

Republic of Palau

**Data Collection Survey on Macro Economy and
Major Sectors for Promotion of Development and
Private Investment**

Final Report

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Acronyms

Acronym	Official Name
ADB	Asian Development Bank
BHA	Bureau of Humanitarian Assistance (USAID)
BOFI	Belau Offshore Fishers' Inc.
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CTF	Compact Trust Fund
DAC	Development Assistance Committee
DFAT	Department of Foreign Affairs and Trade
EEZ	Exclusive Economic Zone
EQPB	Environmental Quality Protection Board
FAO	Food and Agriculture Organization of the United Nations
FIAC	Foreign Investment Approval Certificate
FIB	Foreign Investment Board
FIC	Financial Institution Commission
GDP	Gross Domestic Product
IAEA	International Atomic Energy Agency
ICDF	International Cooperation and Development Fund
IMF	International Monetary Fund
IPP	Independent Power Producer
JICA	Japan International Cooperation Agency
MNRET	Ministry of Natural, Environment and Tourism
MTDS	Medium-Term Development Strategy
NBSAP	National Biodiversity Strategy and Action Plan
NDBP	National Development Bank of Palau
NEPC	National Environmental Protection Council
NRFC	Northern Reef Fisheries Cooperative
PALARIS	Palau Automated Land and Resources Information System
PAN	Protected Areas Network
PCC	Palau Community College
PIAC	Palau International Airport Corporation
PMDC	Palau Mariculture Demonstration Center
PNCC	Palau National Communications Corporation
PNMDP	Palau 2020 National Master Development Plan

PNMSA	Palau National Marine Sanctuary Act
PPEF	Pristine Paradise Environmental Fee
PPP	Public-Private Partnership
PPUC	Palau Public Utilities Corporation
PRIF	Pacific Region Infrastructure Facility
SBDC	Small Business Development Center
SPC	Secretariat of the Pacific Community
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
WB	World Bank

1. Overview of Palau (Geography and Population, Domestic Politics, and Diplomatic Relations)

1.1. Geography and Population

Palau is a Pacific island country consisting of 340 islands and has a population of about 19 thousand (Statistical Yearbook of Palau 2019). The national land size is 488 square kilometers, which is almost the same area as Yakushima, Japan. The capital is Melekeok and it was relocated from Koror in 2006. The country is dispersed over a vast area, and the domestic market is small and it is far from the international market, so it can be said that there are some geographical development challenges in Palau.

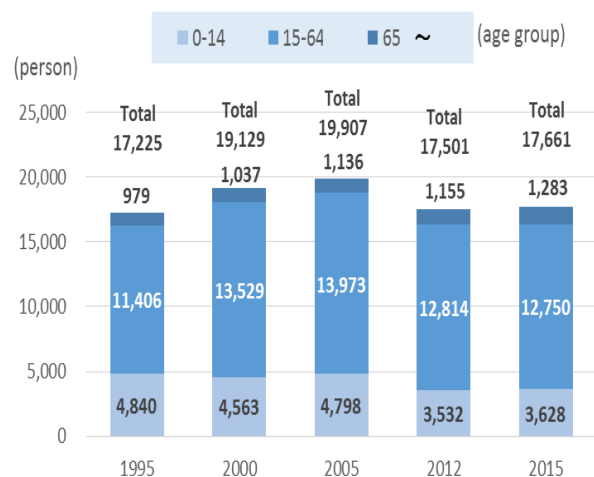
The official languages in Palau are English and Palauan, and US dollar is in circulation. In terms of the demographic situation, the working-age population aged 15 to 64 accounts for the majority at 72% (2015), and it can be said that the ratio of the potential working population is high. However, most of the working population works in the public sector, and the private sector, mainly consisting of tourism, accepts a lot of foreign workers from the Philippines and Bangladesh.



Note: The above image is edited by the survey team.

Source: Website of Ministry of Foreign Affairs of Japan

Figure 1. Geographic Location of Palau



Source: Statistical Yearbook of Palau 2019

Figure 2. Demographic Situation in Palau

1.2. Domestic Politics and Diplomatic Relations

The political and diplomatic situation in Palau is shown in the table below. As of the end of September 2020, President Tommy E. Remengesau Jr., who took office in 2017, is the head of the country, but a presidential election is scheduled for November 2020. It is characteristic that Palau has a traditional chief system in 16 states aside from the central government, and each state has its own constitutional provisions.

Table 1. Politics and Diplomacy of Palau

System of government	Presidential system
Head of state	President Tommy E. REMENGESAU, Jr. (Inaugurated in January 2017. The term of office is 4 years. Can be appointed for up to 2 consecutive terms)
Legislation	<ul style="list-style-type: none"> • Bicameral legislature • Upper house : 13 seats、 Lower house : 16 seats (Term of office: 4 years)
Government	8 ministries under the Office of the President and Office of the Vice President (Ministry of State, Ministry of Justice, Ministry of Finance, Ministry of Public Infrastructure, Industries and Commerce, Ministry of Natural Resources, Environment and Tourism, Ministry of Education, Ministry of Community and Cultural Affairs and Ministry of Health)
Local government system	<ul style="list-style-type: none"> • Local administrative divisions are divided into 16 states and each state has its own constitutional provisions • Each state is composed of a governor and a state government, and also has a traditional chief system
Judicial system	The judiciary is composed of the Supreme Court (composed of the Trial Division ¹ and Appellate Division ²), the Court of Common Pleas, the Land Court ³ and others.
National defense	Palau does not have its own military. Based on the Compact ⁴ (the Compact of Free Association) between Palau and the United States, the United States has the authority and responsibility for national security and defense of Palau
International / regional organizations and trade agreements, which Palau joins	<p>International organization: World Health Organization (WHO), International Monetary Fund (IMF), United Nations Educational, Scientific and Cultural Organization (UNESCO), Food and Agriculture Organization of the United Nations (FAO) and others</p> <p>Regional organization: Pacific Islands Forum (PIF), Forum Fisheries Agency (FFA), Pacific Island Countries Trade Agreement (PICTA (only for goods, except services)) and others</p>

Source: Japanese Ministry of Foreign Affairs, website of Embassy of Japan in the Republic of Palau and website of the Supreme Court in Palau

¹ Trials are conducted by associate justices and special judges.

² Appeals from the Trial Division in the Supreme Court and lower courts are judged.

³ The Land Court makes determinations with respect to the ownership of all lands and to provide for the return of land which became public land as a result of unjust acquisition.

⁴ The Compact refers to 'the Compact of Free Association', which was signed between the United States and the three Pacific island sovereign states of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

Regarding trade agreements, negotiations on the EU-ACP Economic Partnership Agreement⁵ between the EU and Pacific countries stopped in 2015, and there is no movement to resume trade negotiations between the regions as of the middle of 2020. In addition, with respect to the negotiations for the expansion of Pacific Agreement on Closer Economic Relations (PACER Plus), which aims at deepening economic relations among Pacific island nations, Australia and New Zealand, Palau, as well as Marshall Islands and the Federated States of Micronesia, has not yet signed that as the waiver of the most favored nation clause stipulated in the Compact with the United States was a condition for the participation in the agreement.

⁵ An Economic Partnership Agreement (EPA) between the EU and African, Caribbean and Pacific countries, which has been negotiated for conclusion.

2. Analysis of Palauan Economy

2.1. Economic Overview / Structure, Employment / Wage and Prices

2.1.1. Economic Growth

Palau became independent in 1994 after being governed by the United States as a United Nations Trust Territory after the World War II. At the time of independence, Palau was to obtain a total of USD580 million in financial support from the United States over the 15 years to 2009 under the Compact of Free Association (valid for 50 years), signed with the United States. The fund would be used for infrastructure development, financial support, and the establishment of the Compact Trust Fund (CTF), of which \$70 million were saved by 1997. The investment of these funds is expected to increase the balance of the fund at an annual rate of 12.5%, resulting in USD5 million annually from 1999 to 2009 and USD15 million annually from 2010 to 2044 to be brought to the Palauan government and contribute to the stabilization of government finance. However, in reality, as the investment interest rate remained at an average of 7.47% per year, the balance of CTF was insufficient to achieve the original purpose. A compact review agreement was signed in 2010 to provide financial support for another 15 years. (Total spending over these 15 years would be USD229 million⁶, of which USD62.5 million were additionally invested to CTF in 2018).

Palau's economy grew in 2014-2015 on the back of the development of tourism, growing by 5.5 percent and 8.2 percent per annum, respectively. However, it recorded 0% growth in 2016 and negative growth of 3.4% in 2017, mainly due to a sharp decline in tourism from China and a decline in private sector construction activities. In 2018, tourist numbers declined further, but the construction of luxury hotels, the realization of financial assistance payments from the U.S., and the backdrop of the launch of high-speed Internet services through the development of a fiber-optic network, the Palauan economy began a gradual recovery.

However, since early 2020, the Palau's economy has been hit hard⁷ by the impact of the Novel Coronavirus (hereinafter called 'COVID-19') that spread globally. According to projections by the Asian Development Bank (ADB), GDP growth is projected to be minus 9.5 percent in 2020 and minus 12.8 percent in 2021, compared to minus 1.8 percent in 2019. Of the 13 Pacific Island countries analyzed by the ADB, Palau's growth rates are expected to be the third-lowest in 2020 and the second-lowest in 2021. Along with the Cook Islands, a similar-sized economy that is highly dependent on tourism, Palau is expected to be hit hard (see Section 5. 'Economic and Financial Impact of Responding to COVID-19 in Palau and Samoa' for details).

⁶ The Compact Review Agreement was signed in 2010, but as ratification by the U.S. Congress was significantly delayed until 2017, the actual funding was finally provided in FY 2019 through a lump sum grant of \$120 million.

⁷ The number of visitors to Palau recorded a negative 31% year-on-year in the January-March 2020 period. Since April, there have been no visitors other than returning nationals.

Table 2. Macroeconomic Indicators of Palau

	2014	2015	2016	2017	2018
Real GDP growth rate (%)	5.5	8.2	0.0	-3.4	5.2
Nominal GDP total amount (million USD)	241	264	267	262	283
Nominal GDP per capita (USD)	14,007	15,875	16,782	15,995	16,195
Increase in consumer prices (annual average)(%)	4.2	▲ 0.8	0.4	1.4	2.1
Unemployment rate (%)	No data	1.7	No data	No data	No data
Current account balance (million USD)	▲ 43.5	▲ 24.4	▲ 40.7	▲ 54.8	▲ 47.2
Trade balance (million USD)	▲ 73.4	▲ 46.2	▲ 57.9	▲ 78.2	▲ 83.2
Export (million USD)	148.9	164.8	155.7	143.3	133.5
Export to Japan (million yen)	1,484	950	1,723	2,413	2,505
Import (million USD)	222.3	211.0	213.6	221.5	216.7
Import from Japan (million yen)	1,936	1,914	3,031	3,239	1,665
External debt balance (million USD)	70.6	64.4	80.0	85.9	88.2

Source: 2018 Statistical Yearbook (Ministry of Finance), World Economic Outlook Database (IMF), Key Indicators for Asia and the Pacific 2019 (ADB), Statistical Handbook 2019 (Pacific Islands Centre)

It is expected that Palau will graduate from the OECD Development Assistance Committee (DAC) list of ODA recipients in January 2022.

2.1.2 Economic Structure

When looking at Palau's economic structure by industry, the proportions of wholesale and retail trade, auto repair, public administration, and accommodation and food services are high in that order. The wholesale and retail trade and accommodation and food services sectors are mostly tourism-related services, while public administration is linked to a high proportion of employment and related services in the government sector, supported by significant aid, including U.S. financial support. It can be seen that the economy as a whole has a small share of the primary and secondary sectors, which together account for a small share of 11 percent, and a very large share of the tertiary sector at 89 percent.

