

**PALAU – EUROPEAN COMMUNITY
EDF 10**

**Country Strategy Paper
&
National Indicative Programme
(For the period 2008 – 2013)**

The Government of Palau and the European Commission hereby agree as follows:

- (1) The Government of Palau, represented by Mr Casmir E. Remengesau, National Planner and National Authorising Officer, and the European Commission, represented by Mr Roberto Ridolfi, Head of the Commission Delegation for the Pacific, hereinafter referred to as the Parties, held discussions from March 2006 until August 2007 with a view to determining the general orientations for cooperation for the period 2008 –2013.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Palau were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 as revised in Luxembourg on 25 June 2005. These discussions complete the programming process in the Palau. The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (2) As regards the indicative programmable financial resources which the Community envisages to make available to *Palau* for the period 2008-2013, an amount of €2.9 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of €0.3million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme under Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which the Palau benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the Indicative Programme.
- (5) Resources can be committed within the framework of the present Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF Multi-annual Financial Framework for the period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Palau within the limits of the A- and B-allocations referred to in this document. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the APC-EC Partnership Agreement for support to non-State actors or on the basis of Article

72(6) to the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B-allocations. Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.

- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2(c) and 3 of Annex 1b of the ACP-EC Partnership Agreement regarding the 10th EDF Multi-annual Financial Framework for the period 2008-2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in light of current needs and performance.

Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased according to Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.

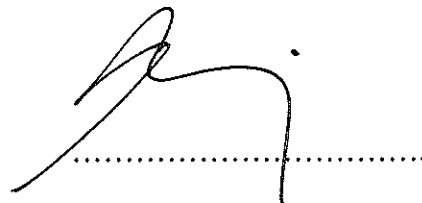
- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual Financial Framework for the period 2008-2013, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicates the contrary before the end of this period.

Signatures

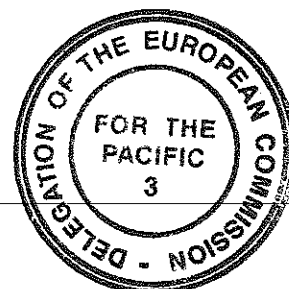
For the Government of
Palau



For the Commission



Date: 18 October 2007
at Nuku'alofa Tonga.



EXECUTIVE SUMMARY

Palau has made significant progress compared to other developing countries in the region. It is relatively well governed, with very few corruption cases; it has a functioning judiciary system and a relatively transparent financial and economic management process.

Under the Compact of Free Association with the United States, Palau will continue to receive direct financial assistance of around US\$27 million a year until 2009. This funding is divided between ongoing budget support and infrastructure development, while large additional sums were paid at the beginning of the Compact's initial 15-year funding period to set up a long-term investment fund. Palau has managed Compact funds prudently and is implementing its National Master Development Plan with the objective of achieving long-term sustainable economic growth. With a per capita GDP estimated at US\$7,600 in 2006 (purchasing power parity), Palau has one of the highest standards of living of the Pacific island countries. Wealth and development are unevenly spread throughout the country.

Palau has a unique ecosystem which is in relatively good condition, even though it can no longer be called pristine in some areas. The Biodiversity Convention considers Palau a biodiversity "hotspot". Given the major economic role of tourism, sustained economic development is dependent on the integrity of an environment under increasing pressure from development, which is potentially incompatible with fragile island ecosystems

In line with Palau's National Development Master Plan and consistent with the promotion of economic and social development and the development of the productive base, it is appropriate to target the energy sector, especially the identification and use of new and renewable energy sources as the focal area for 10th EDF funding. Energy generation through renewable sources contributes to diversifying the resource base of the economy, to improving energy supply security and to strengthening the balance of payments position. Energy conservation and efficiency measures and, where possible, the substitution of high-cost imported diesel fuels with the use of indigenous renewable sources of energy provides the lowest-cost and immediate means of satisfying energy demand and reducing expenditure on energy. The objective is to maximise the contribution of appropriate, proven and cost-effective renewable technologies utilising new and indigenous energy resources.

It is proposed to allocate 85 percent of the A-envelope or €2.47 million for the development of renewable energy within the **Water and Energy** sector (as defined by the European Consensus on Development, June 2006). NSAs will be encouraged to participate in the implementation of the programme. The remaining 15 percent (€0.43 million) will be to establish a Technical Co-operation Facility from which necessary Technical Assistance, studies and EDF-related activities will be funded.

PART 1: STRATEGY PAPER

CHAPTER I: THE FRAMEWORK OF RELATIONS BETWEEN THE DONOR AND THE PARTNER COUNTRY

I.1.1. General Objectives of the EC's external policy

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

Europe should project a coherent role **as a global partner**, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc).

EU external action including the Common Foreign and Security policy, common trade policy and cooperation with third countries provides a framework both for integrating all EU instruments and for gradually developing a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted EU with even greater responsibilities, as regional leader and as global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its neighbourhood and through its multilateral and bilateral policies which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to global security and prosperity.

I. 1.2. Strategic objectives of cooperation with the partner country

The Treaty objectives are confirmed in Article 1 of the *ACP-EU Partnership Agreement*, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Palau is intended to pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted *European Consensus on Development* sets the general

policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with particular attention for the Millennium development Goals (MDGs). Human rights and good governance are recognised as other important objectives.

Better aid effectiveness is essential to achieving poverty eradication. Therefore the EU will advance coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries strategies and processes, common implementation mechanisms, joint donor wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The purpose is that all EU non-aid policies make a positive contribution to developing countries' efforts to attain the MDGs.

The principle of concentration will guide the Community country and regional programming. This means selecting a limited number of priority areas of action, through the dialogue with partner countries, rather than spreading efforts in too many sectors. In this context the Community will be primarily active in the following nine areas, keeping into account its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

The mainstreaming approach will be strengthened for four cross-cutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

In May 2006 the European Commission adopted a proposal to deepen the EU's relations with the Pacific Islands, in particular the 15 Pacific ACP countries. This is the first formal strategy in 30 years of EU-Pacific relations, and it aims to strengthen political dialogue, provide greater focus to development cooperation and improve the effectiveness of aid delivery. The Commission's proposal reflects the growing environmental, political and economic importance of the Pacific region. The strategy makes three main proposals:

1. Building stronger political relations on interests of common concern such as global political security, trade, economic and social development and the environment;
2. Focusing development cooperation on areas where the Pacific has important needs and where the EU has a comparative advantage and a good track record, such as the sustainable management of natural resources, regional cooperation and good governance (for example, addressing the root causes of instability in the region, reducing corruption); and
3. Increasing the efficiency of aid delivery including using more direct budgetary aid and working more closely with other partners, in particular Australia and New Zealand. At present, budgetary support is not envisaged for Palau, but the Commission intends to work closely with relevant major donors, eg US.

I.1.3 Main bilateral agreements

Palau became signatory to the Cotonou Agreement on 23 June 2000. There are no other agreements that bind Palau and the EU.

CHAPTER II: COUNTRY DIAGNOSIS

II.1. Analysis of the political, economic, social and environmental situation in the recipient country

II.1.1 Political and institutional situation

After periods of administration by Spain, Germany, and Japan, Palau formed part of the United Nations Trust Territory of the Pacific Islands (TTPI) administered by the US (1947-1986). Palau achieved independence in 1994 but retains close links with the US through a Compact of Free Association. Under the Compact, Palau granted the US control of security and defence for 50 years as well as exclusive access to certain land adjoining the airport and seaport. In return, the US agreed to provide Palau with economic aid, defence, and security and to allow Palauans to enter the US as non-migrant workers.

The debate over the Constitution and Compact has had a significant impact on domestic politics. Haruo Remeliik, President from 1980 to 1985, who had been involved in the introduction of the nuclear-free constitution and was also supportive of the Compact with the United States, was assassinated in 1985. The Minister of State was eventually found to be complicit in the crime. His successor, Lazarus Salii, who was prominent in the negotiations with the United States over the Compact, died in an apparent suicide in 1988 amid allegations of mismanagement and corruption.

Palau has a 30 seat bicameral national congress (Olbiil Era Kelulea – meeting place of whispers), made up of the House of Delegates with 16 members (one from each state), and the House of Senators, representing geographical districts. With no formal political parties in Palau, strong factional alliances dominate Senators' allegiances within the Senate. President Tommy Remengesau represents one of the Senate factions, while the opposition is more diverse. The Senate controls the national budget, and has the power to confirm appointments.

The issue of Palau's relationship with the United States, and especially the continuation of the present levels of Compact funding are important issues for the government. Other issues of importance include economics and fisheries.

Traditional systems of government in Palau have tended to be kept separate from and outside the modern, US style political system. Nevertheless, the clans and traditional systems remain strong. There is a strong matrilineal tradition in Palau and women remain powerful in family life, particularly through their influence in land matters. A sixteen-member Council of Chiefs advises the President on matters of custom and traditional law. There are two principal High Chiefs, the Ibedul, based in Koror and the Reklai, based in Melekeok. Significantly, the traditional chiefs in each state, with the backing of their female relatives, still have firm control over the land.

Palau has made significant progress compared to other developing countries in the region. It is relatively well governed, with very few corruption cases; it has a functioning judiciary system

and a relatively transparent financial and economic management process. However, the country faces some difficult choices and decisions in the next few years particularly if Palauans are to continue to enjoy the relatively high standards of health, education, and other public utilities, which until now, have been provided mostly free or heavily subsidized by the Government. Ongoing foreign assistance from the US, Japan and ROC, the opening up of the island of Babeldaob, and the prospect of offshore oil development in the north island of Kayangel represent a unique opportunity for development and growth. It will be a challenge to balance the competing interests of all stakeholders and the result will determine whether a more open and growth-orientated economy will be pursued or if development is likely to slow or even reverse.

Palau has ratified many major international conventions (cfr annex 7). It has yet to ratify some UN human rights conventions, namely the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention against Torture, the Convention on the Elimination of Discrimination against Women and the Convention on the Elimination of all forms of Racial Discrimination.

II.1.2 Economic and commercial situation (see Annexes 9 and 10 for figures)

The people of Palau enjoy comparatively high living standards, with a per capita income twice that of the Philippines and most of Micronesia.

Under the Compact of Free Association with the United States, Palau will continue to receive direct financial assistance of around US\$27 million a year until 2009. This funding is divided between ongoing budget support and infrastructure development, while large additional sums were paid at the beginning of the Compact's initial 15-year funding period to set up a long-term investment fund. Palau has managed Compact funds prudently and is implementing its National Master Development Plan with the objective of achieving long-term sustainable economic growth.

Palau has a rich fishery resource which is critical to domestic food supply. Domestic shipping exports sashimi grade tuna, mainly to Japan. The local industry is in the doldrums at present, but the licensing of vessels from United States, Japan, Taiwan and the PRC is still a significant source of foreign exchange. After a long delay Congress passed a bill at the end of 2004 to enable oil exploration to begin in Kayangel.

Tourism is the main contributor to Palau's economic growth. Palau is one of the world's top scuba-diving destinations and showcases one of the most pristine ecosystems in the Pacific – the Rock Islands. After a fall in tourism after the September 11 terrorist attacks, tourist numbers more than recovered to reach 81,291 in 2004, a rise of more than 40% over the previous year.

Palau's real gross domestic product (GDP) is estimated to have grown by an average of 2% per year since 1994, much of it taking place in the first two years of the Compact. Current GDP per capita is estimated at \$5,487 per year, which, in real terms, is slightly below the 1994 level (\$5,620). Palau's per capita gross national income (GNI) is estimated at \$6,925 in 2005.

Despite weak economic growth, employment grew by 4.7% per year (1994–2003), mainly due to the employment of foreign workers (there are now as many foreign workers in Palau as Palauan workers). Palauans have slowly moved to higher paid positions in the workforce and

enjoy a very low unemployment rate (2.3% in 2000). The economy is heavily reliant on public expenditure and the tourism industry. Public expenditure as a ratio to GDP reduced in 1994–2004 but remains high at 60–65%.

