

Asian Development Bank & Palau

FACT SHEET

Table 1. Palau: Development Indicators

Non-MDG	
Population in millions	0.02 (2008)
Annual population growth rate (%)	0.8 (2006–2008)
Adult literacy rate (%)	98 (2005)
Percent of population in urban areas	79.3 (2007)
MDG	
Percent of population living on less than \$1.25 a day	...
Percent of population living below the national poverty line	24.9 (2006)
Under-5 mortality rate per 1,000 live births	10 (2007)
Percent of population using an improved drinking water source	89 (2006)

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

Sources: ADB. 2009. *Basic Statistics 2009*. Manila.
SPC. 2009. Pacific Regional Information System.
World Bank. 2009. World Development Indicators Online.

Palau entered into a Compact of Free Association (COFA) with the United States covering a 50-year period, commencing in 1994. A 15-year review of the COFA will be completed by September 2009. If this results in a significant reduction in US funding, it would entail a major fiscal adjustment. Due to its close association with the United States, the Republic of Palau is the biggest aid recipient in the region. The Asian Development Bank (ADB) works closely with the United States to coordinate assistance, including exchanging views with the United States Department of the Interior. It also coordinates its operations with other major development partners, including Japan and Taipei, China.

While Palau has the highest human development index (HDI) in the Pacific, it only ranks mid-range in the index worldwide. The main challenge to alleviating poverty in Palau is ensuring the benefits of growth from tourism and the construction industry flow through to the subsistence economy. Access to markets and improved health services will encourage those in the informal subsistence economy to engage in areas where growth is taking place, to improve their well-being, and to create opportunities for future generations.

The National Master Development Plan of 1995 established long-term strategies for Palau's development. These aimed to shift substantial economic activity from the public sector to a private sector able to use resources more efficiently; strengthening and streamlining government institutions and activities; and identifying financing strategies, including taxation arrangements.

To meet these challenges, the Government will need to reduce expenditure and increase revenue. Opportunities to do so exist through the privatization or rationalization of state-owned enterprises, stimulating economic growth by creating an enabling legal and policy environment for long-term investment, implementing a more efficient tax system that rewards investment and growth, and by supporting tourism and related industries while maintaining Palau's unique environmental heritage.

Relationship with ADB

After joining ADB in 2003, Palau was reclassified as a Pacific developing member on 16 December 2005. Since 2003, Palau has received small-scale technical assistance (TA) in support of its national planning efforts and is participating in some regional TA supporting work of the National Statistics Office. Palau only recently became eligible for TA projects, and no loans have yet been considered.

ADB's strategic focus for Palau was developed in cooperation with the Government. The Country Strategy and Program Update 2007–2009, agreed upon in August 2006, focuses on strengthening economic and fiscal management, promoting policies for private sector development, and facilitating sound infrastructure development and management.

The financial provisions of the current round of the COFA between Palau and the United States are set to expire in 2009, and ADB has assisted the Government of Palau to prepare its Medium-Term Development Plan, which will aid the Government in preparing for new COFA negotiations. ADB recognizes that public investment needs to be prioritized to achieve Palau's development goals, and future lending will need to be sharply focused.

Impact of Assistance

In February 2006, the National/State Leadership Symposium was convened to gather inputs from national and government entities for a consolidated development strategy. Based on the symposium, a Compact Review Commission was established and will conduct economic studies to evaluate the first COFA. To support this, ADB provided a range of TA activities.

In 2007, Palau hosted an Economic Symposium to hear from domestic and international stakeholders about future prospects and challenges for Palau. The findings of this symposium are being used to update the Government's main planning document, the Medium Term Development Strategy 2009–2014. ADB's Private Sector Assessment and a Pacific Island Economic Review further supported development planning in Palau. In addition, ADB has provided TA for public sector reform, private sector development, and managing a fiscally sustainable health sector. These activities have helped to shape the policy environment in Palau for the next 5 years.

The national statistics office in Palau is also being supported to bring standard statistical publications to international standards. These are a Household and Income Expenditure Survey and poverty reports. These publications are critical to facilitate the Government's economic management, infrastructure planning, and health service delivery planning. In 2008, ADB commenced preparatory work on a water supply project, which is expected to be approved in 2009. This supply will allow more land to be released for private sector investments and housing developments and reduce stress on the major urban center in Koror. The proposed scheme will be climate proofing of the main water supply on Babeldaob.