The data for FY2014-2018 show no significant changes in the share of each industry in GDP, with the exception of the 'information and communication' industry, which has increased its share of GDP. The main factor is the increase in the number of internet and mobile phone subscriptions. In Palau, the ADB-supported fiber-optic submarine cable development was completed in 2017, and information and communication services are expected to continue to progress in the future.

Table 3. Industrial Composition of GDP

(2015 Constant Price, million USD)	FY2014	FY2015	FY2016	FY2017	FY2018 ¹
[Primary Industry]					
Agriculture and forestry	1.7%	1.6%	1.6%	1.7%	1.6%
Fishing	2.1%	1.7%	2.0%	2.4%	2.2%
[Secondary Industry]					
Mining and Quarrying	0.3%	0.4%	0.5%	0.7%	0.5%
Manufacturing	1.1%	1.1%	1.1%	1.2%	1.2%
Construction	3.8%	5.1%	5.7%	4.9%	5.1%
[Tertiary Industry]					
Electricity, gas, steam and air conditioning supply	1.4%	1.3%	1.4%	1.5%	1.5%
Water supply; sewerage, waste management and remediation activities	0.6%	0.5%	0.7%	0.7%	0.8%
Wholesale and retail trade; repair of motor vehicles and motorcycles	16.6%	16.8%	16.6%	17.2%	16.9%
Transportation and storage	7.9%	7.9%	7.7%	7.6%	6.8%
Accommodation and food service activities	15.9%	16.4%	14.7%	13.7%	12.9%
Information and communication	3.7%	3.7%	4.1%	4.6%	6.4%
Financial Intermediation	2.0%	1.5%	1.6%	2.4%	3.8%
Real estate activities	8.2%	7.6%	7.6%	7.9%	7.5%
Professional, scientific and technical activities	1.9%	2.3%	2.5%	1.7%	2.1%
Administrative and support service activities	1.5%	1.6%	1.8%	1.9%	1.8%
Public Administration	15.7%	14.1%	14.4%	15.7%	16.0%
Education	4.9%	4.4%	4.6%	4.3%	4.2%
Human health and social work activities	3.5%	3.2%	3.1%	3.2%	3.1%
Arts, entertainment and recreation	5.0%	6.2%	5.6%	4.7%	4.6%
Other service activities	1.6%	1.4%	1.6%	1.6%	1.6%
Private Households With Employed Persons	1.5%	1.7%	1.5%	1.7%	1.6%
<i>less intermediate FISIM</i>	-0.8%	-0.7%	-0.7%	-1.2%	-2.1%

1: Tentative figures

Source: Bureau of Budget and Planning, Ministry of Finance

2.1.3. Employment, Wages and Prices

With the growth of the private sector, the labor market has reached near full employment. However, public sector workers are paid 79 percent more than the private sector and Palauans are paid 52 percent more than foreign workers. This is largely related to the fact that the majority of public sector workers are Palauans and foreigners are private sector workers. Palau's GDP per capita

is over \$16,000 (2018), which is considerably higher than in neighboring countries. It is also ranked as a high-income country in the World Bank's classification according to income levels.

Since freedom of movement from Palau to the United States, including Guam and Hawaii, is guaranteed under the Compact of Free Association, the wage gap between the U.S. and Palau will also encourage Palauans to migrate to Guam and other places for better wages. In Palau, a bill was introduced in Congress in 2017 to increase the minimum hourly wage by 50 cents each year from the previous USD3.50 to USD8.50 over 10 years, partly with the aim of reducing that disparity⁸. The move toward this goal will have a particularly large impact on industry, so it is important to keep a close eye on it.

With regard to prices, consumer prices are susceptible to the prices of imported goods, and in 2015 consumer prices recorded a negative figure on the back of a significant drop in oil prices and a drop in food prices; since 2016 they have gradually turned positive, reaching 2.1 percent in 2018, but in recent years there has been no general increase in prices, and on average, it can be said that the trend has been moderate.

⁸ It applies equally to Palauan citizens and foreign workers.

2.2. Fiscal Status and Public Debt

Palau's fiscal balance is supported by tax revenues⁹ including tourism revenues such as Pristine Paradise Environmental Fee (PPEF, described in '4.6. Environmental Conservation and Climate Change') and Hotel Occupancy Tax, as well as by Official Development Assistance (ODA) and other financial assistances from international organizations. In addition, Palau received the support of USD65.3 million in FY2018 from the Compact with the United States, so it can be said that the national economy largely depends on external factors. Regarding the expenditures, it is characteristic that the compensation of employees, including salary payments to public employees, accounts for a high proportion of the total expenditures, about 40%. The expenditures are basically below the revenues and the fiscal balance remains in continuous surplus.

Table 4. Revenues and Expenditures (from 2015 to 2019)

(Unit: million USD)

	2015	2016	2017	2018	2019
Revenues					
Tax revenue	56.554	59.114	56.919	60.463	56.004
Grants	43.691	49.251	37.315	49.389	45.684
Other revenue	14.619	16.336	20.728	16.882	20.184
Total	114.864	124.701	114.962	126.733	121.872
Expenditures					
Compensation of employees	▲ 37.583	▲ 40.967	▲ 42.858	▲ 44.575	▲ 44.147
Use of goods and services	▲ 24.446	▲ 25.865	▲ 25.096	▲ 26.582	▲ 27.505
Interest payments	▲ 0.748	▲ 0.449	▲ 0.457	▲ 0.438	▲ 0.572
Grants	▲ 14.954	▲ 17.508	▲ 14.454	▲ 18.456	▲ 30.305
Other expense	▲ 9.222	▲ 12.434	▲ 9.886	▲ 12.242	▲ 6.059
Total	▲ 86.953	▲ 97.223	▲ 92.750	▲ 102.294	▲ 108.588

Note1: Provisional for 2019

Note2: The figures do not consider the Compact Trust Fund

Note3: The breakdown of 'others' in the revenues includes property incomes such as interests and dividends, and sales of goods and services such as administrative fees from businesses

Note4: Interest payments are mainly for external debts.

Source: Statistical Yearbook of Palau 2019 and materials provided by the Ministry of Finance of Palau

With respect to the financial assistance from the United States by the Compact, the Compact Trust Fund (CTF) has been accumulated as mentioned above, and the funding from the United States has been provided by stages as shown in the table below. The annual revenue and expenditure, and balance of the CTF are shown in the table below, and the balance has been maintained at around USD200 to 300 million in recent years.

⁹ According to the Ministry of Finance of Palau, tax revenues from the Pristine Paradise Environmental Fee and Hotel Occupancy Tax in 2019 were USD2,633,000 and USD4,914,000, respectively.

Table 5. Fund from the United States for the Compact Trust Fund

(Unit: million USD)

	1994	1997	2018
Amount of deposit	66 (Initial deposit from the government of the United States)	4 (subsequent deposit)	65 (deposit under the Compact Review Agreement)

Source: Materials provided by USAID

Table 6. Annual Revenue and Expenditure, and Balance of the Compact Trust Fund

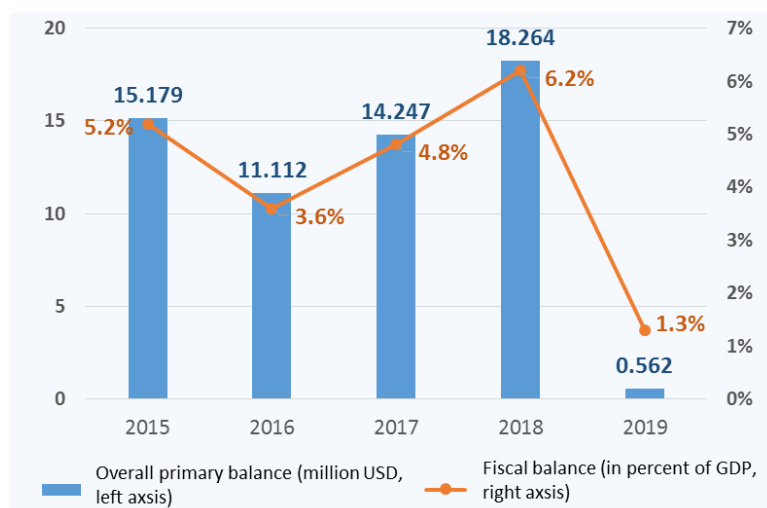
(Unit: USD)

	2015	2016	2017	2018	2019
Revenue	▲9,289,179	19,025,439	29,150,815	15,298,973	5,392,032
Expenditure	1,250,516	1,146,927	1,434,104	1,444,673	1,794,955
Other withdrawal (draw down)	5,000,000	5,000,000	5,000,000	5,000,000	15,000,000
Balance	183,900,000	196,778,512	219,516,711	228,354,300	286,097,077

Note: 'Other withdrawal' is allocated to education, health and public safety sectors.

Source: Materials provided by the Ministry of Finance of Palau and materials of IMF

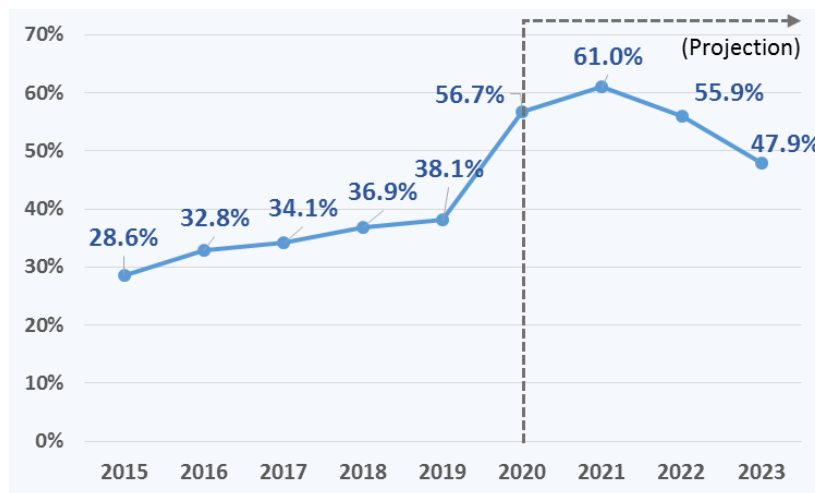
The primary balance and fiscal balance (as a percentage of GDP) for the past five years have been in the black, although they showed a decline in 2019 due to the expansion of grants and other expenditures.



Source: Statistical Yearbook of Palau 2019

Figure 3. Primary Balance of Palau

The general government debt (as a percentage of GDP) has been around 30 to 40% over the past five years. According to the IMF's forecast (baseline scenario), the general government debt (as a percentage of GDP) is expected to rise sharply to around 50 to 60% in the next few years after 2020 due to the impact of COVID-19, so the pressure on the financial balance will be concerned. However, as the economy recovers, the ratio is expected to decline to 42% by 2025. According to the Ministry of Finance of Palau, all of the Palau's government debts are external debt.



Source: Materials of IMF

Figure 4. General Government Debt of Palau (as a percentage of GDP)

2.3. Balance of Payments and External Debt

2.3.1 Balance of Payments

Palau's current account balance¹⁰ has been in deficit for many years. As in other Pacific Island countries, it is structured with a large trade deficit due to low exports and high imports, with Palau consistently importing more than 10 times the value of its exports. Some of this substantial deficit is offset by services exports, most of which are accounted for by tourism revenues. Other factors contributing to the narrowing of the deficit include the secondary income balance, which consists of financial support from the United States under the Compact Agreement, grant aid from other donors, as well as the collection of departure fees and environmental taxes. In addition, the deficit in the primary income balance has been decreasing because of the increase in revenue from fishing entry fees under the Nauru Agreement's Vessel Day Scheme. However, with the implementation of the Palau National Marine Sanctuary Act from January 2020, 80% of the EEZ will be a no-fishing zone, and fishing fee revenues are expected to decrease significantly.