US financial assistance is key to the large public sector. Total payments under the first 15 years of the Compact (from 1 October 1994) are estimated at about \$600 million—five times annual GDP. Palau now faces a period of substantial fiscal adjustment. The Compact provides for the end of basic grants for operations and maintenance (O&M) in 2009. In addition, Palau will no longer benefit from substantial grant and in-kind support provided for capital projects when financial aid ends.

The Palauan economy has been dominated by the public sector for many decades. Public administration is currently estimated to account for 26–27% of GDP. Government is active in the supply of electricity and communication services, and water and waste disposal. Public sector demand is critical to the construction, transport, and trade industries.

The economy is also characterized by dependence on external assistance and foreign employment. The Government, which is the largest employer, relies heavily on financial assistance from the US, Japan, and Taipei, China. As a percentage of GDP, the fiscal deficit, largely due to high government expenditure on salaries and wages and low tax revenue, is one of the highest in the Pacific. The financial sector comprises seven licensed commercial banks, one government owned development bank, and several credit unions. A large share of bank lending is consumer loans, which are typically serviced through direct withdrawals from salary deposits. Banking operations in Palau are reportedly profitable owing to the large spread between deposit and lending rates. Remittances appear to represent a large part of economic activity. Since US-based banks do not report remittances among different branches, and many foreign workers seem to use informal courier services (e.g., direct cash transfer), there is no official data on the volume of remittances. According to the IMF (2006), foreign direct investment in FY2004 was estimated as \$18.7 million. Foreign investment law, represented by the Foreign Investment Act (FIA), is not entirely investor-friendly. All non-citizens seeking to engage in business in Palau are required by FIA to apply for and obtain a license known as the Foreign Investment Approval Certificate, even though there are a number of exemptions set forth in the FIA. The tourism industry has considerable potential for development; however, the following tourism related activities are closed to foreign investment: (i) tour guides, fishing guides, diving guides and any other form of water recreation and transportation services, (ii) travel and tour agencies, and (iii) equipment rentals for both land and water within the country for the purpose of tourism.

The Government has planned cuts in current expenditure. While some success has been achieved in expenditure control, the slow rate of progress suggests that such initiatives cannot be relied upon to meet the looming shortfall in current revenue. Additional domestic revenue will need to be raised. Minor revenue initiatives have been identified and can be implemented quickly with legislative support. However, more fundamental revenue reform is required to fully meet the shortfall in current revenue for capital expenditure. The required fiscal adjustment could be lessened through private sector led growth. In particular, substantial land resources have good physical capacity for activities such as tourism, agriculture, and aquaculture. This could boost revenue collection and allow for the transfer of some responsibility for infrastructure to the private sector. It would also provide an alternative source of employment for Palauans displaced from the public sector. The economy has

considerable potential to achieve private sector led growth but any attempt to diversify the economy away from the public sector would face many challenges, given the narrow production base, small population, and remoteness from major markets.

Increased private sector growth would substantially change Palau and its society, entailing important social risks. The mobilization of land for development will impact sensitive traditional and individual rights issues. Palauan labour supply is currently almost fully employed so it is difficult to retain young Palauans and attract overseas Palauans to return. It is more expensive to employ Palauans than foreign workers. The result is that private sector growth will lead to the employment of additional foreign labour, which will constitute the majority of the workforce. Domestic deposits with the banking system substantially outweigh loans, so there is sufficient liquidity to meet local capital needs. However, local banks are cautious about local lending, partly due to the difficulty of using land to secure loans. This means that foreign investors would probably be required to help fund private sector developments and provide the supporting business network and skills required—notably for larger scale tourism developments. Therefore, private sector growth will increase foreign presence in Palauan business.

Growth prospects are probably weak if Palau chooses to retain the current community structure and cautious approach to increased foreign involvement in business. The economy is highly dependent on imports, there is virtually no manufacturing sector, and the export base is very narrow outside tourism. Since the large public sector is key to high income levels, and external assistance to the public sector is scheduled to decline substantially over the medium term, Palau's current high income levels and high standard of living are probably unsustainable.

As a Forum Island Country, Palau is a signatory to the Pacific Plan, which is based on the concept of regionalism: that is, countries working together for their joint and individual benefit. Regionalism under the Pacific Plan does not imply any limitation on national sovereignty. It is not intended to replace any national programmes, only to support and complement them. The Government of Palau believes that regionalism can reduce the costs of providing a service. In the Pacific, regional approaches to overcoming capacity limitations in service delivery at a national level, and increasing economic opportunities through market integration is expected to provide the highest gains.

Trade/EPAs

All Pacific ACP states, including Palau, continued their participation throughout 2005 in the EPA regional negotiation process through the established negotiating machinery. Progress in the Pacific negotiations was, however, slower than might have been hoped for, a reflection both of the very limited capacity of certain PACP states and of the varying levels of interest on the part of the states in an EPA (only a small number of smaller PACP perceive an interest in an agreement on goods). Discussions focussed on the architecture of the Agreement, as well as on investment promotion and protection and on certain sectors of importance to most PACP – including some of the smaller countries – such as fisheries, tourism and services in general. There was little in the way of discussions on goods in 2005 : such discussions have been backloaded for fear of triggering free trade discussions with Australia and New Zealand under PACER.

Support to EPA preparation efforts, including in-country stakeholder meetings and participation in EPA-related meetings at all levels, was provided for Palau through PACREIP, the €11.2m 9th EDF regional programme.

II.1.3 Social situation, including decent work and employment (See annexes 9, 10 and 11 for figures)

The Constitution guarantees access to 12 years of public education. There is also subsidized on island tertiary education (mainly for outer-island residents) to the associate degree level, and public assistance for off-island tertiary studies. In addition to the public school system, there are church-based and private primary and high schools. The US Government provides scholarships for study in the US for students who pursue a college education.

Palau has achieved literacy and high school participation rates that are relatively high among the Pacific Islands. However, enrolment in secondary education has declined significantly since the late 1980s due to low population growth and high dropout rates. In recent years, 30% of Palau's youth failed to complete 12 years of basic schooling—the minimum educational requirement for most jobs. Some 30% of students seek university (tertiary) level education. Since Palau has only one community college, these students have to go to the US on scholarship. Although no statistics are available, it is believed that only a small proportion of university-educated graduates return to Palau. The education system, especially at secondary and tertiary levels, is vocationally oriented. As younger Palauans now prefer white-collar public sector jobs and professional vocations (i.e., accountants, lawyers, and doctors), the education system needs to be revised to better address current needs. The student-teacher ratio for public schools is very low. The average ratio is about 13:1 in high schools and 12.2:1 in primary schools. The student-teacher ratio is particularly low in the outer islands and less populated states in Babeldaob. But even at Koror primary school, the student-teacher ratio is reasonably low at 21:1. Maintaining this low student-teacher ratio has significant budgetary implications. Rationalizing school locations and lowering the target standard of education provision may be warranted.

Well-established medical institutions (mostly government-owned) and generous government subsidies have allowed Palauans to enjoy sustained, free primary care, both preventive and curative, leading to improved health—longer lives and freedom from many of the most serious communicable diseases. In 1990, Palau's population had a life expectancy of 69.0 years and infant mortality rate was estimated at 24.0 deaths per 1,000 live births. This improved by 2000, when life expectancy rate rose to 70.5 years and infant mortality rate fell to 18.3 deaths per 1,000 live births. Health conditions in Palau are now among the highest in the region.

The Government categorizes public health services into primary, secondary, and tertiary care. Primary care is mainly preventive health care, including immunization, maternal and child health, school health, dental services, family planning, behavioral health services, control of communicable and non-communicable diseases, health education and sanitation, and environmental health services. Primary care is fully subsidized. Secondary care, including curative care provided by the local hospital, is formally subsidized by 5–20% depending on the patient's income. In practice, subsidies are higher. For example, in 2004, a \$13 million budgetary provision was made for secondary care and patients paid about \$1 million in total. Tertiary care mainly comprises services not provided by the local hospital. An off-island medical referral program is provided for all citizens. Based on the patient's condition, the

Tripler Army Medical Center in Hawaii (mainly for cancer) and three Philippine hospitals (St. Luke's, Makati Medical Center, and Medical City General Hospital) are used as referral sites.

Although general health has improved over the past few decades, changing lifestyles are creating a potential epidemic of non-communicable diseases (particularly cardiovascular disease, diabetes, and cancer), which undermine many people's quality of life, erode labour productivity, and challenge the financial viability of the publicly subsidized health system. Palau relies heavily on imported food, and the use of these foods focuses on cost and convenience at the expense of nutritional value. The rising prevalence of non-communicable diseases imposes a major burden on health care resources and this burden is likely to rise. Given budget constraints and declining US grants, the Government has to choose between funding preventive and primary care, which can provide infant and adult health care for the masses or expensive curative care for what may be the wealthy urban minority. A domestic food production policy to provide an adequate supply of locally produced foods and the adoption of a medical insurance (referral) policy may be warranted.

II.1.4 Environmental situation

Palau has a unique ecosystem which is in relatively good condition, even though it can no longer be called pristine in some areas. Given the major economic role of tourism, sustained economic development is dependent on the integrity of an environment under increasing pressure from development, which is potentially incompatible with fragile island ecosystems. Traditional conservation ethics relied heavily on communal conservation norms, which were enforced by the chiefs. The traditional system began to break down through monetization of the villages and private ownership of land and resources. Large-scale commercial and infrastructure development, over harvesting of marine resources, erosion of traditional conservation ethics, and a rapidly increasing tourist population have already begun to damage the environment. Achieving a balance between conservation and development through environmentally compatible activities is clearly one of Palau's most urgent challenges. The Biodiversity Convention considers Palau a biodiversity "hotspot".

In March 2006 Palau joined RMI, FSM, Guam and NMI in adopting the Micronesian Challenge – a unique programme which aims to conserve 30 percent of near-shore marine resources and 20 percent of forest resources by 2020. This ambitious challenge far exceeds current goals set by international conventions and treaties, which call for countries to conserve 10 percent of marine and terrestrial resources by 2012. The challenge also emphasises the need for Micronesian leaders to work together to confront environmental and sustainable development issues.

II.1.5 Palau in the international context

Palau joined the United Nations soon after independence, and the South Pacific Forum in 1995, hosting the 1999 Forum. It is also a member of the Forum Fisheries Agency and the Pacific Community (SPC). Palau belongs to the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the Food and Agriculture Organisation of the United Nations (FAO). Palau also applied to join the Asian Development Bank, but could not gain admission as its notional per capita GDP was too high. Palau is, however, on the OECD list of countries eligible for official development assistance. Further international organisation participation includes: ESCAP, IBRD, ICAO, ICRM, IDA, IFC, IFRC, IMF, IOC, SPARTECA, SPC, SPF, US, UNCTAD, WHO.

Palau participates in regional efforts on economic integration and a number of regional trade agreements. The Government has contributed to ongoing EPA negotiations. Palau maintains embassies or in Manila, the UN, Washington, Tokyo and Taipei and consulates in Guam and Saipan.

II.2. Poverty reduction analysis (see Annex 10 and 11 for figures)

In 1998, UNDP attempted to define poverty in Palau by determining a level of income below which households were deemed to be living in poverty (UNDP, 1999). It identified 2,628 households as being impoverished, while a further 1,676 were considered to be economically vulnerable. These figures correspond to 23 per cent of the total population of 19,125. A poverty assessment based on the threshold income in the United States of America indicates that more than 65 per cent of households live in poverty; in some islands, the figure is 100 per cent. This is not a valid assessment, however, given the strong cultural, social and welfare system provided by extended families or clan members. Those living in rural and outer islands have a lower cash income earning potential but a higher subsistence component of income than Palauans resident in Koror.

In recent years, investment has been concentrated in the urban sector of the economy to the detriment of the rural primary production sector. As a result, the income of the average rural household is less than one-half that of the average urban household. Primary production has continuously diminished as a proportion of goods consumed, thus creating a potentially destabilizing dependency on imports and creating a serious balance of trade deficit.