Table 2. Palau: Economic Indicators, 2004–2008

Economic Indicator	2004	2005	2006	2007	2008
Per capita GNI, Atlas method (\$)	7,120	7,670	7,860	8,210	...
GDP growth (% change per year)	6.0	5.9	4.8	2.1	-1.0
CPI (% change per year)	5.0	3.9	4.5	3.2	12.0
Unemployment rate (%)
Fiscal balance (% of GDP)	-6.9	-0.8	-5.9	-4.9	-4.8
Export growth (% change per year)	-30.1	128.1	1.3	-25.8	...
Import growth (% change per year)	21.6	-2.0	9.6	-20.8	...
Current account balance (% of GDP)	-7.3	-4.0	-15.1	4.6	...
External debt (% of GNI)	14.5	12.5	11.0	13.7	...

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

Sources: ADB. 2009. *Asian Development Outlook 2009*. Manila.
ADB staff estimates.

World Bank. 2009. World Development Indicators Online.

Table 3. Palau: 2008 Loan, TA, and Grant Approvals (\$ million)

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
–	–	0.4	–	0.4

– = nil.

Cumulative Lending (as of 31 Dec 2008) : \$29.50 million
Cumulative Disbursements (as of 31 Dec 2008) : \$26.57 million

Future Directions and Operational Challenges

A new Country Partnership Strategy 2009–2013 is currently being prepared. The Strategy takes into consideration Palau's medium-term development strategy, ADB's analysis on constraints to development and growth, and the work being done by other development partners. The Government's 5-year development plan aims to achieve fiscal sustainability, tourism growth, agricultural and fisheries growth, and environmental sustainability. ADB's new strategy will be closely coordinated with the United States and other development partners and will focus assistance toward improvements in public sector performance, the environment and basic infrastructure.

Partnership

ADB's diagnostic work, particularly the private sector assessment and the Pacific Island Economic Report for Palau, have been prepared in close partnership with development partners. Also, ADB's missions are well coordinated with other major development partners, including Japan; Taipei, China; and United States.

ADB will seek opportunities to collaborate with civil society organizations, including the country's private sector.

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. Cofinancing of the proposed water supply and sanitation sector lending portfolio is currently being discussed with development partners.

From 1 January 1985 to 31 December 2008, 18,104 consultant contracts were awarded under ADB technical assistance projects worth \$2.33 billion, of which two contracts were awarded to consultants from Palau worth \$0.02 million.

Table 4. ADB Assistance to DMCs, 2007–2008^a

	2007 (\$ million)	2008 (\$ million)	Change (%)
Lending	9,965.59	10,494.27	5.3
ADF Sovereign	1,892.84	1,789.56	(5.5)
OCR Sovereign	7,347.48	6,924.48	(5.8)
OCR Nonsovereign	725.27	1,780.23	145.5
Public Sector	10.00	300.00	2,900.0
Private Sector	715.27	1,480.23	106.9
Equity Investments	79.75	123.08	54.3
Grants	672.71	811.37	20.6
Technical Assistance	252.84	274.50	8.6

ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Excludes terminated loans, equity investments, technical assistance, and grants.

Table 5. Palau: Top individual consultants involved in ADB technical assistance projects, 1 January 2004–31 December 2008

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Palau*	2	0.02

* Consultant may have one or more contracts within the period covered.

About Palau and ADB

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

ADB Membership

Joined	2003
Shares held	114 (0.003%)
Votes	13,346 (0.30%)

Phil Bowen is the Executive Director and **Dereck Rooker-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.

Sirpa Jarvenpaa is the Director of Pacific Operations Division (PAHQ).

The Palau government agency handling ADB affairs is the 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 2008, lending volume was \$10.49 billion (86 projects), with TA at \$274.5 million (299 projects) and grant-financed projects at \$811.4 million (49 projects). This also generated \$1.65 billion in direct value-added cofinancing from financing partnerships operations. Over the last 5 years (2004–2008), ADB's annual lending volume averaged \$7.70 billion, with TA averaging \$231.5 million and grant-financed projects \$655.1 million. As of 31 December 2008, the cumulative totals were \$143.53 billion in loans for 2,147 projects in 41 countries, \$4.08 billion for 263 grant projects, and \$3.55 billion for 6,599 TA projects.

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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/2009/SMALL-PAC.pdf

Annual Report

www.adb.org/Documents/reports/annual_report/2008/