The capital transfer balance accounts for capital goods from grant assistance from the United States, Japan, Taiwan, and other countries, and the amount was significantly boosted by the USD65.3 million contribution from the United States to the Compact Trust Fund in FY2018.

As for the financial balance, there was an overall deficit, largely due to dividend payments from investments in the tourism industry.

Table 7. Palau's Balance of Payments

	(Unit: million USD)				
	FY2015	FY2016	FY2017	FY2018	FY2019
Current account balance	-24.4	-40.7	-54.8	-45.3	-74.8
Goods and services balance	-46.2	-57.9	-78.3	-83.4	-99.7
Goods balance	-136.8	-134.3	-139.5	-138.2	-145.0
Export	13.1	13.3	14.1	13.8	11.2
Import	149.9	147.6	153.5	151.9	156.3
Services balance	90.7	76.4	61.2	54.8	45.3
Primary income balance	-11.3	-14.4	-5.5	-7.5	-1.4
Secondary income balance	33.1	31.6	29.0	45.6	26.3
Capital account balance	17.6	24.4	10.3	82.6	20.5
Financial account balance	6.9	-24.0	-38.7	15.4	-47.4
Direct investment	-60.6	-58.1	-37.2	-46.3	-35.0
Portfolio investment	5.2	0.3	1.4	67.2	4.8
Other investment	62.3	33.8	-3.0	-5.5	-17.2
Errors and omissions	13.7	-7.7	5.8	-21.9	7.0

Source: 2019 Statistical Yearbook

¹⁰ The current account balance represents the sum of the trade and services balance, the primary income balance and the secondary income balance. The primary income balance shows the balance of payments for interest and dividends arising from external financial claims and debts, while the secondary income balance shows the balance of payments between residents and non-residents for the provision of assets without compensation.

2.3.2 External debt

The external debt of the government sector comes from 10 loan deals, which are perceived to have been maintained at an appropriate level, with outstanding debt of USD91 million (about 31 percent of GDP) as of 2018. The 10 deals are shown in the table below, with six by the central government, two by the National Development Bank of Palau and one by the Palau Public Utilities Corporation and one by the Palau National Communication Corporation. These borrowings, from ADB, Mega International Commercial Bank (MICB, Taiwan's commercial bank), and the European Investment Bank, have not led to financial destabilization, as the nominal GDP growth rate has exceeded borrowing rates, even though the amounts themselves have increased.

Table 8. Brakdown of External Debt

Borrower	Purpose	Lender	Year	Interst rate	Amount borrowed (\$'000)	Outstanding principal as of 2018/9 (\$'000)
National government	Construction of new capitol	MICB	2003	3.5%	20,000	2,286
National government	Palau Airport upgrade	MICB	2005	3.5%	8,000	2,971
National government	Water sector improvement	ADB	2011	Libor+1~1.5%	16,000	13,057
National government	Housing and agriculture	MICB	2016	Libor+1%	10,000	10,000
National government	Sanitation project	ADB	2016	Libor+1~1.5%	28,800	14,765
National government	Internet project	ADB	2016	Libor+1~1.5%	25,000	19,951
National Development Bank	Capital funds	MICB	2004	3.5%	5,000	1,714
National Development Bank	Loan and capital funds	European Investment Bank	2006	3.7%&5.2%	€5,000	1,233
Palau Public Utilities Corporation	Purchase of generators	Foreign bank	2008	3.5%	7,000	3,400
Palau National Communication Corporation	Telecom development	Rural Utilities Services (US)	1992	4.6%	39,143	18,851

Note: MICB – Mega International Commercial Bank

Source: Graduate School USA publication

The amount of external debt and the ratio of external debt to GDP are shown in the table below, both of which indicate an increase in recent years. This is due to the government's borrowing of a total of USD63 million from ADB and Mega International Commercial Bank in 2016 for housing and agricultural development projects in Babeldaob Island, sewage facility development projects between Koror and Airai, and internet development projects. The government has used about 7% of

government revenues in recent years to repay the debt.

Table 9. Amount of External Debt and Debt-to-GDP Ratio

	FY2014	FY2015	FY2016	FY2017	FY2018
Amout of external debt (million USD)	70.6	64.4	75.8	81.7	87.7
External debt-to-GDP ratio	28.7%	22.0%	26.3%	29.6%	30.8%

Source: IMF publication

3. Development and Investment Policies

3.1. Development Policy and Sectoral Development Policy

3.1.1. Palau 2020 National Development Master Plan (1996 – 2020)

In 1996, two years after Palau's independence, the Palau 2020 National Master Development Plan (PNMDP) was formulated as a long-term development plan with the target year of 2020. The plan's vision is to 'to substantially enhance the quality of life of Palauans and future generations of Palauans in a sustainable manner', and as development goals to achieve it,

- To increase real economic growth per capita on a sustained basis
- To share the benefits of economic growth on an equitable basis
- To enrich and enhance confidence in Palauan culture, raise national consciousness, and protect the natural environment of Palau

were mentioned. The development of a collaborative approach with the private sector was identified as a key element.

The PNMDP is a comprehensive development plan of more than 600 pages that analyzes Palau's socio-economic situation and challenges, including the macro-economic framework, and lays out the directions for development in the various sectors listed in the table below.

Table 10. Key Directions of Development in PNMDP (Summary)

Area	Outline of Development Direction
Financing Development	Securing financial resources to finance investment and development (efficient tax collection, financing from the domestic financial sector, foreign investment through loans from abroad, and commercial-based borrowing from abroad)
Infrastructure	The importance of infrastructure development to support private sector activities and improve the standard of living of the people, and the development of public investment programs and the evaluation of returns on projects based on these programs.
Land Use	Clarifying land ownership and use guidelines, establishing uniform building standards, appropriate land management, management plans for environmentally sensitive areas, and establishing guidelines for land issues related to foreign investment.
Tourism	Promoting tourism in a way that minimizes negative impacts, promoting tourism through the active participation of the private sector, and establishment of a tourism administration that includes a tourism policy.

Agriculture and Forestry	Emphasizing efficient use of resources and biological, economic, and social sustainability; import substitution and export promotion; and increasing research and extension capacity.
Industry and Services	Promoting an autonomous and market-oriented economy, fostering industries with comparative advantages (tourism, fisheries, small-scale manufacturing, and service industries), and private sector development through infrastructure development and a competitive environment.
Marine Resources	Defining the division of responsibilities between central and state governments for fisheries research, extension, monitoring and regulation with regard to environmental impacts, regional cooperation for the development of offshore fisheries, and monitoring of coastal fisheries
Environmental Planning and Management	Reflecting environmental concerns in the legal system and administrative enforcement, and building a comprehensive legal framework for the conservation and management of natural resources
Public Administration	Descriptions in the constitution of the national executive, legislative and judicial branches of government and state governments, as well as traditional societies, and the need for reform of the public sector.
Human Resource Development	Improving the collection and analysis of population and labor market data, implementing labour market policies, enacting and enforcing uniform national labor laws, improving employment services, streamlining educational services and establishing an independent accounting system, and establishing a professional talent training and certification system.
Health	Establishing priority areas (preventive care and primary health care), establishing specialized human resource development and certification systems, adding administrative staff, developing a strategic plan, decentralizing the procurement system, improving facilities and services, conducting research on health insurance systems, increasing beneficiary burden and improving structure.

Source: Palau 2020 National Master Development Plan

The final target year of the PNMDP is 2020, which requires the development of a new plan, and as of August 2020, the country was in the process of developing a medium- to long-term plan for 2021 and beyond. Specifically, with the support of the ADB, a development plan covering a period of ten years or more after 2021 is being formulated. In formulating the plan, it is planned to incorporate the contents of the development plans and projects under development in the fields of infrastructure and climate change, taking into account the consistency with the discussions on the review of the Compact Agreement with the United States, which will expire in 2024.

3.1.2. The Medium-Term Development Strategy (2009-2014)

During the Toribiong administration, the Medium Term Development Strategy: MTDS (2009-2014) was formulated as a more concrete plan for the PNMDP. ‘A sustained and widespread improvement in the general standards of living while preserving cultural and environmental values for the people of Palau’ was set as the overall goal, and the following five areas were identified as priority policy actions.

1) Agriculture and Fisheries

Foster sustainable agricultural and fisheries income opportunities.

2) Tourism

Position Palau as the island of choice for environmentally conscious visitors and realize higher returns to the nation from tourism.

3) Infrastructure

Make critical investments in sanitation, water and power and prioritize maintenance.

4) Foreign Involvement

Refine foreign investment and foreign worker policies to generate maximum sustainable benefits for Palau.

5) Sustainable Government

Undertake reforms to ensure a cost conscious and highly productive government.

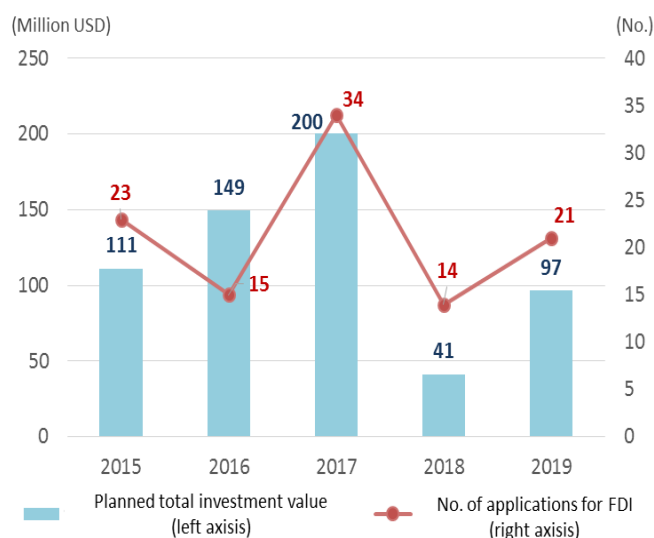
This MTDS has not been developed since 2014, the end of its period covered. The PNMDP and sectoral plans have been positioned as the substantive higher-level policy, instead.

The sectoral development policies and plans are described in the sectoral analysis sections below, respectively.

3.2. Investment Policy and Institution to Attract Foreign Direct Investment

3.2.1. Investment Environment and Policies

The number of applications for Foreign Direct Investment (FDI) in Palau from 2015 to 2019 has been around 10 to 30 each year and the planned total investment value has been USD40 to 200 million each year. Investments related to tourism have been made as the largest number of investment sector was hotel and resort facilities with 44 cases, followed by restaurants with 8 cases, construction with 7 cases and real estate with 6 cases from 2015 to 2019. By country, the number of investments from China was by far the largest with 52 cases, followed by Japan with 11 cases and the United States with 10 cases.



Note: The number of cases includes those for which the investment value is unknown

Source: Materials provided by the Foreign Investment Board

Figure 5. Number and Total Value of FDI from 2015 to 2020
(based on the number of applications)

Table 11. Number of applications for FDI from 2015 to 2019 by country
(countries with a total of 2 or more applications)

	2015	2016	2017	2018	2019	Total
China	7	10	18	6	11	52
Japan	1	-	7	1	2	11
USA	5	1	1	2	1	10
Korea	2	2	-	1	1	6
Hong Kong	1	1	1	-	1	4
Singapore	-	-	3	1	-	4
Israel	2	-	1	-	-	3
Germany	-	-	1	-	-	1
United Kingdom	2	-	-	-	-	2
Taiwan	1	-	-	-	-	1

Source: Materials provided by Foreign Investment Board

The total number of FDI approved from January 2019 to July 2020 is 41, and China has the largest number and total investment value. The number of investments by Japan is 6, which is the second largest after China, but the mean investment value of Japan is not so different from that of China, and it can be seen that the Japanese investment value per investment is large.