Palau has already achieved several targets specified in the Millennium Development Goals (MDGs): universal primary enrolment for boys and girls, the elimination of gender disparity in primary and secondary education, low child and maternal mortality rates, and access to safe drinking water. However, these achievements need to be closely monitored and preserved. Absolute poverty and unemployment are nearly nonexistent, although under-employment persists. A poverty profile for Palau is annexed.

II.3. The recipient country's development strategy

In 1996, a National Master Plan was developed establishing the framework and policies for the pursuit of sustained economic and social development over a 25-year period. The main long-term development objectives of the Master Plan are summarised as follows:

(i) a substantial shift in economic activity from the public sector to the private sector aimed at increasing productivity and efficiency of the resource use; (ii) strengthening of government institutions to improve co-ordination of the decision making processes while, at the same time, reducing the relative size of government; and (iii) identification of financing strategies, including tax reform, to offset the decline in US assistance over time.

Within the framework of the Master Plan, a five-year National Development Strategy was adopted with the emphasis on infrastructure development and other capital investment. The Government's vision, goals, macroeconomic framework and related development strategies are set out in the National Master Plan, the key elements of which are:

Vision:

“To substantially enhance the quality of life of Palauan and future generations of Palauan.”

Goals:

- increase real economic growth per capita on a sustained basis;
- share the benefits of economic growth on an equitable basis, in ways that reward enterprise, risk taking and hard work, and allow foreign workers and investors a genuine stake in development;
- enrich and enhance confidence in the Palauan culture, raise national consciousness, and protect the natural environment.

Macroeconomic Framework and Development Strategies / Key Macroeconomic Policy

“To establish a stable, predictable and internationally competitive macroeconomic environment for private investment; financing of government expenditures; and sustained economic growth.”

Development strategies focus on the following areas: fiscal management, the labour market, foreign investment, taxation and charges, and the financial sector.

In his State of the Republic Address in April 2006 the President reaffirmed governments’ commitment to expand Palau’s economic base by addressing crucial areas of the economy. In tourism, government is committed to maximising the value of tourism receipts by diversifying its tourism portfolio, focussing on high end tourists and ensuring that a greater proportion of tourism revenues flow to Palauans.

In agriculture, and aquaculture the strategy is to support the tourism industry by way of:

- Providing tax breaks, concessionary financing and marketing support
- Expanding educational opportunities
- Improving quarantine capacity; and
- Developing processing industries with diversified value added products

In fisheries the strategy is to increase fines and penalties for illegal fishing and to improve multilateral and bilateral fishing agreements. The strategy for the development of service based export industries includes the establishment of international corporate registration and banking regimes, ICT industries and the development of a transshipment centre through the creation of a new international port. In Health care government is committed to improving health care insurance option for all its citizens and in this respect the World Bank has shown some interest in helping the country develop a plan. Government also recognises the need to introduce a comprehensive physical planning and zoning regime and has already sought US assistance in this area. In 2005 the government endorsed a National Biodiversity Strategy and Action Plan and passed a law prohibiting bottom trawling in Palau’s EEZ. In an effort to implement the action plan the Presidents of Palau, FSM and RMI and Governors of Guam and CNMI recently signed the Micronesian Challenge –a commitment to conserve 30% of near-shore marine resources and 20% of forest resources by 2020. With regard to Natural Resource Development government is committed to establishing a workable set of regulations governing petroleum codes and model contracts and environmental and fiscal regulations.

Government is also committed to seeking partnerships for tapping alternative energy sources particularly wind, solar bio-diesel and ocean thermal power.

II.4. Analysis of the viability of current policies and the medium-term challenges

There is a need to implement structural measures to attract foreign direct investment and promote private sector activity, such as the streamlining of investment approval processes and facilitating the use of land as collateral or for leasing. Uncertainty over land titles and transfer is common to many Pacific Island economies where land is mostly owned collectively. The Government, recognising that the speedy resolution of land ownership titles is crucial if Palau is to realise its economic development potential, has taken steps including legislative guidelines to make the land market more predictable without changing the fundamental institutional construct reserving free title to land for Palauans only.

The large number of foreign workers brought in to meet labour force requirements, in the absence of a skilled domestic labour force, also presents a growing challenge. There is a need for an effective institutional capacity to ensure the repatriation of all foreign workers at the expiration of their contracts. The costs and benefits of a relatively large pool of foreigners remaining in a country as small as Palau are yet to be defined, but there is growing concern that Palauans may become a minority in their own country.

Opportunities for growth and development have been identified in the agriculture, fisheries and tourism sectors. However, in order to maximise the benefits from investment in these sectors, greater participation by indigenous Palauans at every level of the economy must be realised. A regulatory environment needs to be established with appropriate institutional incentives to facilitate private sector growth and to encourage commercial investments and greater participation by Palauans at all levels.

Due to the increasing cost of oil imports it is natural that attention be given to the introduction of alternative renewable energy sources. It is important therefore that government formulate and pass into law an Energy Bill.

CHAPTER III: OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY

III. 1.1 Focal sectors (and macroeconomic support)

In July 2005 the Financing Agreement for the Renewable Energy Programme (covering also Marshall Islands, Nauru, Niue and FSM) was signed by the Secretary General of the Pacific Island Forum Secretariat on behalf of all five countries concerned. The tender award procedure for the recruitment of the Programme Management Unit (PMU) has been completed and implementation began in January 2006. The PMU opened an office in Suva and Pohnpei during the first quarter of 2006. Tender specifications were drawn-up in 2006 and contracts let in 2007. In Palau the programme will focus on providing solar power to feed directly into the grid.

III.1.2 Projects and programmes outside focal sectors

Following discussions between the Delegation and Non-State Actors in Palau, it was decided to focus the programme at enhancing and expanding community-based activities in the field of renewable energy. A draft Financing Proposal was transmitted to Commission headquarters in September 2005. Following comments, the document is now still under review by the NAO and the designated NSA implementing organisation, the Palau Community Action Agency. The Financing Proposal has been approved and implementation commenced..

Given the slow start to the 9th EDF the main lesson learnt is that project design and formulation needs to begin well in advance and that future programmes should be limited to as few as projects as possible. In this context a contract agent has been engaged for the purpose of expediting current and future programmes. Additionally, programme delivery can be enhanced with the engagement of local TA support to the NAO through a TCF.

III.1.3 Utilisation of Envelope B

PALAU has not been subject to disasters, and is not eligible for FLEX or HIPC, so the B envelope remained untouched in 2005. A multi-country programme on disaster preparedness is being developed for CROP implementation and PALAU has indicated its interest in using its B envelope to join and benefit from this programme. In August 2006 Palau mandated the RAO as contracting authority for this programme. It should be noted as regards disaster preparedness that all current and future programmes should include reinforcement of the national capacity to respond to disasters and should encourage countries to propose their own strategies.

III.1.4 Other instruments

The 9th EDF Pacific Regional Indicative Programme funded and extended a number of existing projects to the six new Pacific ACP countries, including PALAU. These consisted of:

Pacific ACP Regional Economic Integration Programme (PACREIP)

Development of Sustainable Agriculture in the Pacific (DSAP)

Pacific Regional and OCT Fisheries Programme (PROCFISH)

Plant Protection Programme (PPP)

Pacific Regional Initiatives for the Development of (basic) Education (PRIDE)

Reducing Vulnerability in PACP States – SOPAC

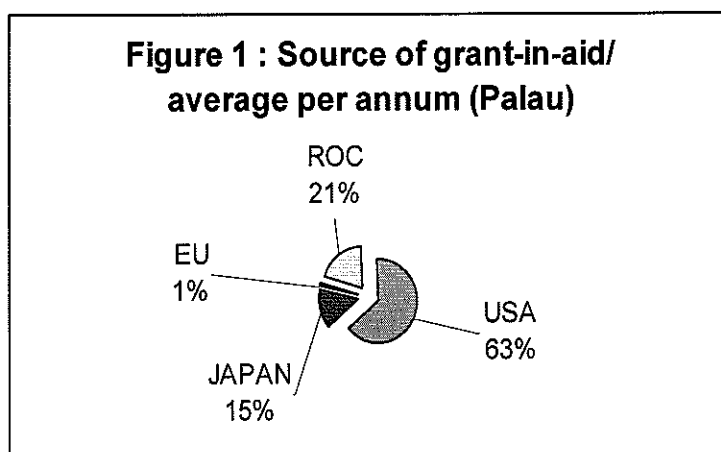
Development of Fisheries in the Pacific (DEVFISH)

Pacific Environmental Information Network (PEIN)

Additionally PALAU has benefited from training provided through the Technical Support to RAO Project and EPA related technical assistance under a FORSEC implemented intra-ACP funded programme.

III.2 Information on the programmes of the Member States and other donors (complementarity)

Significant bilateral partners include US, Japan, and Taiwan. Palau's ties with Asia, particularly Japan, are expanding rapidly. In January 2000 Palau formally recognised Taiwan, guaranteeing the latter's increasing contribution to investment and tourism in Palau. The US, Philippines and Japan maintain embassies in Palau. The US is by far the most important contributor to Palau's economy donating in the region of 63% of total transfers amounting to some € 36 million per annum. Approximately USD 27 million of this is provided through Compact funds, while the remainder is made up of various Federal Grants. This is followed by Taiwan 21% (€12 million) and Japan 15% (€8.75 million). Currently the EU contributes about 1% of ODA (€0.6 million).



Source: ROP budget office

III.3 Other EC policies

There are two important links to be mentioned. The first one is with the European environmental policy and the active role of EU and the Commission in implementing this as the Kyoto Protocol and secondly, the Green Blue Diplomacy Strategy in general.

The second area of exchange and interaction is linked to cooperation on tax matters. The need for transparent corporate information mechanisms plays a vital role when countering terrorism, its financing, tax evasion, tax avoidance and corruption. It assumes and increasing importance in small open economies that have developed an offshore financial sector. The Government of Palau has declared its willingness to fully comply with international standards and practices in the area of money control and taxation.

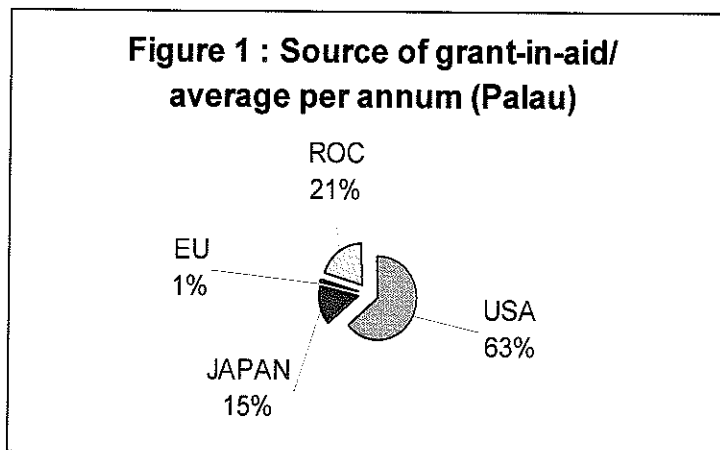
Coherence between development co-operation policy and other EC policies (trade, fisheries, agriculture, environment) relevant for Palau will be assessed on a continuing basis. Coherence with cross-cutting issues referring to gender mainstreaming, environmental considerations and principles of good governance will be observed in all future projects.

III.4 Description of the political dialogue with the partner country

Palau is a relatively new member of the ACP group having joined on signature of the Cotonou Agreement in June 2000. Neither the EU nor its member states has permanent representation in Palau; the country is served by the EC Delegation in Suva (over 6,000 km to the south).

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- the EDF funded interventions will have a high and positive impact on living conditions of all beneficiaries, without a distinction according to social, ethnic, political, religious or gender criteria;
- the operations are sustainable in order to guarantee a lasting flow of benefits to the target groups and to the country as a whole;
- The projects and programmes funded under the present Agreement are undertaken in areas where the EC is perceived to have a comparative advantage, compared to other donors, and where it is possible to operate in close partnership with established and reputable regional organisations.

