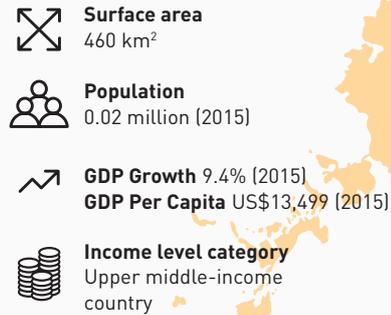




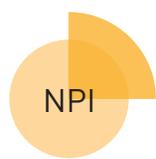
1. Country Context

A leading nation in maritime protection, the Republic of Palau is an upper middle-income economy with a population of 21,291 and a GDP per capita of US\$13,499 (2015). Largely due to a dynamic tourism sector, economic expansion has been substantial in the past years, with growth rates of 4.3% in 2014 and 9.4% in 2015. As Palau is a Small Islands Developing State, development co-operation still plays an essential role in the country's economy (ODA represented 9.78% of GNI in 2014), largely funding the government sector. In 1994, Palau signed a Compact of Free Association with the United States, which provides foreign assistance, defence and access to social services. Despite a relatively high poverty rate of 24.9% in 2015, Palau has achieved a high human development, ranking 60th among 188 countries participating in the Human Development Index. In 2015, the country reported development co-operation amounting to US\$22 million, with the United States being the most significant contributor (63% of total), followed by Japan (32%) and Australia (5%). Thanks to the Compact, most development co-operation is provided as general budget support, while sector priorities are mostly related to education, health and infrastructure.

Quick Facts

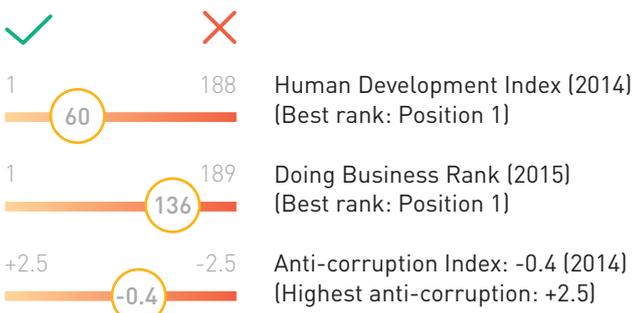


Key Development Indices:



National Poverty Index
25% of pop.
(2015)

ODA per Capita US\$1,110 (2014)



Domains Where Country Systems Have Been Strengthened

	2009	2015
Budget Support	Strengthened	Strengthened
PEFA Assessment		Strengthened
PFM Roadmap		
Aid/Dev. Co-op. Policy		
Dialogue with Partners		
Peer Reviews		Strengthened
Medium-Term Plans		Strengthened

Key Development Challenges

Palau has advanced successfully in providing social and economic opportunities to its citizens at many levels. In light of a narrow economic base, the country is heavily invested in tourism, but has also set up a consistent tax system to further mobilize domestic resources. The main risks to sustainable development relate to external shocks in the economic and environmental realms. More can be done to further expand economic activity, especially for citizens currently engaged in subsistence agriculture, and to continue improving infrastructure and connectivity to other countries and among islands.

2. Efforts to Implement the Effectiveness Principles

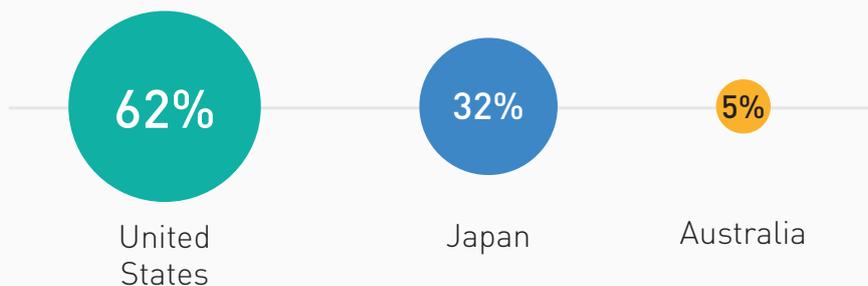
A. Policies and Tools for Partners' Alignment

The Government of Palau has established a long-term vision 2009-2020 clarifying development objectives that are translated into medium-term strategies such as the Actions for Palau's Future 2009-2014. These documents are further operationalized in sector policies with

priorities and targets for strategic sectors such as health, tourism, infrastructure, aquaculture and fisheries. Supporting national planning, the government launched in 2009 the Medium-Term Fiscal Strategy (MTFS) for sustainable economic development looking for increased self-

reliance and further diversification of development finance. The government has also initiated discussions on how to localize the Sustainable Development Goals (SDGs) as part of the new medium-term development strategy.