Table 12. Number and Value of Approved FDI by Country / Region
(from January 2019 to July 2020)

(Unit for values: USD)

Country / Region	No.	Total Investment Value	Median Investment Value	Mean Investment Value
China	20	102,645,285	500,000	5,132,264.25
Japan	6	36,133,100	292,500	6,022,183.33
USA	5	7,910,064	1,398,532	1,977,516
Korea	3	1,620,000	800,000	540,000
Hong Kong	2	225,000	112,500	112,500
Slovakia	1	0	0	0
Taiwan	1	500,000	500,000	500,000
Germany	1	701,000	701,000	701,000
British Virgin Islands	1	100,000	100,000	100,000
Vietnam	1	-	-	-

Note1: The numbers of USA and Slovakia include renewal of approved investments

Note2: Vietnam's investment value is not available at the time of this survey

Source: Materials provided by Foreign Investment Board

By sector, the sector of hotel / resort facilities has the largest number of 14, followed by the construction of 6 and the restaurant of 5.

Table 13. Number of Approved FDI by Sector (from January 2019 to July 2020)

Sector	No.	Sector	No.
Hotel / Resort	14	Fishing / Farming	2
Construction	6	Telecom	2
Restaurant	5	Education	1
Real Estate Sales / Rentals	4	Money Exchange	1
Management / Consulting	3	Photography	1
Wholesale / Retail / Distributor	2		

Source: Materials provided by Foreign Investment Board

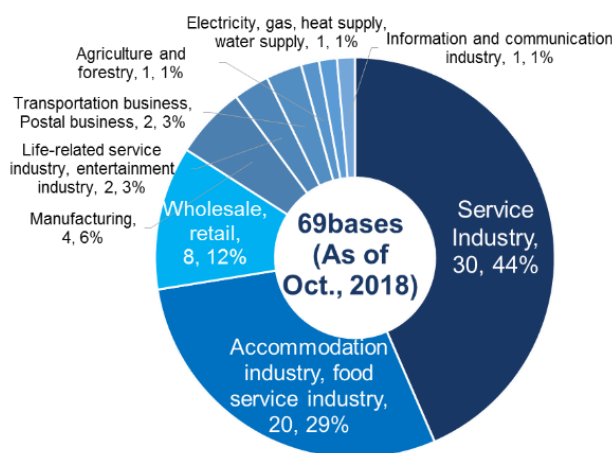
The table below outlines the five investments made between 2019 and 2020 with the largest investment values, and four of the five are related to hotels / resort facilities.

Table 14. Five of the largest FDI made between 2019 and 2020

Country	Investment Year	Investment Value (USD)	Scope of Business
China	2019	25,000,000	To construct and operate a resort
China	2019	20,000,000	To develop and manage 59 villas
USA	2020	10,000,000	To engage in import, warehousing and distribution of goods
Vanuatu	2020	10,000,000	To construct and operate an 80-unit luxury resort
China	2019	8,000,000	To operate a 60-room motel

Source: Materials provided by Foreign Investment Board

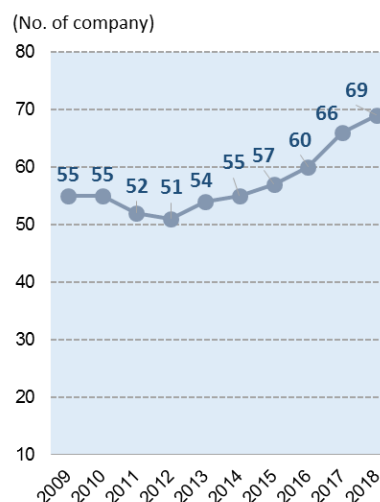
Regarding the trend of expansion of Japanese companies to Palau, the number of Japanese companies expanding into Palau from 2009 to 2018 has been around 50 to 70, and has been increasing every year since 2012. By industry, as of October 2018, of the 69 companies based in Palau (of which 63 have entered Koror), the majority are service-related businesses, including accommodation and food service. So it is thought that there are many Japanese companies expanding into Palau in the tourism-related field.



Note: 'Service industry' means industries which are not classified into 'accommodation industry, food service industry' and 'life-related service industry, entertainment industry'.

Source: Ministry of Foreign Affairs of Japan

Figure 6. Composition Ratio of Japanese Companies Entering into Palau by Industry (number of companies, ratio) (left)



Source: Ministry of Foreign Affairs of Japan

Figure 7. Number of Japanese Companies Entering into Palau (as of October each year) (right)

3.2.2. Promotion and Regulation of FDI

FDI in Palau is prescribed by the Foreign Investment Act, which was revised in 2014. In recent years, several measures have been taken to promote FDI. However, it is difficult to say that

comprehensive investment promotion measures targeting a wide range of sectors have been taken due to the facts that the number of human resources to develop the investment environment is limited and the major FDI sector to Palau is biased toward the tourism industry.

Table 15. Major FDI Promotion Measures in Palau

Measure	Content
Direct tariff-free access to the United States	Products produced in Palau enjoy direct access to the United States via Guam.
Gross revenue tax returns for hiring PCC graduates	Through 2024, employers who hire Palauan citizens who possess vocational certificates from Palau Community College (PCC) may deduct an amount equal to 200% of wages paid from their annual gross revenue tax returns.
Farm loan program	The National Development Bank of Palau offers agricultural loans (mainly for the purpose of agricultural capital investment) to Palauan citizens individually or as a partner in a joint venture with foreign investors.
Residential development loan	Palau's National Housing Commission is distributing the proceeds of a USD15 million loan from Taiwan to Palauan citizens as a housing loan, and entities willing to construct new residential developments through financial institutions: the National Development Bank of Palau ¹¹ and the Palau Housing Authority.
Professional opportunities	Professionals in the fields of accountancy, architecture, engineering, law, and medicine who wish to establish a business in Palau are exempt from the requirements of the Foreign Investment Act, provided standard professional certifications and/or licensing requirements are met.

Source: Materials provided by Foreign Investment Board

Regarding FDI regulations, the Foreign Investment Act prohibits or restricts the investments in the fields shown in Table 16. Table 17 shows the main regulations for foreign companies to enter the market, such as minimum investment amount and operating requirements.

¹¹ According to the website of the National Development Bank of Palau (accessed in October 2020), a typical loan amount for housing loan is up to USD 3 million, the interest rate is 10%, and the loan term is up to 20 years.

Table 16. Regulated Industries / Sectors for FDI in Palau

Restricted industries/sectors (at least one Palauan citizen should be an owner or part-owner)	
1	Handicraft and gift shops (except shops located on the premises of hotels or at the Palau International Airport)
2	Bakeries
3	Bar services (except bar services in a restaurant and hotel complex, which has at least 50 rooms)
4	Operations manufacturing products already being produced by wholly Palauan-owned manufacturing enterprises
5	Equipment rentals for both land and water usage including equipment for purpose of tourism, but not including rentals of land or water transportation vehicles
6	Raising and harvesting farm-raised fish and maricultured species
7	Any other businesses as the Foreign Investment Board may determine
Prohibited Industries/sectors (only Palauan citizens should be owners or part-owners)	
1	Wholesale or retail sale of goods
2	All land transportation services, including but not limited to, bus services, taxi services, and car rentals
3	Any form of water transportation services, including rentals of any water transportation vehicle
4	Travel and tour agencies and land-based and water-based tour service providers, including but not limited to dive shops, chartered fishing operations and surfing businesses
5	Commercial fishing for other than highly migratory species ¹² , with the exception of fishing for farm-raised fish and maricultured species
6	Any other businesses as the Foreign Investment Board may determine

Source: Materials provided by Foreign Investment Board

¹² Fish that migrate over a wide area, both inside and outside the exclusive economic zone.

Table 17. Regulations for FDI in Palau

Minimum Investment Amount
Minimum investment amount is USD500,000, or in the case of a hotel or other short-term lodging facility, USD5,000,000
Employment of Palauan Citizens
At least 20% of work force should be Palauan citizens, or other percentage as may be fixed by the Foreign Investment Board
Operational Requirements
<ol style="list-style-type: none"> 1. Open an office in Palau and maintain an office in the country at all times 2. Comply with all laws and regulations of Palau 3. Set up and maintain its books of account in English in Palau 4. Open and maintain at least one banking accounts in Palau with a financial institution licensed by the Financial Institutions Commission 5. Not sell, assign, encumber, or transfer any beneficial interest¹³ in such grantee for one year after receiving its foreign investment certificate 6. Prior to the transfer of the beneficial interest, written consent of the Foreign Investment Board is required. 7. If the grantee of the foreign investment certificate is a corporation, hold at least one board of directors meeting every calendar year in Palau at which a quorum of the board is physically present 8. Pay applicable taxes in accordance with relevant laws and regulations 9. Pay all of its employees' wages and benefits as required by the minimum wage laws and other employment and labor laws and regulations of Palau 10. Pay into the National Treasury of Palau, an annual fee of USD500 for each non-citizen employed
Restriction on Land Ownership
Only citizens of Palau and corporations wholly owned by citizens of Palau may acquire title to land or waters in Palau. While non-citizens may not acquire title to land, Palauan citizens may lease land in Palau to non-citizens or corporations not wholly owned by citizens for up to 99 years
Remittance Tax
Palau imposes an excise tax of four percent on money remitted outside of Palau by a non-citizen
Other Regulations
Foreign direct investment is also subject to the laws and regulations that apply to commercial and development activity in general, such as environmental protection statutes, historic preservation statutes, land use statutes, and labor statutes. The sixteen states of Palau also have their own laws and regulations relating to investment and development in each of their jurisdictions.

Source: Materials provided by Foreign Investment Board

3.2.3. How to Establish a Business and Procedures

Foreign companies doing business in Palau are required to obtain a Foreign Investment Approval Certificate (FIAC) issued by the Foreign Investment Board (FIB). After obtaining that, as shown in the figure below, it is required to obtain a business license and environment-related license from the national government and the states in which the business is conducted, and proceed an employment registration. The law of Palau permits the formation of partnerships, limited partnerships, cooperatives, and non-profit corporations in addition to foreign-owned corporations. For the latest

¹³ According to the Foreign Investment Law, a beneficial interest means any direct or indirect interest in the commercial gain or profit of a business enterprise.

company establishment procedure, it is necessary to confirm with the relevant organizations each time.