The Government of Palau and the European Commission jointly recognize that important environmental issues and the sustainable management of natural resources form an essential part of the country's development priorities, to which the European Commission wants to align its response strategy. Issues related to the reliable provision of water and sanitation, management of solid waste and renewable energy are therefore topics of central relevance for any discussion on the future partnership.

In October 2005 the European Commission proposed to the Pacific Forum Leaders to focus the EDF's future assistance in the Pacific on the sustainable management of natural resources, a sector of strategic importance to all Pacific Island Countries, where there is a general commonality of interests between the region and the European Union and where the EU has significant expertise. Sustainable development is also one of the four key pillars of the regional framework underpinning the Pacific Plan, which was approved by the Forum Leaders on the same occasion in 2005. The above-mentioned new EU strategy for the Pacific, which was approved by the General Affairs Council of the European Union on 17 July 2006, refers to the sustainable management of natural resources as one of the priority areas for more focused development cooperation.

In line with Palau's National Development Master Plan and consistent with the promotion of economic and social development and the development of the productive base, the Government of Palau wishes to target the energy sector, especially the identification and use of new and renewable energy sources as the focal area for the 10th EDF funding.

Enhanced economic development and private sector activities depend on public utilities provided by the Government, among which energy supply is crucial. The Government of Palau recognises that opportunities for economic growth depend on its fragile natural environment and that the continued heavy reliance on imported fossil fuel for energy production presents a threat to sustainable economic development. Government's policy is therefore not to focus essentially on conventional (fossil fuel) energy, but to identify and develop new and renewable energy sources, e.g. wind, solar and wave energy. The Government recognises that new and renewable sources of energy can make a contribution to meeting Palau's long-term energy needs in a way that is both economically and environmentally sustainable. Energy generation through renewable sources contributes to diversifying the resource base of the economy, to improving energy supply security and to strengthening the balance of payments position. Energy conservation and efficiency measures and, where possible, the substitution of high-cost imported diesel fuels with the use of indigenous renewable sources of energy provides the lowest-cost and immediate means of satisfying energy demand and reducing expenditure on energy. The objective is to maximise the contribution of appropriate, proven and cost-effective renewable technologies utilising new and indigenous energy resources.

In order to meet its long-term energy needs, Palau must identify and develop the capacity to use new and renewable energy sources. In this regard, the objectives of the Government of Palau are:

The reliable supply of energy sources for economic and social development through the effective application and use of appropriate and cost-effective renewable energy technologies;
The sustainable management of Palau's energy resources in view of environmental considerations;

The strengthening of Palau's institutional capacity to manage domestic energy resources.

The lack of renewable energy and energy efficiency information and awareness throughout the society has been identified as a major problem in the energy sector. In particular the supply of energy demand management information to the general public could have considerable impact on energy consumption. Although not regulated, present fuel retail prices are between US\$ 2.80 (regular) and US\$ 2.95 for diesel and unleaded super and thus lower than in all other Micronesian countries. Although concern is frequently expressed with respect to current fuel price levels future trends, it is not obvious that consumer behaviour is adjusting. Palau's indigenous energy resources are limited. Apart from solar energy, for which there is potential to conserve a significant amount of electricity, potential in other forms of renewable energy is limited. Ocean based energy forms are under consideration in Palau. Although commercially not yet proven, there is interest in OTEC development in co-operation with Japan. In addition to solar (for both grid connected and outer island use) the other main possibilities are :

hydro: small hydro sites have been identified and are worthy of further studies taking into account latest technology

wind: average wind speed is 5.7m/s which is OK but of course site specific. Palau is less affected by cyclones than some other PICs.

biofuels:. Large coconut plantations are not present and planting large fuels plantations will need to overcome land-tenure and environmental barriers.

The Government proposes to allocate 85 percent of the A-envelope or €2.47 million for the development of the energy sector. NSAs will be encouraged to participate in the implementation of the programme. The selected area falls within the **Water and Energy** sector as defined by the European Consensus on Development, June 2006. The remaining 15 percent (€0.43 million) will be to establish a Technical Co-operation Facility from which necessary Technical Assistance, studies and EDF-related activities will be funded. Additionally, the TCF may be used to fund necessary technical studies, improvement in statistical reporting and activities related to EDF implementation, future programming and/or regional integration and EPA and measures which improve overall governance, in particular, actions that are directly linked to the government's commitments in this field..

It is also noted that, given the difficulty of implementing individual disaster prevention programmes for each small island, a synergy should be found between all contributions to such programmes on a regional basis (for example the multi-country programme under the 9th EDF B-envelope).

Coherence between development co-operation policy and other EC policies (trade, fisheries, agriculture, environment) relevant for Palau will be assessed on a continuing basis. Coherence with cross-cutting issues referring to gender mainstreaming, environmental considerations and principles of good governance will be observed in all future projects.

Climate change is an important cross-cutting issue, in particular for the Pacific region and SIDs as a whole. Major regional initiatives are being considered in the context of the forthcoming 10th EDF Regional Indicative Programme. SPREP is also very active in this field, as is UNDP. Under the 10th EDF, due consideration needs to be given to the likely exacerbation of potential problems such as epidemics and famine due to water contamination, loss of arable land, and population displacement (the latter linked also to disaster response planning). For Palau, some specific issues should also be borne in mind with regard to reinforcing adaptation efforts, for example the possible need for watershed management, and alternative production systems in agricultural activities (eg agro-forestry) - these issues should also be addressed during the identification process and the feasibility studies which will determine the specific interventions and accompanying measures of the focal sector programme.

The proposed programme is complementary to Palau's own efforts to improve the living conditions in the outer islands and redress the imbalance between urban and outer island development by spreading the benefits of growth more evenly across the country as well as to observe the sustainable use of the natural environment. It is co-ordinated with and complements the support for outer island development of other donors.

Given the small size of the EU programme relative to the US, the choice of sector is appropriate, particularly because few other donors are involved in renewable energy. US assistance focuses primarily on Health and Education and infrastructure. EU focus on renewable energy, especially on the outer islands complements current US assisted sectors.

Expected results in this sector will be defined in detail once the specific intervention has been identified. In broad terms, increased access to affordable electricity can be achieved by undertaking the following:

- Fully explore the development of renewable and sustainable energy sources, including through more surveying of each islands energy resources and collection of data on renewable energy.
- Develop a comprehensive energy policy to reduce use of fossil fuels and promote alternative energy options.
- Analyse the energy sector and its linkage with the economy, and institute integrated resources planning.
- Strengthen the institutional and technical capacity at all levels.
- Long term financing essential.

IV.2 Implementation mechanism

As discussed at the Regional Seminar in March 2006 and if deemed feasible and desirable by partner governments, a multi-country program approach is proposed as the preferred modality for implementing the 10th EDF. This should raise the quality of Technical Assistance, improve efficiency and effectiveness, and speed up the delivery of 10th EDF assistance.

Nevertheless a degree of flexibility regarding implementation modalities needs to be maintained in case the suggested centralized technical assistance of a large multi-country programme is found wanting. Alternatives including national programmes through national government authorities, or the use of regional agencies for technical assistance, such as the South Pacific Geosciences Commission (SOPAC), should remain an option.

The specific actions to be addressed within the focal area will be determined on conclusion of a project design study to be undertaken in 2007. The countries involved in this multi-country programme approach are, Cook Islands, FSM, RMI, Palau, Nauru, Niue, Kiribati, Tuvalu and Tonga.

PART 2: INDICATIVE PROGRAMME

1 Indicative Programme¹

1.1 Introduction

On the basis of the cooperation strategy presented in Part One and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financial programming timetable and a detailed chronogram of activities for all listed programmes over a rolling three-year period.

Amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sector(s), macro-economic support and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or ad hoc reviews. However, for any adjustment resulting in a substantial change to the structure of the response strategy, a formal decision in the form of an addendum to the strategy document will be required.

1.2 Financial instruments

The implementation of the EC's cooperation strategy with Palau will be financed from several financial instruments. The following is an indication of their mobilisation as currently envisaged.

1.2.1 10th EDF, A envelope, €2.9 million: this envelope will cover long-term programmable development operations under the strategy, and in particular

Energy (renewable)² €2,470,000 *85% of total* *<financial instrument(s)>*

The specific areas to be addressed within the focal area will be determined on conclusion of a project design study to be undertaken in 2007. Programme Implementation will be through a multi-country approach where a centrally located Project Management Unit will service a number of participating countries. The countries involved in this approach are, Cook Islands, FSM, RMI, Palau, Nauru, Niue, Kiribati, Tuvalu and Tonga. . A degree of flexibility regarding implementation modalities needs to be maintained in case the suggested centralized technical assistance of a large multi-country programme is found wanting. Alternatives including national programmes through national government authorities, or the use of regional agencies for technical assistance, such as the Secretariat of the Pacific Community, (SPC), should remain an option.

Non-focal €430,000 *15% of total* *<instrument(s)>*

<of which:

- the Technical Cooperation Facility €430,000

¹ The sentences in italics should be completed or deleted in the final version of the document.

² Part of the wider strategy of Water and Energy, as mentioned in the European Consensus on Development

- 1.2.2 **10th EDF, B envelope, €0.3 million:** this envelope will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or ad hoc reviews.

- 1.2.3 **Investment Facility:** in addition to the financial instruments mentioned above, of which the A envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP.

Some specific activities may be supported by the **Centre for the Development of Enterprise (CDE)** and the Centre for the Development of Agriculture (CTA).

- 1.2.4 **10th EDF Pacific Regional Indicative Programme (amount to be confirmed):** this allocation will cover long term programmable development operations under the regional strategy for the Pacific. The allocation is not part of the Indicative Programme but may have repercussions at national level depending on the participation of Palau in the programmes proposed under the regional framework.

1.2.5. Other financial instruments:

Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007-2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non state actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security" as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

1.2.6. Monitoring and evaluation

Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this CSP.

The results and impact of the Community's cooperation with Palau implemented through the NIP and through other external actions funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

1.3 Focal sector

Renewable Energy (within the Water and Energy Sector as defined by the European Consensus on Development, June 2006)

The following specific objective will be pursued:

- to increase power production from renewable energy sources and
- to improve the overall policy framework of the energy sector

As an indicative amount, approximately **€2.47 million** will be set aside for this field.

The main actions proposed are: **the supply and installation of household renewable energy systems in rural areas/outer islands.**

The main implementing instrument will be: **project support**

The main sectoral policy measures to be taken by the Government as a contribution to the implementation of the response strategy in this field are: **Formulation and approval by Congress of National Energy Policy and the commencement of implementing such policy by mid 2010.**

The main commitments by the Government to ensure mainstreaming of the crosscutting issues are:

When needed, the appropriate type of environmental assessment (SEA or EIA) will be carried out.

1.4 General budget support

The indicative programme does not provide for general budget support. However, in the light of changing needs, it may be decided to reallocate funds from other application points in the NIP to this type of support. Such a decision can be taken in the form of a specific agreement between the Chief Authorising Officer and the National Authorising Officer or within the context of an operational, mid-term, final or ad hoc review.

1.5 Other programmes

An indicative amount of €430,000 is set aside for the following actions:

The Technical Cooperation Facility; €430,000. The TCF will primarily fund the cost of local technical assistance and training and capacity building of the NAO office. It will also be used to fund necessary technical studies, improvement in statistical reporting, and activities related to EDF implementation, future programming and/or regional integration and EPA.

The TFC can also be used to finance measures which improve overall governance, in particular, actions that are directly linked to the government's commitments.

Support for Non-State Actors covers NSAs eligible for funding as defined in Article 6 of the Cotonou Agreement and article 4(1) (d) of Annex IV to the revised Agreement. Depending on their mandate, support to NSAs may cover activities including, inter alia, capacity building, advocacy, research, awareness raising, monitoring and delivery of services to the population.