Major Development Partners of this Round (by Reported Disbursements)



Participation in 2014 Monitoring



Existence of a National Co-operation Policy

B. Governance and Management of Development Finance and Co-operation

To guide external contributions to the national development agenda, Palau relies on presidential decrees clarifying criteria and procedures for coordination of official development finance and grant management. Given the very small group of partners, the government primarily focuses on bilateral dialogue with its key partners, which are governed by joint strategies. Palau already participated in the 2013 monitoring round of the Global Partnership and is an active partner in the monitoring and peer learning activities under the umbrella of the Pacific Islands Forum Secretariat (PIFS). Institutionally, development co-operation in Palau is primarily led by the Bureau of Budgeting

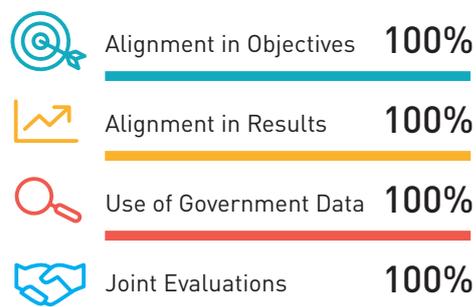
and Planning within the Ministry of Finance (MOF). While capacity and staffing remain a challenge, the MOF has taken a lead role in coordinating among sectors and streamlining processes, including by substantially reducing missions. At this stage, the country has not yet established a proper system to track and monitor finance, which derives from a rather reduced number of sources. However, the MTFS is a productive tool to capture the composition of development finance and a future revision might provide an opportunity to deepen the analysis of the current state-of-art and potential prospects for finance supporting Palau's development.

3. Country Ownership

Indicator 1: Partners' Alignment and Use of Country-Led Results Frameworks

All development co-operation reported in 2015 made full use of Palau's results framework and the government plays a proactive role partnering in joint evaluations. There is joint commitment from all involved partners to work

towards tangible social and economic results for Palau's citizens, for which the existing strategies and plans, often fully reflected in joint country assistance notes or programmes, provide a valuable and effective reference.

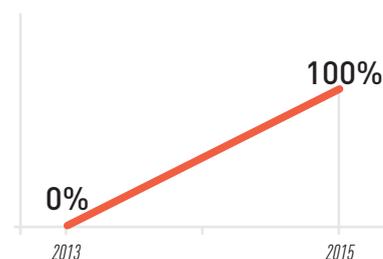


Indicator 6. Development Co-operation is on Budget (Subject to Parliamentary Scrutiny)

In 2015, all development co-operation was fully recorded in the government budget – a radical improvement compared to 2013, when no development finance was adequately captured for parliamentary

scrutiny. This outstanding outcome is rooted in the quality of development co-operation provided by the United States and Japan as main partners.

Percentage on Budget



Indicators 9 and 10. Use of Country Systems

In stark contrast to the favourable results in reflecting official development finance on budget, all development co-operation reported for 2015 was managed outside Palau's public financial management

(PFM) systems. This is also an essential decrease from 93% (for all four country systems) in 2013. Untying of official development finance declined slightly from 87% in 2013 to 86% in 2014,

reflecting a consistent level of reliance on foreign assistance and substantial country ownership in sustainable development.

	Budget (ideal: 100%)	Financial Reporting (ideal: 100%)	Auditing (ideal: 100%)	Procurement (ideal: 100%)	CPIA* (maximum: 6)	Untying (ideal: 100%)
INDICATOR 9B.	0% ▼	0% ▼	3% ▼	0% ▼		
INDICATORS 9A & 10.					N/A	86% ▼

* Country Policy and Institutional Assessment

4. Inclusive Partnerships for Development

Indicators 2 and 3. Fostering Inclusive Partnerships for Development

Palau enjoys favourable conditions for inclusive partnerships to emerge and flourish, with a strong enabling environment and a vibrant civil society that is highly specialized in specific issues (such as environment, youth, health, gender equality, etc.) and in local agendas. The private sector has come to play a highly effective role in national development, particularly in tourism as one of the key sectors attracting investment and generating jobs. The Palau Chamber of Commerce is a strong

dialogue partner for the government, improving the country's environment for doing business. With both non-state actors, the government maintains an open and fluid dialogue on policy and programmes while offering access to funding and capacity development. Efforts have been increased this year to further enhance national coordination and to streamline environmental priorities with other sectors' priorities, including health, infrastructure, etc., by establishing a fully functioning National Environmental

Protection Council (NEPC) in the Bureau of Budget and Planning. Composed of members representing almost all of the ministries in the executive branch, the NEPC co-hosted Palau's 1st National Environment Symposium in August and is presently finalizing the State of the Environment Report to be completed before the end of this year. Both efforts provide a means for a regular and systematic approach to engage various stakeholders in Palau.