Process for establishing a business and obtaining permits					
(1) Incorporation and obtaining licenses	(2) Immigration and Labor	(3) Other permits	(4) Environmental Permit	(5) Building Permit	(6) Utilities
<ol style="list-style-type: none"> 1. Obtain a Foreign Investment Approval Certificate (FIAC) (with filing fee of USD500 or, in the case of a hotel or other short-term lodging facility, USD2,500) 2. Reserve a name of a corporation 3. Prepare for a certificate of incorporation 4. Submit a filing fee of USD250 to the Division of Finance 5. Register a company at the Office of the Attorney General 6. Obtain a Employer Identification Number (EIN) with the fee of USD15 7. Obtain a national business license 8. Obtain a state business license <p>※ The latest information should be checked for the fees for national and state licenses</p>	<ol style="list-style-type: none"> 1. Apply for a investor visa (tourist visa) to the Bureau of Immigration (if necessary) 2. Register Palauan employees on the Social Security Administration with the fee of USD2 per person 3. Obtain a work permit for foreign workers from the Division of Labor with the fee of USD 18 per person 	<ol style="list-style-type: none"> 1. Agree with managements about titles 2. Obtain permits for Project Work Order and Release and Hold Harmless Agreement from the Bureau of Land and Survey Building 3. Obtain a Historic Clearance Permit from the Ministry of Community and Cultural Affairs 	<ol style="list-style-type: none"> 1. Apply for a permit to the Environmental Quality Protection Board with the fee of USD150 2. Conduct a Environmental Assessment and submit a Environmental Impact Statement to the Environmental Quality Protection Board (if necessary) 	<ol style="list-style-type: none"> 1. Obtain a Building Permit in each state <p>※ In Koror state, a Zoning Permit is required in advance</p>	<ol style="list-style-type: none"> 1. Open an account for utilities such as electricity and water and sewerage at the Palau Public Utility Corporation 2. Request a temporary opening during building construction 3. After construction, request a regular opening at least one week before the start of business

Source: Materials provided by Foreign Investment Board

Figure 8. Process for Establishing a Business and Obtaining Permits

3.2.4. Trade and Taxation

Import and export controls in Palau mostly relate to the exportation of marine life. With the enactment of the Palau National Marine Sanctuary Act (PNMSA) in January 2020, 80% of Palau's Exclusive Economic Zone has been designated as the Palau National Marine Sanctuary, a no-take area in which no commercial fishing, harvesting, or extracting of any kind is permitted.

Table 18. Major Import / Export Restricted Items in Palau

Marine Life (Excerpts and summaries)	Except Marine Life
Prohibited items <ul style="list-style-type: none"> • Fish or buy specific species of groupers for sell, export and others from April 1 to October 31 • Export specific fishes, crabs and lobsters • Export any species of sea cucumbers • Export specific species of clams • Export any species of living resource that predominantly inhabit reef areas, the territorial sea, or internal waters, except in certain cases 	Prohibited items <ul style="list-style-type: none"> • Import and export biological items such as plants and animals • Import and export endangered or threatened animals • Export dugong • Export meat products • Export copra products • Re-export items that were imported from the United States of America or its territories • Export toxic chemicals
	Restricted Item <ul style="list-style-type: none"> • Import tobacco

Source: Materials provided by Foreign Investment Board

In addition, there are multiple import / export regulation-related laws as shown in the table below, and it is required to comply with each law and regulation according to the investment field when making a FDI.

Table 19. Regulations concerning Imports and Exports

Regulations
Customs Regulations (2006), promulgated by Bureau of Revenue, Customs and Taxation, Ministry of Finance
Fish Export Tax Collection Procedures (1993), Bureau of Revenue, Customs and Taxation, Ministry of Finance
Import Tax Regulations (1994), Bureau of Revenue, Customs and Taxation, Ministry of Finance
Regulations on the Collection of Marine Resources for Aquaria and Research (2004), Ministry of Natural Resources, Environment, and Tourism
Plant and Animal Quarantine Regulations (2008), Bureau of Agriculture, Ministry of Natural Resources, Environment, and Tourism

Source: Materials provided by Foreign Investment Board

Regarding the taxation for foreign companies, with the exception of public-private partnership (PPP) projects, equipment provision in grant aid, and electricity and water charges related to facility construction, the same corporate taxes as domestic companies are levied such as gross income tax.

3.2.5. Challenges and Highly Prospective Sectors of FDI

According to the FIB, challenges of FDI in Palau include limited exploitable natural resources and small population, restrictions on investment in certain economic sectors, taking significant time for starting a business, and outdated business-related laws.

Table 20. Challenges of FDI

Challenges	Content
Limited exploitable natural resources and small population	<ul style="list-style-type: none"> • Nature conservation including marine ecosystems limits the development of natural resources • Palau has a small population, low percentage of university degree holders
Restrictions on investment in certain economic sectors	<ul style="list-style-type: none"> • As a result of restrictions on gift shop management and prohibition on land and water transportation services, and travel tour agencies for foreign companies, the main investment of foreign companies is limited to hotel and restaurant management
Taking significant time for starting a business	<ul style="list-style-type: none"> • The process to collect all required permits and licenses to open a business in Palau takes a significant amount of time • The government systems are not centralized or computerized, requiring investors to have a local presence or agent during the start-up process
Outdated business-related laws	<ul style="list-style-type: none"> • Many of Palau's business-related laws, such as Palau's corporations law established in 1966, are in need of revision • It is difficult to access to the laws as there is no publicly accessible, up-to-date source of all of Palau's statutes and regulations

Source: Materials provided by Foreign Investment Board

According to the FIB, measures to promote FDI may include: revisions and systematization of Palauan statutes and regulations related to FDI and business operations, and establishment of a database for information disclosure of such statutes and regulations; facilitating the development of

a new hub in Palau for the registration of businesses for foreign companies; the creation of a ‘one-stop-shop’ for all of the permits and licenses required to start a business in Palau, and the digitization of these steps which reduce the burden on foreign companies.

In addition, as mentioned above, most of the FDI currently underway is in the tourism sector such as hotels and restaurants. According to the FIB, highly prospective sectors of FDI may include sectors such as public infrastructure development, tourism and recreation, agriculture and aquaculture, function as a corporate registry site, and telecommunications.

Table 21. Highly Prospective Sectors / Fields by the Foreign Investment Board

Sector / Fields	Content
Public infrastructure development	As Palau continues to grow economically, development and expansion of public infrastructures are needed in some fields: port facilities; hospitals and medical facilities; primary and secondary schools; internet and telecom capabilities; renewable energy generation; climate change resiliency.
Tourism and recreation	Water recreation facilities such as yachts, golf courses, and indoor recreation facilities such as movie theaters and bowling alleys do not currently exist in Palau and have opportunities for development.
Agriculture and aquaculture	Revenue from agriculture and aquaculture currently makes up less than 3% of Palau’s GDP, but Palau has large tracts of undeveloped land in the tropical climate and expansive marine environment.
Function as a corporate registry site	Based on the Compact, under the security umbrella of the United States, the United States dollar are in circulation as its official currency, and English is used as an official language. Palau also has a stable and democratic society, and low corporate tax rates, so the country has such several traits that make it an attractive location for a corporate registry for foreign companies.
Telecommunications	Given the population’s high level of English fluency, low cost of labor, and fiber optic internet connection, the development of certain telecom industries, such as call centers, makes sense.

Source: Materials provided by Foreign Investment Board

Regarding PPP project, which will be described later, the country's first efforts are being made for the terminal expansion and operation project of the international airport. The Palauan government is seeking further PPP projects in areas such as renewable energy generation, increased telecommunications and internet capabilities, resort facility development, and aquaculture facilities. The importance of considering the development of a general legal framework to promote such PPP projects in these areas is being recognized.

4. Sector Analysis

4.1. Public Infrastructure (Including Transportation Infrastructure, Water Supply and Sewerage, IT and Communications)

4.1.1. Transportation

(1) Current State and Issues of Transportation Infrastructure

(i) Roads and Bridges

The main paved roads in Palau are 110 km long, of which 94 km are covered with asphalt and 16 km are concrete. There are nine bridges in the country, all of which are less than 70m long except for the largest, the K-B Bridge¹⁴, which is 412m long. The names and lengths of the bridges are shown in the table below.

Table 22. Bridges in Palau

Bridge Code	Bridge Name	Length
B001	K-B Bridge	412m
B002	Ngiwal Bridge	66m
B003	Minato-Bashi Bridge	63m
B004	Ngiwal Bridge	55m
B005	Ngeraad Bridge	41m
B006	Ngchesar Bridge	35m
B007	Airai Bridge	31m
B008	Ngchesar Bridge	21m
B009	Ngeremlengui Bridge	20m

Source: Information provided by the Bureau of Public Works

Most of the paved roads are laid on Babeldaob Island, including the Compact Road¹⁵, and some structural problems have been observed in the embankment areas and with groundwater flow under the roads. There is no problem with the overall structure and durability of the bridges, but the structure of the Minatobashi Bridge (connecting Koror and Malakal Islands), which has been in use for more than 30 years, and some box culverts in the causeway in the urban area need specialized repairs.

There is no public transportation service such as bus service in Palau that uses roads and bridges.

¹⁴ The largest bridge in Palau, built with Japanese grant aid after the sudden collapse of the previous K-B bridge in 1996, connecting Koror and Babeldaob islands. The bridge was completed in 2002 and is known as the 'Japan-Palau Friendship Bridge'.

¹⁵ Common name for the road that circles the island of Babeldaob, built with assistance through the Compact of Free Association with the United States (commonly known as the 'Compact'). It was completed in 2007.

(ii) Airport and Seaport

Palau has an international airport in Airai State, Babeldaob, and airfields on the southern islands of Angaur and Peleliu. The Palau International Airport in Airai State has 25-32 flights per week, but the airfields at Angaur and Peleliu have only one flight per week, and inter-island travel within the country is mainly by boat.

Table 23. Airport and Airstrips in Palau

Airport Name	Runway Length	Airport Size	Number of Airport Operation (Weekly)
Palau International Airport	2,195m	563,715mi ²	25 – 32 services / week (as of Jan. 20, 2020) 1 service / week (as of Jun. 22, 2020)
Angaur Airstrip	2,019m	72,575mi ²	1 service / week
Peleliu Airstrip	1,822m	117,586mi ²	1 service / week

Source: Information provided by the Bureau of Public Works

The only international port is the Malakal Port on Malakal Island, which serves as the sole port handling cargoes in the country. The number of berths available for berthing is two, with a quay length of 185 meters and a depth of 7.2 meters having a capacity of 26,518 tons (total registered tonnage).

In terms of infrastructure challenges of the airports and ports, the land near the runway of the international airport, which is located on higher ground, has been subject to landslides and has reached the airport security fence; as of July 2020, restoration work is underway with the US Federal Aviation Administration. With regard to the ports, some of the smaller ports on the outer islands are experiencing difficulties in berthing due to lack of water depth and the use of damaged piers due to storms.

(2) Key Maintenance Issues

In Palau, a system is in place to collect road use tax annually from vehicle owners, including government agencies, and incorporate it into the Road Maintenance Fund. The Fund is administered by the Ministry of Finance and the Bureau of Public Works receives a maintenance budget allocation. The amount allocated from the Fund is supposed to be used for the maintenance of national and state roads, but data from 2016-2018 showed a declining trend and the amount required for adequate road maintenance has not been met.

Table 24. Allocation of Road Maintenance Fund to Each State

(Unit: USD)

Year	2016	2017	2018
Total amount allocated	\$1,224,750	\$801,825	\$743,177
Of which, allocation to Koror State (proportion)	\$824,378 (67%)	\$473,213 (59%)	\$444,162 (60%)

Source: Information provided by the Bureau of Public Works

There is almost no allocation from the national budget for the maintenance of infrastructure facilities other than roads, and the owners of each asset are supposed to carry out the necessary maintenance, including securing the budget. In addition, the owners of each asset are not able to fully formulate a maintenance plan supported by the budget, and as a result, the repair costs are high due to the inability to perform maintenance work at the right time. In terms of technical skills, the Bureau of Public Works expressed the opinion that the personnel responsible for the maintenance of facilities, roads and bridges do not have sufficient expertise and that they need at least specialized engineers in structural and civil engineering and maintenance, respectively. For example, the maintenance of bridges is limited to superficial tasks such as cleaning and repainting, and repairs based on structural diagnosis cannot be carried out with the current budget and personnel.