In supporting NSAs, the EC may make use of article 15(4) which allows it to be the Contracting Authority

The main policy measures to be taken by the Government as a contribution to the implementation of the response strategy in the non focal areas are:

- The Government of Palau agrees to assign sufficient human and financial resources to ensure the smooth running of the office of the NAO

1.6 Intervention Framework & Performance Indicators

1.6.1 First Focal Sector – RENEWABLE ENERGY & EFFICIENCY (WATER AND ENERGY SECTOR)

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objectives	To improve social and economic development and improve balance of payments	<p>Reduction in poverty</p> <p>Increased employment</p> <p>Improved HDI rankings</p> <p>Reduced costs of oil imports (Approximately 18m litres of diesel fuel are imported for electricity production each year)</p> <p>Energy savings (solar PV projects will generate approx 200 MWh/year of electricity saving about 70,000 litres of fuel per year)</p> <p>Increase in percentage of energy produced from renewable sources (currently practically zero)</p>	Poverty assessments Government records HDI index	N/a

Programme Purpose	To provide cost effective and reliable renewable energy and promote energy efficiencies	All RE systems supplied and in use by 2012 Increase in demand for RE systems Increase in private sector involvement in RE technologies	Government records Independent reviews Independent surveys	World demand for oil continues at current or higher levels Government policies continue to support private sector growth
Results	Cheaper electricity costs Cleaner environment Educated public (in energy efficiencies)	Reduced dependency on fossil fuels Improved Household income Diesel imports reduced	Independent survey Inter-island shipping records Household income surveys	RE equipment properly maintained User pay system accepted Battery disposal system applied

Below are some proposals for sector indicators for MCP in the energy sector which could be used when defining future activities

1. User benefits and costs

- Proportion of population using solid fuels (*MDG 7 indicator*)
- Proportion of population with access to electricity from a grid, urban and rural areas separately
- Connection fees and unit costs for electricity, relative to household income
- Share of household income spent on electricity and fuels, urban and rural separately

- Average time spent on collecting and preparing fuel, urban and rural separately
- Proportion of population with access to modern fuel services (e.g. LPG) or improved stoves, urban and rural areas separately

2. Sector performance

Economic and financial

- Costs of oil imports relative to GDP
- Energy use (kg oil equivalent) per \$1 GDP (**MDG 7 indicator**)
- Percentage of GDP allocated to energy investments
- Technical and non-technical losses in power and fossil fuel generation, transmission, distribution and end-use
- Share of government budget allocated to energy spending
- Share of financial contributions from international financing institutions and donors to the energy sector

Institutional

- Percentage of energy services delivered by the private sector, such as electricity, petrol, coal, charcoal, paraffin etc, and other non-state actors, such as e.g. community based organisations
- The level of decentralisation of energy decision making power and capacity, to e.g. local authorities
- Cost of operating the electricity utilities, relative to amount of units (kWh) delivered to end-users
- Maintenance conditions and cost recovery for different energy systems

Environmental

- Extent of incorporation of environmental concerns in guidelines and standards for energy systems and energy investments
- Carbon dioxide emissions per capita (*MDG 7 indicator*)
- Ambient air pollution related to energy usage, e.g. for power generation, transport, heating etc
- Indoor air pollution related to the use of fuels for cooking and heating (e.g. wood, charcoal, coal, LPG, kerosene, paraffin)

1.6.2 Second focal sector

n/a

1.7 Indicative timetable for commitments and disbursements

1.7.1 Indicative timetable of global commitments

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
1st FOCAL SECTOR – RENEWABLE ENERGY (Water and Energy)	M €2.47						
- Project 1 : Renewable Energy Programme (MCP)	M €2.47	0	2.47				
	M €						
2nd FOCAL SECTOR – NONE	M €						
- Project 1	M €						
- Project 2	M €						
NON FOCAL SECTORS	M €0.43						
- Institutional support for non state actors.	M €						
- Technical cooperation facility	M €0.43	0.43					
- Contribution to regional programmes	M €						
-<optional> Support for EPA	M €						
-<optional> Support for Governance	M €						
-Other	M €						
Total Commitments:	M €	0.43	2.47				
Total Cumulative Commitments :	M €	0.43	2.9				

1.7.2 Indicative timetable of disbursements

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
1ST FOCAL SECTOR – RENEWABLE ENERGY(Water and Energy)	ME2.47						
- Project 1 : Renewable Energy Programme	ME 2.47		0.05	0.22	0	2.0	0.2
- Project 2 : NONE	ME						
2ND FOCAL SECTOR – <name>	ME						
- Project 1	ME						
- Project 2	ME						
NON FOCAL SECTORS	ME						
- Institutional support for non state actors.	ME						
- Technical cooperation facility	ME0.43	0.07	0.07	0.07	0.07	0.07	0.08
- Contribution to regional programmes	ME						
-<optional> Support for EPA	ME						
-<optional> Support for Governance	ME						
-Other	ME						
Total Commitments :	ME	0.07	0.12	0.29	0.07	2.07	0.28
Total Cumulative Commitments :	ME	0.07	0.19	0.48	0.55	2.62	2.9

1.8 Chronogram of activities

1 st FOCAL AREA	Indicative allocation	2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Project 1	M €2.47		AF	FD	#	#	#	✂	✂	✂	✂	✂	✂
- Project 2	M €												
2 nd FOCAL AREA		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Project 1	M €												
- Project 2	M €												
NON FOCAL Same schedule as above		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Institutional support for non state actors.	M €												
- Technical cooperation facility	M €0.43				✂	✂	✂	✂	✂	✂	✂	✂	✂
- Contribution to regional programmes	M €												
-<optional> Support for EPA	M €												
-<optional> Support for Governance	M €												
-Other	M €												

FS: Feasibility Study
 AF: Action Fiches
 FD: Financing decision
 ✂ : Project implementation

Annex 1 : Country at a glance : PALAU

Palau Data Profile			
Click on the indicator to view a definition	2000	2004	2005
People			
Population, total	..	20,000.0	20,200.0
Population growth (annual %)	..	1.5	1.0
Mortality rate, infant (per 1,000 live births)	24.0	22.4	..
Mortality rate, under-5 (per 1,000)	29.0	27.4	..
Births attended by skilled health staff (% of total)
Immunization, measles (% of children ages 12-23 months)	..	83.0	99.0
Primary completion rate, total (% of relevant age group)	..	98.8	..
School enrollment, primary (% gross)	113.3	101.1	..
School enrolment, secondary (% gross)	86.1	108.1	..
School enrolment, tertiary (% gross)	40.6
Ratio of girls to boys in primary and secondary education (%)	..	100.4	99.2
Environment			
Forest area (sq. km)	400.0	..	400.0
Improved water source (% of population with access)	..	85.0	..
Improved sanitation facilities, urban (% of urban population with access)	96.0
Economy			
GNI, Atlas method (current US\$)	119.8 million	142.4 million	154.2 million
GNI per capita, Atlas method (current US\$)	..	7,120.0	7,630.0
GDP (current US\$)	119.9 million	133.6 million	144.7 million
GDP growth (annual %)	0.3	4.9	5.5
Inflation, GDP deflator (annual %)	5.3	3.7	2.7
Agriculture, value added (% of GDP)	3.9	3.2	3.1
Industry, value added (% of GDP)	15.1	17.6	19.0
Services, etc., value added (% of GDP)	80.0	78.1	76.9
Exports of goods and services (% of GDP)	9.6	78.3	77.6
Imports of goods and services (% of GDP)	106.1	88.5	81.2
States and markets			
Time required starting a business (days)	..	33.0	33.0
Global links			
Official development assistance and official aid (current US\$)	..	39.1 million	19.6 million
Source: World Development Indicators database, April 2006			

Annex 1a: List of acronyms

ACP	Africa, Caribbean, Pacific
ADB	Asian Development Bank
AusAID	Australia Agency for International Development
CEDAW	(UN) Convention on the Elimination of all forms of Discrimination Against Women
CSP	Country Strategy Paper
EC	European Community
ECHO	European Commission's Office for Humanitarian Assistance
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organisation
FSM	Federated States of Micronesia
HDI	Human Development Index
kWh	kilo Watt hours
MDG	Millennium Development goals
NCD	Non-communicable diseases
NIP	National Indicative Programme
NSA	Non State Actors
NZAID	New Zealand Assistance for International Development
NSDP	National Sustainable Development Plan
NGO	Non Government Organisation
OECD	Organisation for Economic Cooperation and Development
OPM	Office of the Prime Minister
PIAF	Pacific Islands Aids Foundation
PIC	Pacific Island Countries
PICTA	Pacific Island Countries Trade Agreement
PIERS	Pacific Islands Economic Report (ADB document)
PM	Prime Minister
RMI	Republic of Marshall Islands
TA	Technical Assistant
TCF	Technical Cooperation Facility
UNFPA	United Nations Population Fund
WSSD	World Summit on Sustainable Development

ANNEX 2: DONOR MATRIX (PALAU) 2006

Natural Resource	Agriculture & Forestry				
	Marine			USA 0.05	
	Environment			USA 1.2 Japan 0.6	
HRD and Social Development	Governance			USA 2.0 Japan 0.6	
	Law & Justice			USA 0.8	
	Disaster Mitigation			USA 0.1 EU 0.12	
	Health			USA 4.6	
	Culture			USA 0.8 ROC 0.2	
	Community Development			USA 0.2	
	Basic Education			USA 5.0	
	Secondary Education			USA 3.66	
	Tertiary Education			USA 8.0 Australia 0.16	
	Non-Formal Education			USA 0.8	
Other	Direct Budget Support			USA 10.0 ROC 0.1	
	Miscellaneous			ROC 0.1 USA 4.0	
Economic & Private Sector	Private Sector			USA 3.0 ROC 0.01	
	Tourism			USA .03 ROC 0.01	
	Industry & Trade				
	Energy			EU 0.5 USA 0.28	
	Transport & Communication			USA 1.6 ROC 15.0	JAPAN 10.0
	Economic Reform & Finance			ROC 0.02	
		Civil Society (including Churches and NGO)			
		Private Sector			
		Multilateral & Bilateral Institutions			
				Percentage of total ODA	

FIGURES IN USD MILLIONS

ANNEX 3: COUNTRY ENVIRONMENTAL PROFILE SUMMARY

Palau is an archipelago comprising over 586 islands and is located approximately 250 kilometres north of the Equator and about 340 kilometres east of the Philippines. Palau has a combined land area of approximately 525 km² and an exclusive economic zone (EEZ) of 600,000 km². The main archipelago consists of 14 of the 16 states of Palau. The country has a wide variety of marine ecosystems with five geological island types: volcanic, high limestone, low limestone, atolls, and a combination of volcanic and limestone.

Marine resources are abundant and include more than 3,500 species with at least 270 fish and invertebrates used as sources of food. Many other species are important commercially in the aquarium trade and for medicinal use. Population growth and development has had a major impact on Palau's natural environment and its resources. Key environmental issues recognised today include: unplanned development, freshwater contamination and drought, invasive species, waste management, pollution, sedimentation, natural resource depletion.

Palau has faced a challenging decade since the publication of its National Environment Management Strategy (NEMS) in 1994, which is based upon the principles agreed to at the Earth Summit on Environment and Development held in Rio, 1992.

The NEMS states that *"In many respects Palau's natural beauty and its rich biodiversity are still what they are reputed to be- spectacular. Its terrestrial resources while not as striking as its marine ones are also rich in diversity....Sustainable development, however is not new to Palau, for centuries Palauans have lived in harmony with nature, taking only what they needed and leaving the rest for future generations. Elements of Palau's traditional conservation ethic can still be seen today but are under threat of becoming totally irrelevant to modern practices. This loss of tradition and culture is one of the most important factors in the degradation of the environment and unsustainable use of resource evident today"*.

