its close association with the United States, Palau is the biggest aid recipient in the region. ADB works closely with the United States to coordinate assistance, including exchanging views with the United States Department of the Interior, and participates in northern Pacific forums with all development partners.

Cofinancing and Procurement

Cofinancing operations enable ADB's financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products. ADB will continue to work with the Government of Palau to identify cofinancing opportunities for infrastructure investments in the water supply and sanitation sectors.

From 1 January 1968 to 31 December 2009, consultants were involved in 20,087 contracts for ADB technical assistance projects worth \$2.52 billion. During the same period, consultants from Palau were involved in two contracts for ADB technical assistance projects worth \$0.02 million.

Table 3. Palau: 2009 Loan, TA, and Grant Approvals (\$ million)

| Loans | | TA | Grants | Total |
|-----------|--------------|-----|--------|-------|
| Sovereign | Nonsovereign | | | |
| – | – | 1.2 | – | 1.2 |

– = nil.

Cumulative Lending (as of 31 Dec 2009)
Cumulative Disbursements (as of 31 Dec 2009)

Table 4. Palau: Top Individual Consultants Involved in ADB Technical Assistance Projects, 1 January 2005–31 December 2009

| Consultant | Number of Times Contracted | Contract Amount (\$ million) |
|------------------------|----------------------------|------------------------------|
| Individual Consultants | 2 | 0.02 |

About Palau and ADB

ADB Membership

Joined 2003

Shareholding and Voting Power

Palau is the 39th largest shareholder among regional members and the 47th largest shareholder overall.

Figures are as of 31 December 2008, before the fifth general capital increase process began. The process is ongoing, and the final figures are expected to be available by 31 December 2010. Current subscription levels are available from the Office of the Secretary.

| | |
|-------------|----------------|
| Shares held | 114 (0.003%) |
| Votes | 13,346 (0.30%) |

Phil Bowen is the Executive Director and **Dereck Rookan-Smith** is the Alternate Executive Director representing Palau on the ADB Board of Directors.

ADB's operations in Palau are managed through ADB's Manila Headquarters. ADB's Pacific Department provides the primary operational link to the government, private-sector, and civil-society stakeholders in its activities. The Pacific Department engages in policy dialogue and acts as a knowledge base on development issues in Palau.

Sungsup Ra is the Director of Pacific Operations Division (PAHQ).

The Palau government agency handling ADB affairs is the Office of the Vice President/Ministry of Finance.

About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). In 2009, lending volume was \$13.23 billion (93 projects), with TA at \$267.2 million (313 projects) and grant-financed projects at \$1.11 billion (64 projects). In addition, \$3.16 billion in direct value-added loan cofinancing was generated. Over the last 5 years (2005–2009), ADB's annual lending volume averaged \$9.18 billion, with TA averaging \$245.7 million and grant-financed projects \$855.4 million. As of 31 December 2009, the cumulative totals were \$155.94 billion in loans for 2,206 projects in 41 countries, \$5.19 billion for 315 grant projects, and \$3.81 billion for 6,863 TA projects.

Contacts

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Useful ADB websites

Asian Development Bank
www.adb.org

Country website

www.adb.org/palau

Asian Development Outlook

www.adb.org/Documents/Books/ADO/2010/SMALL-PAC.pdf

Annual Report

www.adb.org/Documents/reports/annual_report/2009/