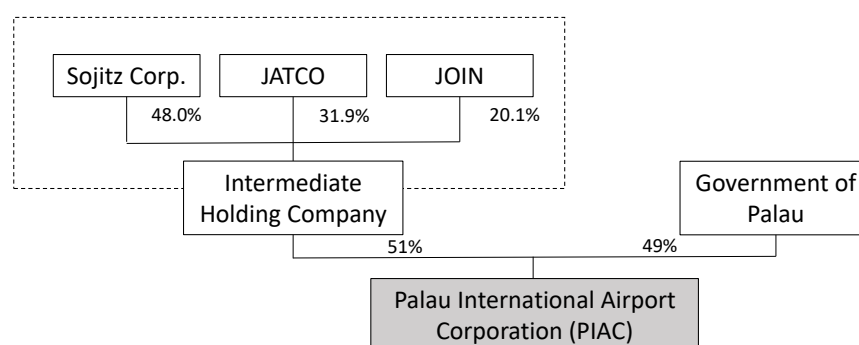
As for the development of PPP in the road and bridge sector, it is considered to be difficult to introduce the PPP system in reality because Palau has not built or operated any toll roads or other roads that users would have to pay for, and there is no plan for such a system in the country. There is a possibility of introducing a contractual system in which the operation and maintenance of roads and bridges throughout the country would be outsourced on a lump sum basis.

(3) Status of Introduction and Implementation of Public-Private Partnership Projects

In Palau, the country's first PPP project was introduced for the terminal expansion and operation of the international airport, as described below.

The Project for Renovation, Expansion and Operation of Palau International Airport

This is a PPP project to renovate and expand the terminal building at Palau's only international airport, and to operate and maintain it for 20 years. An intermediate holding company 'Japan Airport Management Partners Co. Ltd. (JAMP)' was established by Sojitz Corporation (48%), Japan Airport Terminal Co. Ltd. (JATCO, 31.9%) and Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN, 20.1%). The Palau International Airport Corporation (PIAC) was established with a 51% stake by JAMP and 49% by the Government of Palau, and began operating the international airport terminal in April 2019. At the same time, PIAC began the renovation and expansion of the airport terminal. (Overseas investment and loans from JICA and investment insurance from Nippon Export and Investment Insurance (NEXI) were used to implement the project. Taisei Corporation is participating in the expansion and renovation work of the terminal.)



Source: Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development website, etc.

Figure 9. Palau International Airport PPP Scheme Diagram

This PPP project, the first of its kind in Palau, was carried out under discussions led by the President and the Palau National Congress. In Palau, the legal system for systematic implementation of PPP projects has not yet been established, and various procedures were carried out on an ad hoc basis. Proposals for large-scale projects are always made to the Office of the President and are always left to political decisions, but it has become clear in this study that the Palauan government is interested in establishing a certain legal framework. In promoting PPPs in the areas such as renewable energy, telecommunications/Internet, resort development, and aquaculture facilities, it is important to present the mechanisms and procedures that ensure a certain level of transparency to foreign investors.

(4) Direction of Cooperation

(i) Cooperation by Other Donors

In the area of transportation and transport infrastructure, support is mainly provided in the following projects.

[Taiwan]

Intra-state road improvement in Babeldaob, Peleliu and Angaur islands: the improvement of main roads in Peleliu and Angaur islands has been completed, and currently the improvement of rural roads in Babeldaob Island is being carried out.

[U.S.]

Annual program by the U.S. Federal Aviation Administration for the improvement of runways and safety areas at Palau International Airport.

[International Organizations]

Strengthening resilience to climate change: including infrastructure enhancement. Implemented by the Secretariat of the Pacific Community (SPC), the United Nations Development Programme (UNDP), the United Nations Office for Project Services (UNOPS), and others, based on the funds contributed by Japan, the EU, and others.

(ii) Needs for Cooperation by Japan

According to the Bureau of Public Works, the maintenance and repair needs were high mainly for the following infrastructure facilities (some of which overlap with other sections).

- Replacement of the Minatobashi Bridge and the causeway box culverts
- Maintenance of structurally deficient road sections
- Improvement in safety and efficiency by enhancing the power transmission and distribution network
- Improvement of rural water supply networks (quality and operational efficiency)
- Relocation of the hospital (located in a low area by the sea and susceptible to climate change. Improvements are needed as access would become difficult during natural disasters such as typhoons.)

With Japan's cooperation, it would be difficult to change the budget and organizational structure of infrastructure maintenance in Palau, but it would be possible to provide technical cooperation on the effective use of the Road Use Tax and human resource development in the institutional and technical aspects for effective and efficient maintenance and management of infrastructure facilities. With regard to the overall improvement of infrastructure maintenance, Japan, together with the Asian Development Bank (ADB), the World Bank (WB), Australia, New Zealand, and other

countries, is a member of the Pacific Region Infrastructure Facility (PRIF) and supporting the improvement of infrastructure operation and maintenance in the region. While utilizing this framework, it is considered an effective strategy to examine the details of cooperation with other donors.

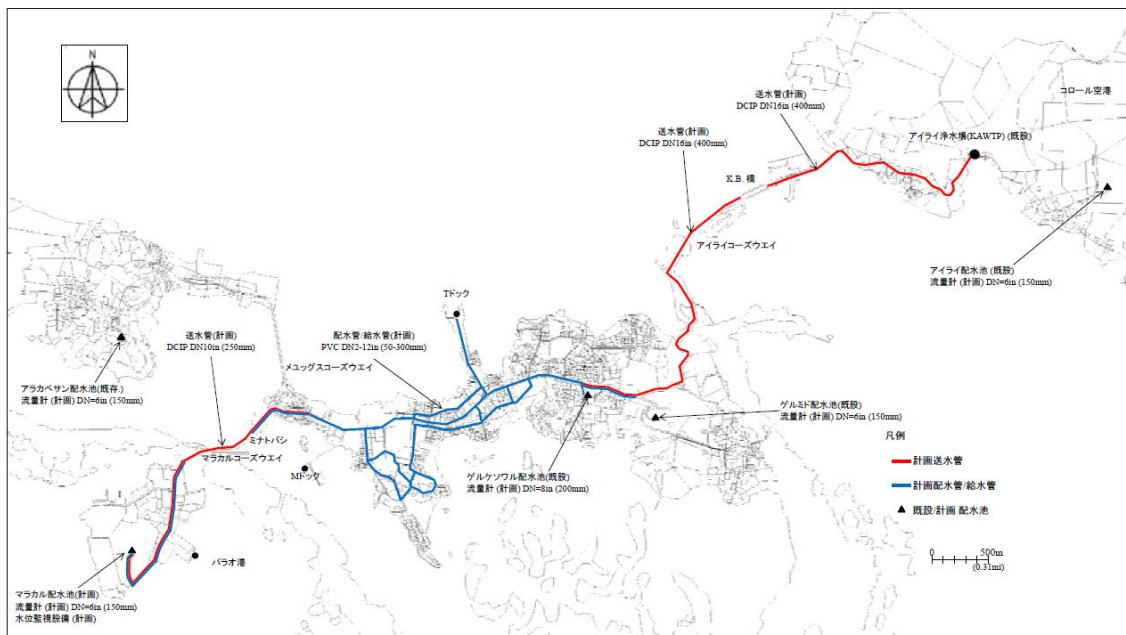
4.1.2. Water Supply and Sewerage

(1) Overview and Issues

Water Supply

The water supply system in central Koror and some parts of Airai State was developed during the Japanese administration (1914-1945), and the water supply system in the 1970s during the U.S. trusteeship period, including the installation of the Airai Water Treatment Plant, was upgraded. In the 1990s, with the help of a grant from the U.S. government, more water pipes were installed and the water supply system was made possible through a block system using the separation of water supply and distribution and a water reservoir. However, some of the facilities laid during the Japanese administration were still in use and the overall deterioration of the water supply system was an issue. In particular, the main water pipes buried in the main road in the central Koror State were frequently leaking, causing a non-revenue water rate of nearly 50%. There is only one water transmission pipe that supplies clean water from the Airai Water Treatment Plant to the central Koror and Airai State. Furthermore, Malakal Island in Koror State, which is located at the end of the water supply system from the Airai Water Treatment Plant, faces the problem that there is no available water source on the island while the water pressure is low due to the old and obsolete reservoir.

In response to these challenges, Japan sought to stabilize the water supply through the grant aid project ‘The Project for Improvement of Water Supply System’ (2015-2018) by strengthening the water pipes and improving the water distribution pipes and reservoirs. However, the non-revenue water rate remains high at more than 45% due to the fact that some of the old distribution pipes are difficult to replace and the location of the pipes is not known.



Note: Transmission pipes (in red) and distribution pipes (in blue) improved through Japan's assistance are indicated.
Source: Extracted from p.100 of the Preparatory Study Report on The Project for Improvement of Water Supply System in Palau

Sewerage

In Koror State, sewage is conveyed through sewage pipes and pumping stations to the sewage treatment plant on Malakal Island, where it is treated in reservoirs and sprinkler filter bed systems before being discharged into the sea. This system was constructed in the 1970s and have become obsolete, and the following problems have been identified.

- Potential health hazards from asbestos in the sewage pipe network
- Sewage overflow from the pumping station (actually occurred in 2016)
- Malakal sewage treatment plant's declining treatment capacity, resulting in bad odor and marine pollution

In order to address these issues, ADB implemented the Sanitation Sector Development Project (technical assistance) from 2010 to 2012, which included the formulation of a sewage master plan and identification of priority projects in Koror and Airai states. On top of this, the Government of Palau borrowed USD28.8 million from ADB (with an additional USD1.2 million from its own budget) and has been implementing the construction of sewerage networks, sewage treatment plants and public toilets since 2014 through 2022.

(2) Development Plan

In Palau, no sectoral plans have been developed specifically for the water supply and sewerage sectors, and the PNMDP has been the basis. In the Plan, the following items are considered important

for the water supply and sewerage sector.

Water Supply (Koror-Airai water supply system)

Conducting hydraulic analysis and leakage surveys, installing water meters, establishing a backup water source, and improving water supply system facilities.

Sewerage

Expansion of sewage treatment systems (Koror State), upgrading of sewage pumping stations (Koror State) and expansion of regional sanitation programs.

The Medium Term Development Strategy (2009-2014) also states the importance of moving forward with investments in the preservation, rehabilitation and cost recovery of the water supply system and the expansion of the water supply area in the southern part of Babeldaob Island.

(3) Direction of Cooperation

(i) Cooperation by Other Donors

In the water supply and sewerage sector, ADB together with JICA has been the major donor. From 2009 to 2013, the Palau Public Utilities Corporation (PPUC) underwent an organizational reform and financial strengthening to improve water and sewerage services. In addition, from 2010, ADB has been providing a program loan for the water supply sector, and the PPUC used the loan to install customer meters and replace water pumps. In addition, ADB has provided loans to implement the sewerage development (renewal of sewage treatment plants, installation of sewerage systems and pumps, etc.), as mentioned above.

(ii) Needs for Cooperation by Japan

In recent years, through the grant aid ‘The Project for Improvement of Water Supply System’ (2015-2018) from Japan, the upgrade of water transmission pipes and the maintenance of water distribution pipes and reservoirs have been carried out, but the non-revenue rate of water remains high due to the above-mentioned challenges in the distribution pipe network. Therefore, it is important to cooperate with PPUC to improve the capacity of PPUC to detect and repair leaking areas, to renew the water distribution pipe network and to reduce the rate of non-revenue water. The sewerage improvement project has been implemented with the support of ADB and is expected to be fully improved by the end of 2021, but the planning and technical capacity for sewage collection and treatment is not sufficient, and the provision of support for capacity building has been requested by PPUC.