The NEMS strategies, which cover policy and planning, human and natural resources management, and monitoring and reporting, were as follows:

- policy and planning;
- population management;
- pollution control;
- education and information;
- management of cultural, archaeological and historic resources;
- sustainable management of natural resources;
- preservation of natural resources; and
- environmental monitoring and reporting.

Palau's progress over the last decade has laid the platform for necessary mechanisms to implement all its environmental obligations under international and regional environment conventions since the Barbados Programme of Action in 1994. Despite progress over the years, new concerns have emerged together with imperative issues of special needs that require immediate assistance from the international community on the sustainable management, protection and conservation of Palau's natural, ecological, cultural and human resources. These emerging concerns are seen as the next stepping stone for Palau to consider in the coming decade if it is to fully realize a balance between development and natural resource management.

Key constraints and emerging issues to address include the following.

Climate Change

- Implement a targeted and holistic awareness programme to increase both community and political awareness and participation in climate change issues.
- Integrate climate change issues into the national development planning processes.
- Develop and strengthen a coordinated effort for integrated coastal area management including land-use master plans.
- Increase technical and financial resources for data collection and long-term monitoring of climate change impacts.

Natural and Environmental Disasters

- Strengthen existing infrastructure and planning for disaster risk reduction.
- Strengthen existing early warning systems.
- Increase capacity both financial and technical.
- Build political commitment.
- Concern at the withdrawal of FEMA assistance.

Management of Waste

- Chronic shortage of adequate funds for capital and operation and maintenance costs for both solid waste and wastewater management.
- Increase professional and technical skilled people to properly plan, design, manage and operate solid waste and wastewater management facilities and services.
- Revamp the administrative structure.
- Investigate options for shipping waste materials offshore.
- Education and outreach efforts to be instituted.

Coastal and Marine Resources

- Strengthen capacity to manage marine protected areas.
- Improve capacity and resources of both the states and the national government.
- Inconsistencies of governance between the states and the national government.
- Restrictive legislation for potential development particularly in sustainable aquaculture.
- Build and maintain a cohesive information network between the coordinating agencies.

Freshwater Resources

- Palau has inadequate water storage capability.
- Very high per capita daily consumption rate, water conservation programmes and public education are critical.
- Lack of effective and efficient distribution infrastructure.
- Improve water quality testing as rainwater catchments are contaminated.

Land Resources

- The carrying capacity of the land is unknown.
- Lack of a comprehensive statutory and regulatory environmental management framework.
- Land ownership disputes.
- Institutional capacity and political support for the agriculture and forestry sectors is weak.
- Lack of information on terrestrial biodiversity.
- Clearing and reclamation of mangroves.

Energy Resources

- Fully explore the development of renewable and sustainable energy sources, including through more surveying of each islands energy resources and collection of data on renewable energy.
- Develop a comprehensive energy policy to reduce use of fossil fuels and promote alternative energy options.
- Analyse the energy sector and its linkage with the economy, and institute integrated resources planning.
- Strengthen the institutional and technical capacity at all levels.
- Long term financing essential.

Tourism Resources

- Fully and effectively implement the Sustainable Tourism Policy and Action Plan.
- Promote sustainable tourism through public education, resource management plans and regulations.
- Improve the effectiveness of key regulatory agencies as well as a holistic and comprehensive national planning mechanism to assist the efforts of the few agencies and NGOs that work to promote sustainable tourism.

Biodiversity Resources

- Improve the management of natural resources, including biodiversity, by coordinating the efforts of the already existing protected areas as well as encouraging state governments to propose new protected areas that are high in biodiversity.

The conclusions and recommendations of the Palau Country Environment Profile are as follows.

Conclusion 1: It should be highlighted that this Palau environmental profile has been compiled as a desk study. Nonetheless, it has benefited from access to reporting on environmental issues by Palau produced over the past decade, since 1992 at UNCED in Rio (Agenda 21), and in 1994 at the Barbados International Meeting on Sustainable Development for Small Island Developing States (BPoA). Most recently, Palau has had the opportunity to produce national assessment reports for the 10-year review of both Agenda 21 (the World Summit on Sustainable Development in 2002), and the BPoA (the International Meeting on SIDS in 2005). Furthermore, the first 5-year national report of progress on achieving the MDGs was due for completion in September 2005.

Conclusion 2: The EU has supported Palau along with all Pacific ACP countries during recent global environmental processes, and in particular in regard to environmental issues such as climate change, water and sanitation, renewable energy, food security, and how to improve livelihoods of island people by addressing the “special case for SIDS” in regard to vulnerability and addressing poverty through establishing poverty reduction strategy papers and national sustainable development strategies, or the like. Palau needs support for implementation from the EDF 10.

Conclusion 3: Notwithstanding the current Country Support Strategy (refer Section 4.1) for EDF 9, together with assistance being provided through the Regional Indicative Programme, it should be noted that along with other Pacific ACP countries, Palau has agreed to the new Strategy for Strengthened Partnership between the EU and the Pacific Islands which has a

“blue-green” theme within the context of sustainable management of natural resources and environmental challenges. Within this broad theme specificity is needed to ensure the activities to be supported by the NIP deliver tangible and concrete benefits at national level that demonstrably contribute to strengthening the environmental pillar of national sustainable development and poverty reduction. In this context also, improved and strengthened links need to demonstrate with the activities to be carried out at national level by the regional organisations supported by the Regional Indicative Programme.

Conclusion 4: Palau’s environment is no exception to the reality that it provides the basic goods and services, such as water, energy and food security, upon which people live. Improvements and sustainability in these areas are essential to underpin generation of economic wealth. Palau acknowledges that environmental considerations are inextricably linked across their national development planning efforts, but there is a need to strengthen these interlinkages to ensure improved decision-making supports efforts to achieve sustainability.

Conclusion 5: The state of the Palau environment over the past decade has deteriorated and remains highly vulnerable. Over the past decade much has changed with internal shocks from increasing population, concentration of that population through urbanisation and urban drift and tourism activities, and external shocks such as globalisation, HIV/AIDS, climate change and most recently increasing fuel prices. All are putting increased stress on the environment. Key examples of improvements needed are; secure safe water supply and sanitation; developing access to affordable renewable energy resources; food security from fishing and agriculture, to support sustainable development, improve lifestyles and reduce poverty. The urban and rural population, Koror and outer islands must be targeted. Improvements in these “sectoral” areas will also have a positive impact on reducing Palau’s vulnerability to climate change and natural disasters (many of which are weather-related).

Conclusion 6: Over the past decade some progress in many areas has been made in improving environmental sustainability through institutional strengthening. Although not as significant as Palau would have liked. Much of the progress has been at the initiative of the Palau and with its own financial resources. But much remains to be done to improve the efficiency and effectiveness of the national environmental machinery including strengthening the role of the NGOs. Development partners, including regional organisations, need to harmonise and coordinate their assistance more closely with Palau needs and efforts, and amongst themselves. This will make both existing and new resources more efficient and effective.

Conclusion 7: In order to provide a platform to facilitate closely cooperation with its development partners, and improve governance, Palau needs to develop overarching planning policy/regulatory and institutional arrangements such as an NSDS (or to embed the principles of sustainable development in revisions of existing national development plans, including issues of environment concern). There is much room for supporting capacity building and technical assistance in this context.

Conclusion 8: Palau’s capacity needs to be strengthened to manage its large marine environment compared with the generally small island land areas. In reality, as the marine “blue environment” and land “green environment” are an environmental continuum across the coastal zone. Palau needs a spatially integrated management approach, similar to “island system management” promoted by the EU through one of the EDF8/9 regional projects.

Conclusion 9: Palau, like many other of its neighbours, recognises the opportunities of improved information and communication technologies, in particular in regard to getting more up to date data and making it readily available to support the decision-making process.

Conclusion 10: Palau needs to develop and strengthen its own national setting of indicators and targets, and monitoring arrangements to track progress, and link these to international development goals agreed at for example the WSSD, the Mauritius International Meeting on SIDS, and contained in all relevant MDGs and targets, not just MDG7 on environmental sustainability.

Recommendation 1: Concerning the selection of the focal sectors and response strategies for Palau, within the overarching “blue-green” theme of sustainable management of natural resources and environmental challenges, key areas to consider are: securing safe water supply and sanitation; developing access to affordable renewable energy resources; and improving food security from fishing and agriculture.

Recommendation 2: As a governance issue in regard to national institutional capacity to improve the management of natural resources and the environment, consideration needs to be given to supporting Palau address institutional capacity assessment and needs for all its line ministries. Specifically:

- there is an immediate need to promote the participation and involvement of NGOs at the national and community level and be supported through capacity building;
- additional financial assistance is required to implement priority human capacity building needs of the country; and.
- the recognition of integrating environmental consideration into national economic planning is a critical issue that requires priority attention. The development of a national policy on economic growth and sustainable development must include the integration of environmental issues into economic planning.

Recommendation 3: Improve Palau’s national environmental information systems, and ensure environmentally-relevant indicators to be used in the implementation of the EDF 10 National Indicative Programme, are integrated into these systems.

Recommendation 4: Palau's access to the use of EC horizontal budget lines (such as Environment and Forests) and facilities (EU Water Facility - EUWF and the EU Energy Facility - EUEF), and the EU/ACP Natural Disaster Fund are limited by national capacity constraints. Each of these opportunities of additional financial resources are important and should these funds/facilities be ongoing consideration needs to be given to assisting Palau prepare the bulky and complex applications.

Recommendation 5: In order to ensure effective and efficient support to Palau, it is important for the EU to develop new and strengthen existing opportunities for co-ordination on natural resources and environmental issues with other donors (including regional organisations) seeking to achieve complementarities and synergies.

Annex 7

List of Treaties Signed/Ratified by PALAU

Name of Treaty	Done at	Date
CHARTER OF THE UNITED NATIONS		
Declaration of acceptance of the obligations contained in the Charter of the United Nations	Koror, Palau	15/12/1994
BILATERAL TREATIES		
Basic Agreement between the World Health Organisation and the Government of the Republic of Palau	Palau	08/05/1998
Agreement between the Preparatory Commission for the Comprehensive Nuclear Test-Ban Treaty, Organisation and the Government of the Republic of Palau on the conduct of activities, including, post-certification activities, relating to international monitoring facilities for the, Comprehensive Nuclear-Test-Ban Treaty	Palau	01/08/2002
Agreement between the Republic of Palau and the International Atomic Energy Agency for the, application of safeguards in connection with the Treaty on the Non-Proliferation of Nuclear Weapons	Palau	17/04/2006
Protocol additional to the Agreement between the Republic of Palau and the International Atomic, Energy Agency for the application of safeguards in connection with the Treaty on the, Non-Proliferation of Nuclear Weapons	Palau	17/04/2006
TREATIES DEPOSITED WITH SECRETARY-GENERAL OF THE UN		
Convention on the Rights of the Child		04/08/1995
Amendment to article 43 (2) of the Convention on the Rights of the Child		18/11/2002
Constitution of the World Health Organisation		09/03/1995
Amendments to articles 24 and 25 of the Constitution of the World Health Organisation		09/03/1995
Amendments to article 7 of the Constitution of the World Health Organisation		07/10/2003