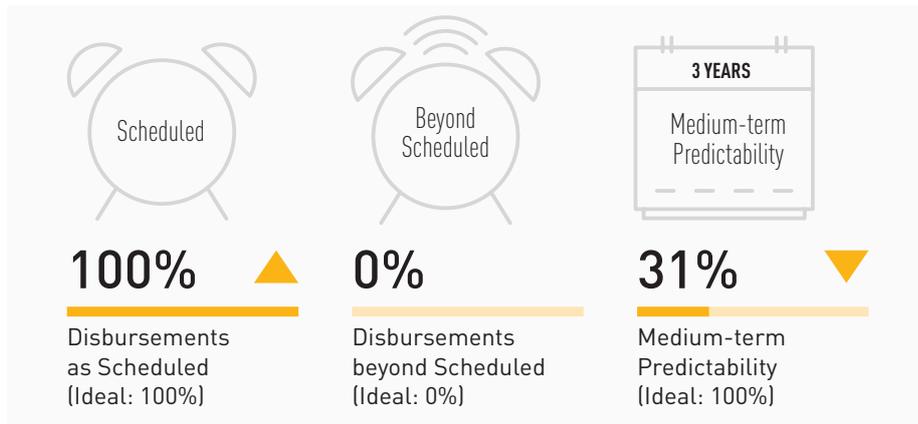
Indicator 8. Gender Empowerment

At this stage, Palau does not have a budgetary process to track allocations for gender equality and women's empowerment.

5. Transparency and Accountability

Indicator 5. Development Co-operation is More Predictable

In 2015, all development co-operation was predictable on an in-year basis, leading to 100% annual predictability, a radical improvement compared to 0% in 2013. However, medium-term predictability decreased from 69% in 2013 to 31% in 2015, as only the United States and Japan report forward spending plans for the next fiscal year. In the future, a more structured dialogue with development partners might enable the government to achieve better clarity on disbursements planned for the next three years.



Indicator 7. Mutual Accountability

Arrangements for mutual accountability are framed by executive orders of the president on the coordination of official development finance and grants management, which clarify responsibilities for achieving higher development effectiveness. In most cases, the government and partners account

for their contributions and performance through bilateral mechanisms such as the Compact with the United States and the Federal Grants Agreements with Japan and other countries. Palau's participation in this year's monitoring round has become a welcome opportunity for all partners to review their practices hand-

in-hand with the government. A number of remaining challenges merit particular attention for mutual accountability in the future, including the quality and use of country systems, medium-term predictability and strategic coordination among government, partners and national non-state actors.

National Priorities Going Forward

“Palau is presented with a rare opportunity to integrate various national initiatives and frameworks with the SDGs, including those related to climate change adaptation and mitigation (e.g., CC National Action Plan, National Food Security Policy, Palau Energy Policy) and disaster management (National Disaster Management Framework). The 10 key climate change sectors identified in the Palau Climate Change Policy, which was endorsed by the president and Palau National Congress, will be used as entry points for the integration of these various national priorities with the SDGs.

The integration of these various national priorities will be useful in the SDG national implementation effort for various reasons: 1) it will help identify overlapping objectives; 2) it will clarify various key stakeholders' respective roles and responsibilities; 3) it will assist in the identification of a core set of common indicators that will form the foundation of monitoring and evaluation of national SDG implementation; 4) it will assist in strengthening transparency and accountability of involved agencies; and 5) it will assist in facilitating a more effective integration of national priority activities into the national budget and planning process.



**Casmir E. Remengesau, National Coordinator
Bureau of Budget & Planning, Palau National Government**

Disclaimer This document was prepared based on data collected from voluntary reporting to the Second Monitoring Round of the Global Partnership for Effective Development Co-operation and, for the Country Context, other open source information available online. The information provided does not necessarily represent the views of UNDP.

For ease of reference, the term 'country' is used to refer to developing countries and territories that reported to the Second Monitoring Round. Participation in this process and mention of any participant in this document is without prejudice to the status or international recognition of a given country or territory.