4.1.3. IT and Communications

(1) Overview and Issues

According to data from the International Telecommunication Union (ITU), Palau has 40.78 fixed-line telephone subscribers per 100 people (2015), which is slightly lower than in Japan, which is about 50. The number of mobile phone subscriptions per 100 population is 134.41 (2015), a significant increase since the early 2000s and comparable to Japan's level of mobile phone subscriptions.

Palau's fixed-line telephone subscription has seen a decline in business demand, especially since 2015, with the number of lines falling by 5% between 2015 and 2019, as shown in the table below. Mobile phones, on the other hand, showed a 28% growth over the same period. The dominant form of mobile phone subscription is the prepayment method, which is often used by visitors as well, at 88% (2019), but postpayment subscriptions have grown significantly in recent years.

In terms of Internet usage, there has been a significant increase in users, as evidenced by the 49% growth in the number of subscriptions between 2015 and 2019. In Palau, with the support of ADB, the telecommunication network was connected in 2017 to a branch line from the SEA-US Cable System, an optical submarine cable connecting Southeast Asia to the US mainland, which enabled high capacity communications. The Belau Submarine Cable Corporation (BSCC), established in 2016 as a state-owned company, is responsible for the operation and management of the cable. The Palau National Communications Corporation (PNCC), a state-owned company, has also been able to use it to provide ADSL services for residences and mainly optical line services for businesses.

In terms of the communications environment, after 3G was introduced in 2015, the installation of fiber optic cable enabled 4G connectivity in urban areas in 2017 (and 3G (and some 2G) in other areas). While the speeds have improved significantly over the past decade, areas of availability are limited, and high-capacity communications, and online education and online clinics that make use of them, have not been realized.

Table 25. Data on the Communication Environment in Palau

(Unit: number of subscription)

Year	2015	2016	2017	2018	2019
GSM mobile phone	23,743	25,770	26,546	26,524	32,868
<i>Post-paid</i>	2,245	2,523	2,916	3,123	3,914
<i>Pre-paid</i>	21,498	23,247	23,630	24,401	28,954
Fixed lines (telephone)	7,116	7,048	7,088	7,166	6,801
<i>Business / Government</i>	3,106	3,110	3,071	3,047	2,897
<i>Residential</i>	4,010	3,938	4,017	4,119	3,904
Internet	2,004	2,351	3,001	3,619	3,901
Digital TV	3,748	4,129	4,118	3,786	3,786
<i>Single dwelling</i>	3,051	3,240	3,260	2,939	2,939
<i>Multi dwelling</i>	697	889	878	847	847

Note: Figures as of end of each year

Source: Data provided by PNCC

One of the infrastructure challenges in providing high-capacity communication services in Palau is that the current network has already reached its limits in terms of capacity and spare capacity to provide various services. With regard to the distribution network, there are also issues with the choice of communication methods in terms of cost and stability. In addition, the six small PNCC base stations installed in the country can only be backed up with storage batteries, not with generators, in the event of a power outage, and the backup time is only six hours. Thus, Palau's telecommunication infrastructure is considered to have significant challenges in terms of ensuring spare capacity.

(2) Development Plan

A sectoral plan for ICT is the National ICT Policy, which is under development and expected to be published soon. The policy has as its pillars the development of ICT infrastructure, the promotion of e-government, its use in commercial activities, its use in people's lives, and appropriate regulation, based on the vision of 'equal and affordable access to ICT for all citizens and to improve the quality of the social and economic life'.

Specific ICT development projects are planned by the BSCC and PNCC to improve the high-speed communications environment through the installation of a second international submarine fiber-optic cable and the Babeldaob circumferential fiber-optic cable, high-speed transmission of 100Gbps, increased distribution networks, and the expansion of mobile communications coverage areas.

(3) ICT Environment Development Needs

In order to make a good telecommunications environment available to all parts of the country at a low cost, Palau has recognized the need to implement various projects in the future, and these projects are being planned in concrete terms. The following projects have been identified as the main ones.

- (i) Improving the network between 'Ngarchelong and Kayangel' and 'Peleliu and Angaur' states
- (ii) Launch of IPTV (a service that allows users to watch movies and programs by connecting their TV sets to the Internet)
- (iii) Launch of VoLTE and VoIP (Voice calls over the (high-speed) Internet)
- (iv) Construction and reinforcement of a spare optical fiber network
- (v) GPS tracking (to determine the location during an emergency situation)

The industry often calls for the expansion of DSL (high-speed data transmission service using analog lines) and in-house telephone exchanges (PBXs) for corporate customers, according to the

report. Future directions for business services include the spread of IoT, app payments in shops and other locations, and mobile payment for mobile phone bills, but none of these have been fully introduced in Palau.

Regarding the use of ICT in public services, there is an awareness of the need for proper distance education, especially in the event of a COVID-19 outbreak. In addition, some states have simple clinics outside of mobile phone service areas, and it is necessary to develop a communications network for these areas. In terms of the expansion of service areas, the states of Sonsorol and Hatohobei (both small islands) in the southwest of Palau do not currently have a mobile phone network, but plans are underway to develop a 3G network.

(4) Direction of Cooperation

Direction of Cooperation by Japan

At the 8th Pacific Islands Leaders Meeting (PALM) in 2018, Japan announced its commitment to support the development of high-quality infrastructure, including ICT, in ‘pursuit of enduring prosperity’ in Pacific Island countries. However, no ODA projects specific to ICT have been implemented to date.

In the future, the possibility of cooperation in areas such as the implementation of e-government, promotion of online education and medical care, and strengthening of cyber security measures is expected. With regard to education, in order to enhance the educational content of Palau Community College (PCC) and to develop human resources, it would be beneficial for Japanese institutions of higher education to provide PCC with online lectures and practical training, which would meet the needs of the industries.

4.2. Electric Power

4.2.1. Overview of the Power Sector

In Palau, electricity demand is concentrated in Koror and Babeldaob Islands, where 96% of the population lives, with Koror and the southern part of Babeldaob Island accounting for 85% of the total electricity demand in both islands. The peak demand of both islands is about 12.5MW, which is supplied by the Malakal (Malakal Island) and Aimeliik¹⁶ (Babeldaob Island) power plants.

More than 98% of the power supply in Palau, including the outer islands, is based on diesel power, and the country relies entirely on imports of fuel from abroad for this purpose. Since diesel imports are greatly affected by international prices and lead to high domestic electricity prices, a policy goal of increasing the share of power generation from renewable energy sources to 45% by 2025 was set in 2017, with the aim of energy conservation measures and diversifying power sources. Specifically, the plan calls for independent power producers (IPPs) to construct solar power plants and install storage batteries to achieve 20% by the end of 2021, and then the remaining 25% by 2025.

To increase the percentage of renewable energy generation, JICA conducted a planning study on the improvement and maintenance of the transmission and distribution system in 2019, in which Palau's electricity supply and demand was assessed, mainly as shown in the following table.

Table 26. Evaluation of Electricity Consumption and Related Data

Area	Evaluated (Analused) Contents
Electricity Demand and Supply	In terms of electricity demand by sector, consumption in the commercial and residential sectors has been on an upward trend since 2013. The transmission and distribution loss rate (transmission and distribution loss/transmission volume) is lower than before the power plant accident in 2012.
Generation and Transmission Volumes	The Palau Public Utilities Corporation (PPUC) generation and transmission declined during 2012 and 2013 as the Aimeliik Power Plant stopped generating electricity during this period due to a fire. However, through the addition of facilities at the Malakal Power Plant and the restarting of the Aimeliik power plant through the implementation of the 'The Project for Enhancing Power Generation Capacity in the Urban Area in the Republic of Palau', PPUC has returned to pre-Lehman Brothers' collapse levels in 2015. From now on, electricity will be supplied by the two power plants at Malakal and Aimeliik.
Load Data	The maximum daily load in Palau is between 8 p.m. and 10 p.m., and any future use of solar power as a source of power will require storage systems such as batteries, hybrid PV and small hydro, and flywheel systems.
Customers	The annual growth rate from 2011 to 2016 was 0.9 %/year, and the growth rate of the number of customers is similar to the rate of population growth. This is due to the close to 100 % electrification rate and the fire at the Aimeliik power plant since 2012.
Electricity Tariff	Electricity prices in Palau are related to international petroleum product prices, but international prices of petroleum products are not expected to increase significantly in the future: in 2008, the first rate category for the household sector was USD0.33/kWh, but in 2017, partly due to the decline in petroleum product prices, it became USD0.17/kWh.

Source: 'The Project for Study on Upgrading and Maintenance of National Power Grid in The Republic of Palau' Final Report, p.6

¹⁶ Two 5MW diesel generators were provided through JICA's grant aid 'The Project for Enhancing Power Generation Capacity in the Urban Area in the Republic of Palau' (2012-2014). Approximately half of the power demand on both islands is met through this project.

The Palau Public Utilities Corporation (PPUC) is responsible for all electricity supply in Palau, which used to be responsible for electricity supply only, but merged its water supply and sewerage services in June 2013, when the new PPUC was formed. In the ex-post evaluation of the ‘The Project for Enhancing Power Generation Capacity in the Urban Area in the Republic of Palau’, it was judged that the operation and maintenance of the PPUC was adequate as there were no major problems in the PPUC's organizational structure, finances, and the operation and maintenance of the facilities, and a certain level of continuity was observed in the technical aspects as well.

4.2.2. Development Plan

In Palau, the National Energy Policy was published in 2010, which outlined the importance of energy and the need to improve its institutional management, and set a goal to promote environmentally friendly energy efficiency and the adoption of renewable energy sources and the reduction of fossil fuel imports. This goal was embodied in the draft Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change (UNFCCC) (COP21) held in Paris in 2015, which included an increase in the share of renewable energy generation to 45% by 2025.

The Government of Palau specified this proposal in its 2017 Palau Energy Roadmap, which aims to increase the percentage of renewable energy generation from grid-connected solar power facilities from only 1.6% as of 2019 to 45% by 2025. The main points of the roadmap are as follows.

- I. Survey of Wind Power Generation in Palau
- II. Survey of Solar Radiation and Solar Power Generation in Palau
- III. Analysis and Forecasting of Electricity Demand in Palau
- IV. Optimal Power Generation Systems for 2020-2025
- V. Amount of Investment Required
- VI. Power Generation Mix for 2020-2025
- VII. Reflections on the Roadmap

In addition, PPUC has formulated a Capacity Plan in 2020 with the aim of advancing the development of renewable energy. The plan outlines the current status of the power system, presents power generation options, focusing on the installation of IPP solar power generation facilities and storage batteries, and outlines the key system changes that will be required to promote renewable energy generation in the future. This is based on the ‘Project for Study on Upgrading and Maintenance Improvement of National Power Grid in the Republic of Palau’ carried out by JICA in 2017-2018.

In addition, to promote energy-saving initiatives at homes and offices, three types of National Development Bank of Palau's loan programs, including the Energy Efficiency Subsidy Program (EESP), the Renewable Energy Subsidy Program (RESP), and the RETRO - Energy Efficiency Subsidy Program (REESP). Have been set up. The EESP program provides subsidies of between USD3,000 and USD10,000 for the construction of homes with energy-saving measures, while the RESP program provides partial subsidies for the purchase and installation of energy-saving equipment and low-interest loans for the remainder (6% per year for up to 20 years). REESP, a derivative of EESP, is a small loan program for the renovation and improvement of existing homes (6% per year for up to 5 years). Together, these three programs may not have a significant macro impact on the country's overall electricity supply, but they have made some contribution to raising awareness of energy conservation among businesses and households.