Amendments to articles 24 and 25 of the Constitution of the World Health Organisation		09/03/1995
Amendments to articles 34 and 55 of the Constitution of the World Health Organisation		09/03/1995
Amendments of the articles 24 and 25 of the Constitution of the World Health Organisation		09/03/1995
Amendment to article 74 of the Constitution of the World Health Organisation		07/10/2003
Amendments to article 24 and 25 of the Constitution of the World Health Organisation		09/03/1995
Amendments to articles 24 and 25 of the Constitution of the World Health Organisation		15/09/2005
WHO Framework Convention on Tobacco Control	Date of receipt: 16/06/2003	
WHO Framework Convention on Tobacco Control		27/02/2005
Convention on psychotropic substances		19/08/1998
Single Convention on Narcotic Drugs, 1961, as amended by the Protocol amending the Single Convention on Narcotic Drugs, 1961		19/08/1998
International Convention for the Suppression of the Financing of Terrorism		10/04/2002
International Convention for the Suppression of Acts of Nuclear Terrorism	Date of receipt: 15/09/2005	
International Convention Against the Taking of Hostages		14/11/2001
Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents		14/11/2001
International Convention for the Suppression of Terrorist Bombings		14/11/2001
United Nations Convention on the Law of the Sea		30/09/1996
United Nations Convention on the Law of the Sea		27/04/2006
Agreement relating to the implementation of Part XI of the United Nations Convention on the Law of the Sea of 10 December 1982		30/09/1996
Constitution of the Asia-Pacific Telecommunity		19/06/1996
Amendments to articles 3 (5) and 9 (8) of the Constitution of the Asia-Pacific Telecommunity		16/03/2000
Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction		03/02/2003
Comprehensive Nuclear-Test-Ban Treaty	Date of receipt: 12/08/2003	
United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa		15/06/1999
Stockholm Convention on Persistent Organic Pollutants	Date of receipt: 28/03/2002	
Vienna Convention for the Protection of the Ozone Layer		29/05/2001
Montreal Protocol on Substances that Deplete the Ozone Layer		29/05/2001
Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer		29/05/2001
Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer		29/05/2001
Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer adopted by		29/05/2001

the Ninth Meeting of the Parties		
Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer		25/02/2002
United Nations Framework Convention on Climate Change		10/12/1999
Kyoto Protocol to the United Nations Framework Convention on Climate Change		16/02/2005
Convention on biological diversity		06/01/1999
Cartagena Protocol on Biosafety to the Convention on Biological Diversity	Date of receipt: 29/05/2001	
Cartagena Protocol on Biosafety to the Convention on Biological Diversity		11/09/2003
ACTIONS BY PALAU TO TREATIES REGISTERED WITH THE SECRETARIAT ON THE UNITED NATIONS		
Treaty on the Non-Proliferation of Nuclear Weapons		17/04/1995
Protocol Additional to the Geneva Conventions of 12 August 1949, and relating to the protection of victims of non-international armed conflicts (Protocol II)		24/09/1996
Protocol Additional to the Geneva Conventions of 12 August 1949, and relating to the protection of victims of international armed conflicts (Protocol I)		24/09/1996
Geneva Convention for the amelioration of the condition of the wounded and sick in armed forces in the field		24/09/1996
Geneva Convention relative to the treatment of prisoners of war		24/09/1996
Geneva Convention relative to the protection of civilian persons in time of war		24/09/1996
Treaty on fisheries between the Governments of certain Pacific Island States and the Government of the United States of America		01/03/2002
Agreement among Pacific Island States concerning the implementation and administration of the Treaty on fisheries between the Governments of certain Pacific Island States and the Government of the United States of America		01/03/2002
Constitution of the United Nations Educational, Scientific and Cultural Organisation		07/02/2000
Convention for the protection of the world cultural and natural heritage		22/07/2002
Convention of wetlands of international importance especially as waterfowl habitat		16/01/2003
Convention on international trade in endangered species of wild fauna and flora		11/05/2004
Protocol relating to an amendment to article 56 of the Convention on International Civil Aviation		01/06/2005

Palau is also a party to the following treaties, but either their deposit at the United Nations either is not yet finalized, or has not been reported to the United Nations office:

- International Convention for the Suppression of Terrorist Bombings
- Convention on Offences and Certain Other Acts Committed on Board Aircraft
- Convention for the Suppression of Unlawful Seizures of Aircraft
- Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation
- Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, Supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation
- Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, Including Diplomatic Agents
- International Convention against the Taking of Hostages
- Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation
- Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms Located on the Continental Shelf
- Convention on the Marking of Plastic Explosive for the Purpose of Detection
- International Convention for the Suppression of the Financing of Terrorism.

ANNEX 9 : TABLE OF MACRO-ECONOMIC INDICATORS PALAU

		2000	2001	2002	2003	2004	2005	2006	2007
Basic data									
1	Population (in 1000)	19.1	19.3	19.4	19.6	19.7	19.9	20.1	20.2
	- annual change in %	.8	.8	.8	.8	.8	.8	.8	.8
2a	Nominal GDP (in millions \$)	119.9	124.7	119.5	122.7	133.6	144.7		
2b	Nominal GDP per capita	6,266	6,465	6,146	6,265	6,732	7,267		
2c	- annual change in %	5.6	4.0	-4.2	2.7	8.8	8.3		
3	Real GDP (annual change in %)	n.a	n.a	n.a	n.a	n.a	n.a		
4	Gross fixed capital formation (in % of GDP)	n.a	n.a	n.a	n.a	n.a	n.a		
International transactions									
5	Exports of goods and services (in % of GDP)		13.3	17.0	6.9	4.4	9.3		
	- of which the most important: ... (in % of GDP)								
6	Trade balance (in % of GDP)		66.8	63.9	65.0	75.9	63.4		
7	Current account balance (in % of GDP)		7.6	9.2	7.8	9.4	10.4		
8	Net inflows of foreign direct investment (in % of GDP)		10.4	7.5	5.2	10.1	12.9		
9	External debt (in % of GDP)	166.9	160.4	167.4	158.3	253.0	222.2		
10	Service of external debt (in % GDP)	12.0	5.6	6.0	10.4	13.7	12.6		
11	Foreign exchange reserves (in months of imports of goods and non-factor services)	n.a							
Government									
12	Revenues (in % of GDP)	50.8	42.6	42.9	53.7	53.2	56.2		
	- of which: grants (in % of GDP)	26.5	17.2	18.8	27.9	27.0	30.2		
13	Expenditure (in % of GDP)	70.5	64.0	67.0	62.2	60.5	70.4		
	- of which: capital expenditure (in % of GDP)	10.4	12.3	17.6	12.5	15.0	24.6		
14a	Deficit (in % of GDP) including grants	-19.7	-21.3	-24.1	-6.1	-7.3	-14.2		
14b	Deficit (in % of GDP) excluding grants	-46.2	-38.5	-42.9	-33.9	-34.3	-43.7		
15	Debt (in % of GDP)								
	- of which: external (in % of total public debt)								
Other									
16	Consumer price inflation (annual average change in %)		-1.8	-1.3	0.9	5.0	3.9		
17	Interest rate (for money, annual rate in %)		n.a	n.a	n.a	n.a	n.a		
18	Exchange rate (annual average of national currency per 1 €)		n.a	n.a	n.a	n.a	n.a		
19	Unemployment (in % of labour force, ILO definition)	2.3					4.2		
20	Employment in agriculture (in % of total employment)	7.8					5.7		

Annex 10

Country Status Toward the Millennium Development Goals and Targets

Goals and Targets	Country Status
<p>Goal 1: Eradicate Extreme Poverty and Hunger</p> <p>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1/day.</p> <p>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p>	<p>There are no official measures of national per capita consumption that can be addressed against criteria such as the \$1 a day.</p> <p>Per capita GDP tends to be under-valued because the value of subsistence production (mainly agriculture and fisheries) is significantly under-valued, and also because GDP does not include the value of remittances from overseas family members, which account for a significant percentage of household income in Palau.</p> <p>Nevertheless, considering high per capita GDP, extreme poverty and hunger is likely to be insignificant.</p>
<p>Goal 2: Achieve Universal Primary Education</p> <p>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.</p>	<p>Palau achieved high net enrolment ratio in primary education (96.1% in 2000). Pacific regional average was 83.4% in 2000.</p>
<p>Goal 3: Promote Gender Equality and Empower Women</p> <p>Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.</p>	<p>Ratios of girls to boys in primary, secondary, and tertiary education were 0.97, 0.88, and 1.30, respectively, in 2000.</p> <p>Ratio of literate women to men 15-24 years old was 1.00 in 2000. Even though challenges to the achievement of equality and empowerment of women remain, Palau generally achieved gender equality.</p>

Goals and Targets	Country Status
<p>Goal 4: Reduce Child Mortality</p> <p>Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.</p>	<p>Child mortality rate under five per 1,000 live birth was 34 in 1990 and 29 in 2000. Pacific average was 57 in 1990 and 40 in 2000.</p> <p>Considering Palau's very small population (19,910 in 2005), significant change in child mortality rates by 2015 are not expected.</p>
<p>Goal 5: Improve Maternal Health</p> <p>Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.</p>	<p>In Palau, there were two maternal deaths in last decade.</p> <p>Palau achieved full attendance (100%) of births by skilled health personnel.</p>
<p>Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases</p> <p>Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.</p> <p>Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.</p>	<p>There are 4 HIV/AIDS reported cases by 2005, and two deaths from AIDS are recorded.</p> <p>Palau is not a Malaria infested country, while dengue fever is a source of concern.</p>
<p>Goal 7: Ensure Environmental Sustainability</p> <p>Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.</p> <p>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.</p> <p>Target 11: By 2020, achieve a significant improvement in the lives of at least 100 million slum dwellers.</p>	<p>Proportion of land area covered by forest is 76.1% in 2000. In this indicator, forest does not include mangrove forests, coconuts, and agro forestry, which is sometimes more important than forestry for timber in the Pacific. Nevertheless, high proportion of forest indicates environmental resource is of high importance for Palau.</p> <p>Palau achieved high proportion of households with sustainable access to an improved water source, namely 78% in urban, 95% in rural, and 84% in total in 2000. In the Palau's context, improved water is defined as public and rain water, while not improved water is defined as bottled water.</p> <p>There is no official data for Target 11, slum dwellers.</p>

GDP = gross national product; HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome.

Progress toward the Millennium Development Goals and Targets

Goals and Targets	1990	1995	Latest Year
Goal 1. Eradicate Extreme Poverty and Hunger			
Target 1: Halve \$1-a-day poverty			
1. Proportion of population below \$1(PPP) per day	—	—	—
2. Poverty gap ratio	—	—	—
3. Share of poorest quintile in national consumption (%)	2.00 (1991)	—	—
Target 2: Halve proportion of people suffering from hunger			
4. Underweight - Children Under 5 Years Old (%)	—	—	8.00 (1999)
5. Proportion of population below minimum level of dietary energy consumption (%)	—	—	—
Goal 2. Achieve Universal Primary Education			
Target 3: Ensure completion of full primary schooling			
6. School enrolment, net primary, total	—	96.77 (1998)	96.10 (2000)
6. School enrolment, net primary, total	81.80	—	76.19 (2000)
6.1 School enrolment, net primary, female	—	93.94 (1998)	92.10 (2000)
6.2 School enrolment, net primary, male	—	99.42 (1998)	100.00 (2000)
7.1 Pupils Starting Grade 1 who Reach Grade 5 (%)	—	—	84.16 (1998)
7.2 Primary completion rate, total	—	102.00 (1998)	99.00 (1999)
8. Literacy rate of 15-24 year olds (%)	—	91.00	—
Goal 3. Promote Gender Equality and Empower Women			
Target 4: Eliminate gender disparity in education			
9. Ratio of girls to boys	—	—	—
9.1 Ratio of girls to boys, primary education	—	0.93 (1998)	0.93 (2000)
9.2 Ratio of girls to boys, secondary education	—	1.07 (1998)	1.00 (2000)
9.3 Ratio of girls to boys, tertiary education	—	—	2.05 (2001)
10. Ratio of literate women to men, 15-24 year old	1.00	—	1.01 (2000)
11. Share of Women in Wage Employment in Non-Agric. Sector (%)	38.74	42.25	40.10 (2000)
12. Seats held by women in national parliament, %	3.70	—	3.70 (2000)
Goal 4. Reduce Child Mortality			
Target 5: Reduce by two-thirds the under-five mortality rate			
13. Mortality, under-five, per thousand live births	34.00	31.00	27.00 (2004)
14. Mortality, infant (0-1), per thousand live births	24.50	15.00	21.50 (2005)
15. Proportion of 1 year-old children immunized against measles	98.00	99.00	99.00 (2004)
Goal 5. Improve Maternal Health			
Target 6: Reduce by three-quarters the maternal mortality ratio			
16. Mortality, maternal, per 100,000 live births	—	—	—
17. Births attended by skilled health staff	—	—	100.00 (1998)

Goals and Targets	1990	1995	Latest Year
Goal 6. Combat HIV/AIDS, Malaria, and Other Diseases			
Target 7: Halted and begun to reverse the spread of HIV/AIDS			
18. HIV prevalence rate	—	—	—
18.1 HIV prevalence rate, 15-24 years old, pregnant women	—	—	—
18.2 HIV prevalence rate, 15-49 years old, adults	—	—	—
19. Contraceptive prevalence rate, % of women 15-49 years old	—	—	17.00 (2002)
20. Number of children orphaned by HIV/AIDS	—	—	—
Target 8: Halted and begun to reverse the incidence of major diseases			
21. Malaria			
21.1 Malaria - Prevalence of (per 100,000 people)	—	—	—
21.2 Malaria - Death Rate Associated With (per 100,000 people)	—	—	6.00 (2000)
21.3 Malaria death rate per 100,000, ages 0-4 (per 100,000 people)	—	—	0.00 (2000)
22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures	—	—	—
23. Tuberculosis			
23.1 Tuberculosis - Prevalence of (per 100,000 people)	392.00	—	76.00 (2003)
23.2 Tuberculosis - Death Rate Associated With (per 100,000 people)	30.00	—	8.00 (2003)
24. Proportion of Tuberculosis cases			
24.1 Tuberculosis, cases detected under DOTS, %	—	128.00	90.00 (2003)
24.2 Tuberculosis, DOTS treatment success, %	64.00 (1994)	67.00	38.00 (2003)
Goal 7. Ensure Environmental Sustainability			
Target 9: Reverse the loss of environmental resources			
25. Land Area Covered by Forest (%)	76.10	76.10	87.60 (2005)
26. Protected area ratio to surface area	2.41 (1994)	2.48	2.93 (2004)
27. GDP per unit of energy use (PPP \$ per kg oil equivalent)	—	—	—
28. Carbon dioxide emissions			
28.1 Carbon Dioxide Emissions (Per Capita Metric Tons)	15.30	13.80	11.90 (2002)
28.2 Ozone Depleting CFCs Consumption (ODP Tons)	—	1.72	0.97 (2003)
29. Percentage of population using biomass fuels	—	—	—
Target 10: Halve the proportion of people with access to water and sanitation			
30. Access to safe water, total population, %	80.00	88.70	84.00 (2002)
30.1 Access to safe water, urban population, %	71.00	84.40	79.00 (2002)
30.2 Access to safe water, rural population, %	99.00	97.00	94.00 (2002)
31. Access to sanitation, total population, %	66.00	98.20	83.00 (2002)
31.1 Access to sanitation, urban population, %	72.00	98.50	96.00 (2002)
31.2 Access to sanitation, rural population, %	54.00	97.40	52.00 (2002)
Target 11: Improve lives of at least 100 million slum dwellers			
32. Slum population as percentage of urban	0.00	—	0.00 (2001)

Goals and Targets	1990	1995	Latest Year
Goal 8. Develop a Global Partnership for Development			
Target 14: Address the special needs of the landlocked developing countries and small island States			
37. ODA received in small island developing States as proportion of their GNIs	0.01 (1992)	145.12	17.00 (2003)
Target 15: Deal comprehensively with the debt problems of developing countries			
44. Debt service, total as % of XGS	—	—	—
Target 18: Availability of benefits of new technologies			
48.2 Internet Users per 100 Population	0.00	—	—

— = data not available; GDP = gross domestic product; kg = kilogram; GNI = gross national income; HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome; PPP = purchasing power parity; XGS = exports of goods and services.

Sources: International Telecommunication Union, *World Telecommunication Indicators 2004/2005*, available <http://www.itu.int/ITU-D/ict/statistics>; Bureau of Budget and Planning, *Republic of Palau 2002-2003 Statistical Yearbook*; Government of Palau, *Republic of Palau's Implementation of the Compact of Free Association Fiscal Year*

2005, April 2006; Secretariat of the Pacific Community (SPC), *Pacific Islands Regional Millennium Development Goals Report 2004*, available <http://www.spc.int/mdgs>; United Nations Children's Fund (UNICEF), available <http://www.unicef.org/infobycountry>; United Nations Development Programme (UNDP), *Human Development Report*,

various years; UNDP, *Pacific Human Development Report (1994, 1999)*; United Nations Educational, Scientific and

Cultural Organization (UNESCO), Institute for Statistics website, available <http://www.uis.unesco.org>; United Nations

Environment Programme Ozone Secretariat, available <http://www.unep.org/ozone/index.asp>; United Nations Statistics Division (UNSD), Millennium Indicator Database (2003), available <http://millenniumindicators.un.org>;

Asian Development Bank Statistical Database System, available <http://xapp1.asiandevbank.org:8030/sdbs/index.jsp>.

ANNEX 11: Palau Summary Poverty Profile

1. Poverty Measures <ul style="list-style-type: none"> • National Poverty <ul style="list-style-type: none"> Head Count Index % <ul style="list-style-type: none"> Urban Rural • Food Poverty Line <ul style="list-style-type: none"> Head Count Index % • US\$1 day Head Count Index % • Poverty Gap Ratio 		6. Vulnerability Indicators <ul style="list-style-type: none"> ▪ CVI ▪ PDMC Rank ▪ Foreign Grants as % of GDP (FY2001/02) ▪ Exports as % of GDP (FY2001/02) ▪ Imports as % of GDP (FY2001/02) ▪ Import:Export ratio ▪ Out-migration Significant ▪ Remittances Significant 	NA NA 17.4 18.3 82.3 5:1 No
2. Development Progress Indicators <ul style="list-style-type: none"> ▪ HDI (1998) <ul style="list-style-type: none"> PDMC Rank (out of 14 PDMCs) ▪ HPI (1998) <ul style="list-style-type: none"> PDMC Rank (out of 14 PDMCs) 	0.861 1 10.8 6	7. Basic Education <ul style="list-style-type: none"> ▪ Adult Literacy Rate % (2001) ▪ CGER % (2000/01) ▪ Budget Expenditure on Education % of GDP (FY2001/02) ▪ Primary Education % of total (2000) 	98.0 96.0 5.2 33.7
3. Inequality Measures <ul style="list-style-type: none"> ▪ GINI Coefficient ▪ Income Ratio (H20/L20) ▪ Average household weekly income <ul style="list-style-type: none"> H20 L20 		8. Primary Health and Nutrition <ul style="list-style-type: none"> ▪ Life Expectancy at Birth (2000 census) <ul style="list-style-type: none"> Male/Female ▪ Infant Mortality Rate (2001) ▪ Pop'n access to safe water % (2000) ▪ Population per Doctor (2001) ▪ TB cases per 100,000 pop (2002) ▪ Immunization Coverage (DPT) (2001) ▪ Budget Expenditure on Health % of GDP (FY2001/02) ▪ Per capita (FY2001/02) US\$ 	70.5 66.6/74.5 16.7 83.6 935 130 86.0 5.9 388
4. Population and Household <ul style="list-style-type: none"> ▪ Population (2003 estimate) ▪ Population Net Growth Rate <ul style="list-style-type: none"> Annual average (1990–2000) ▪ Dependency Ratio % (2000 census) ▪ Average Household Size (2000 census) <ul style="list-style-type: none"> Urban Rural ▪ Average Household Size (HIES) <ul style="list-style-type: none"> Poor Non-Poor 	20,304 2.4 41.4 4.6 4.8 4.2	9. Gender Issues <ul style="list-style-type: none"> ▪ GDI <ul style="list-style-type: none"> PDMC Rank ▪ Total Fertility Rate (2000 census) ▪ Contraceptive Prevalence Rate (1998) ▪ Maternal Mortality Rate (1998) ▪ Life Expectancy Gender Gap (F-M) ▪ Female Literacy Rate % ▪ Female CGER % (2000/01) ▪ Women in paid employment % (2000) ▪ Women in Govt (# of seats) (2004) 	1.5 28.9 0.0 7.9 96.2 37.9 0/16
5. The Economy <ul style="list-style-type: none"> ▪ Current GDP Growth 1990–2000 % pa ^a ▪ GDP per capita US\$, 2001 <ul style="list-style-type: none"> Constant (June 2000 prices) Current Market Prices ▪ Sectoral Share (% GDP current, 2001) <ul style="list-style-type: none"> Agriculture & Fishing Secondary Tertiary ▪ Inflation (2001) annual average % ▪ US\$ Exchange Rate (31/12/03) ▪ % of Labour Force in subsistence (2000) ▪ Debt Servicing % of GDP (FY2001/02) 	4.3 6,039 6,157 4.0 12.6 83.3 2.1 1.0 8.4 0.5	10. Governance <ul style="list-style-type: none"> ▪ Public Service % Employment (2000) ▪ Govt Current Expenditure % <ul style="list-style-type: none"> Education (FY2001) Primary Health (FY2001) Agriculture (FY2001) ▪ Private Sector % of GDP (2001) ▪ Participation in Local Govt Budget ▪ Published Economic Strategy/Plan ▪ Democratically Elected National Govt ▪ Democratically Elected Local Govt ▪ Ombudsman 	29.2 14.2 16.3 11.5 Yes Yes No

^a Real GDP and growth rate could not be computed prior to 2000, as CPI was established only in June 2000.

Annex 4: Country migration profile

Not relevant for Palau.

Annex 5 – Involvement of NSAs

1.6 Programming dialogue

Does the government involve Parliament, non-state actors and local authorities in the programming dialogue?	
Was the programming exercise effectively a joint and open process? Did the Government actively promote co-ordination and harmonisation with other donors?	Dialogue with non state actors is not as comprehensive as the civil society movement in Palau is not as “matured” and developed as elsewhere in the region. However, the NSA apex organisation was consulted at length during programming missions to Palau.
<i>Other relevant information, overall appreciation and summary of the main problems identified in this area</i>	<i>Palau is a new member of the ACP group; negotiations and dialogue with the EU are limited to period visits to the country and meetings on the margins of regional and international meetings.</i>

1.7 Non State Actors

Participatory approaches to development: does the government involve non-state actors and local authorities in the PRS process (preparation, follow-up)?	The Government recognizes the important role and contribution that NSA’s play in Palau’s economic growth prospects. NSA’s are regularly invited and participate in policy-making process through governmental entities including the National Environmental Protection Council (NEPC) charged with identifying environmental priorities and incorporating them into the national planning process; various management/review bodies that provide management oversight to National/State conservation areas and parks and small grants scheme programs funded by external organizations, e.g., GEF; New Product Development Committee (NPDC) charged with promoting domestic production and value-added; and Privatization and Private Financing Committee (P&PFIC) charged with identifying and developing opportunities for outsourcing government services and alternative financing mechanisms.
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Annex 6: Harmonisation road map

Does not exist.

Annex 8: Not applicable.

Palau: Annex 3b Governance Commitments

	Governance area	Prospective commitments
1.	Political democratic governance	
	- Human rights	
	- Fundamental freedoms	
	- Electoral process	
	- Principles of constitutional democracy	
2.	Political governance - rule of law	
	- Judicial and law enforcement system	
3.	Control of corruption	
4.	Government effectiveness	
	- Institutional capacity	Improved effectiveness to administer and implement development assistance initiatives, especially the EDF.
	- Public finance management	
5.	Economic governance	
	- Private sector/market friendly policies	
	- Management of natural resources	National Energy policy adopted and implementation commenced by mid 2010.
6.	Internal and external security	
	- Internal stability / conflict	
	- External threats and global security	
7.	Social governance	
8.	International and regional context	
	- Regional integration	
	- Involvement in regional peer review mechanisms (e.g. APRM)	
	- Migration	
9	Quality of partnership	
	-Political dialogue	
	-Programming dialogue	
	-Non state actors	