4.2.3. Issues and Countermeasures

According to the PPUC, there are three main challenges in the power sector:

- Instability of power supply due to aging infrastructure facilities
- Lack of redundancy in the power grid
- Lack of flexibility in existing generation facilities (need to overhaul or replace existing generators or introduce new ones)

The second challenge is the lack of spare capacity in the power grid. The fact that there is only one transmission line in the section that links two power plants and supplies electricity to a large demand area, and that the substation within that section is dilapidated, is a major constraint in promoting the introduction of renewable energy. Therefore, it is expected that by increasing the spare power of the transmission system and looping the transmission lines in Babeldaob Island, the reliability of power supply will be greatly improved as no power outages will occur in the event of a transmission line accident at a certain point.

In addition, an ex-post evaluation of the JICA 'The Project for Enhancing Power Generation Capacity in the Urban Area in the Republic of Palau' conducted in 2017-2018 suggested that efforts to improve the capacity of existing engineers at the PPUC were not always sufficient and that it was important to establish and implement a training system for the staff, mainly engineers, to accumulate technical knowledge within the organization in the future, and thus, recruitment and training of human resources is also an important issue.

4.2.4. Direction of Cooperation

(1) Cooperation by Other Donors

In addition to Japan, cooperation in solar power generation has been obtained from the United Arab Emirates, New Zealand, Taiwan, and the EU, which are supporting the installation of solar panels on the roofs of buildings and installing solar power generation facilities connected to the power transmission and distribution networks. The total generating capacity of all these facilities is nearly 3MW.

(2) Needs for Cooperation by Japan

During the first half of the 2010s, Japan provided two diesel generators (5MW x 2 units) as part of ‘The Project for Enhancing Power Generation Capacity in the Urban Area in the Republic of Palau’, which replaced fire-damaged generators, and in the second half of the 2010s, Japan implemented a project to develop a plan to improve and maintain the power transmission and distribution systems, demonstrating the importance of enhancing the power transmission and distribution networks for the future adoption of renewable energy.

A stable supply of electricity, which is the basis of various industries and livelihoods, is also of great social significance, and has benefits in terms of environmental sustainability, energy security, and improving the external trade deficit by reducing fuel imports. While maintaining the stability of diesel power generation as a baseload power source, it will be important to support the expansion of renewable energy sources by enhancing the power transmission and distribution networks and storage facilities.

4.3. Developments in Key Industries

4.3.1. Industries in General

Since the economic situation has already been outlined, this section summarizes the main comments from the Bureau of Commercial Development, the Small Business Development Center (SBDC), and the Palau Chamber of Commerce as well as from the private sector assessment report published by ADB on the institutional framework needed for private sector development, industrial human resource development, SME development, and areas where private sector development could be promoted.

(1) Institutional Framework

Improvements deemed important to stimulate private sector activities were identified as the amendment to the Corporations Act, tax reforms and the promotion of business licensing.

[Amendment to the Corporations Act]

According to the ADB report published in 2017, Palau's corporations law is outdated and in need of prompt revision. The report pointed out the problems in conducting business, such as the mix of old and modern content with respect to company formation, the inefficiency of having the President approve all new companies, and the fact that all applications to search for company registration information have to be done on paper.

There are also businesses in Palau that are nominally owned by Palauans but are actually owned and operated by foreigners (commonly known as 'Fronts'), which has become a loophole in the foreign investment regulation. The problem for Palauans is that they are participating in the business without fully understanding their responsibilities and other requirements, which could carry various risks. However, the current company registration system makes it systematically difficult to extract such businesses and to identify the shareholders and those responsible for their representation.

In order to solve these problems, it is important to review the corporation law and other business-related legal systems and to establish measures to prevent loopholes in the foreign investment regulations through the computerization of the company registration system.

[Tax reform]

There is a recognized need to revise some tax policies to foster the private sector, including foreign private investment. The main ones were as follows.

Abolition of import tax and introduction of excise tax

The idea is to abolish the imposition of import tax on goods that cannot be produced domestically, as this would lead to higher domestic retail prices, and instead impose an excise tax

on alcohol, tobacco, imported products that can be produced domestically, and products that are harmful to health.

Abolition of the Gross Revenue Tax and introduction of a corporate tax on profits

The Gross Revenue Tax (GRT) is a 4% tax on business revenues that is based on the size of the company's revenue, regardless of its profits. This is a very burdensome tax for companies with large sales and low profit margins, and for the sake of healthy business growth, it is considered that a shift to a corporate tax on profits rather than on gross revenue is necessary.

[Acquisition of business license]

In Palau, the Corporations Act was amended by the Parliament in 2008 to make it necessary for small businesses with less than 10 employees and annual sales of less than USD2,000 to obtain a business license. However, in reality, the advantages of obtaining a business license are practically non-existent for businesses, and the majority of small businesses do business without a business license. There are no penalties for small businesses that operate without a license, and as a result, the government does not fully capture the reality of economic activities. It is also not leading to the collection of taxes, and therefore there is a need to increase the rate of business license applications.

As an incentive to encourage these businesses to apply for a business license, it would be effective to provide preferential measures for business licensees to improve the business environment, such as free training and other measures to improve the skills required for business execution and a special financial support system.

(2) Development of Industrial Human Resources

Because Palau is able to live and work in the United States under the Compact of Free Association with the United States, Palauans frequently migrate to Guam, Hawaii, and other places in the United States in search of better employment and educational opportunities and a higher standard of living. To that end, the shortage of labor (including skilled workers) within Palau is mainly provided by Filipinos and Bangladeshis. The exodus of Palauans overseas is perceived by the Palauan government to be primarily due to the wage gap between the United States and Palau. Within the country, the government sector is actually the largest employer, as it is perceived as more beneficial to serve in the government sector than in the private sector, including the availability of a pension system.

Within Palau, human resources are reported to be in short supply mainly in the following areas, which is indicative of the wide variety of human resources needed. In addition, managerial level human resources are needed in various sectors rather than simple workers.

- Professionals in the medical field
- Legal professionals in the government sector

- Management and skilled workers in the tourism sector
- Skilled workers in the construction industry
- Accounting
- Foreign language services

On the other hand, opportunities for adequate vocational training are limited in Palau, and it is perceived that it is difficult to improve skills. There is no government vocational training program, and Palau Community College (PCC), the only institution of higher education in Palau, offers more academically oriented programs, as discussed below. On the other hand, the training provided by the SBDC, while practical, is limited to basic content such as bookkeeping, cash flow management, and marketing, and is not a so-called vocational training course. Therefore, Palau does not have opportunities to train professional and technical personnel, leading to a shortage of these human resources. In addition, there is no established system of matching between employers and job seekers, and the recruitment of human resources has been limited to word of mouth and individual job openings, which may not always lead to the placement of appropriate human resources.

(3) Direction of Cooperation

(i) Cooperation by Other Donors

Cooperation on human resource development and retention is mainly provided by the United States, with the following two types of support.

● Workforce Innovation and Opportunity Act (WIOA) Program

Under the Workforce Innovation and Opportunity Act of 2014, funds provided by the U.S. federal government are primarily used to implement the following programs. The primary purpose of the program is to connect employers and job seekers.

- On-the-job training (OJT) program: WIOA and employers co-pay the cost of training and hiring individuals
- Work experience program: WIOA pays the full cost of training and employment until the worker is permanently hired by the employer
- Vocational/apprenticeship programs: Funding by WIOA for each individual until they complete the requirements for specific vocational and training services

Other programs include a six-week summer work experience program for individuals between the ages of 14 and 24.

● SBDC Support

The SBDC receives funding from the U.S. Small Business Administration to conduct workshops and other activities for the Palauan business community using business tools and

other tools used in the U.S. The SBDC also receives funding and technical assistance from Australia, Taiwan and Pacific Trade Invest (a trade, investment and tourism promotion organization under the framework of the Pacific Islands Forum).

(ii) Possibility of Cooperation by Japan

Based on the consultations with the agencies concerned, it would be useful to promote cooperation in the following main areas for private sector development.

First, in order to promote employment in the private sector,

- Establishment of a social security system, including pensions
- Create a job-matching system (including the use of ICT)
- Explore the possibility of introducing a vocational training program or certificate course
- Support for strengthening of programs and implementation systems provided by the SBDC, as needed

are considered to be important.

In terms of improving the business environment, it would be necessary to review the Corporations Act and related laws, including the computerization of company registration, and to promote the understanding of the actual situation and the efficiency of tax collection by encouraging the acquisition of business licenses.

4.3.2. Tourism

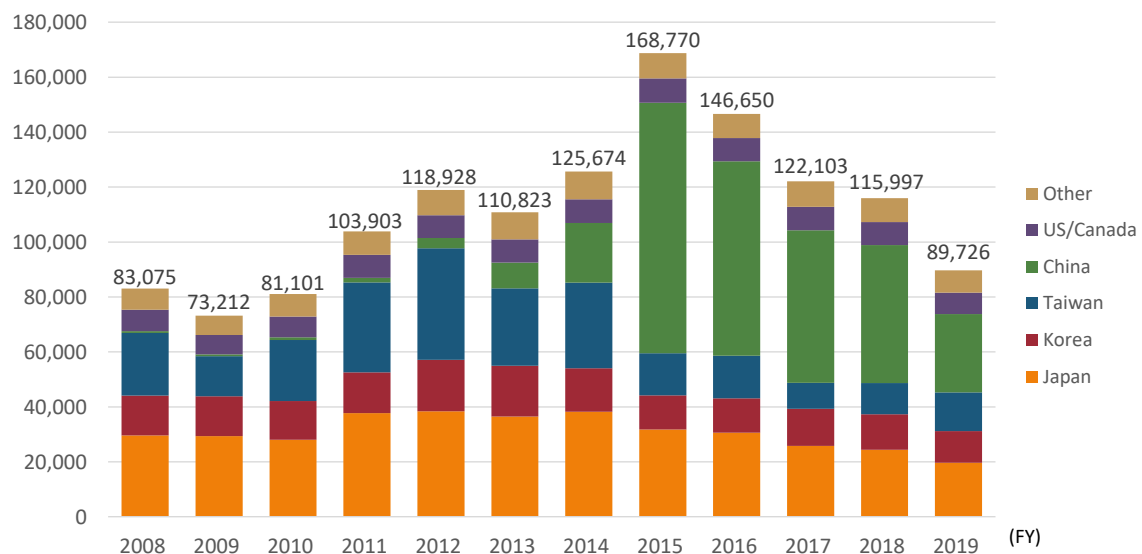
(1) Overview

Palau has been positioned as a high-end tourist destination, especially diving, for its unspoiled nature, with some sites listed as World Heritage sites. Tourism is Palau's largest major private sector industry and has contributed to the development of the Palauan economy, including job creation (direct employment alone accounts for about 40 percent of total private sector employment), economic diversification, and tax revenues. However, in the mid-2010s, the increase in the number of tourists, especially from China on budget package tours¹⁷, led to a sharp increase in the burden on the country's various infrastructure and natural environment. Per capita spending during their stay in Palau was also low, and there was a rapid expansion of the market from its previous high-end market to a mass tourism market. In response to this change, major concerns were expressed within Palau in terms of the appropriate regulation and management of tourism and its impact on the environment and society.

In response to this change, the Government of Palau took steps to limit the number of tourists from China to some extent by curbing charter flights from Hong Kong and Macau. The Chinese

¹⁷ In a typical tour format, a large number of visitors pay for the entire tour in their home country in advance, stay in hotels with Chinese capitals while in Palau, and then return home with the itinerary arranged by a Chinese tour operators.

government, which does not allow tours to visit the countries with which it does not have diplomatic relations, also issued a notice in 2016 that it would not allow tours to Palau. As a result, the number of tourists from China declined significantly since its peak in 2015, from 91,174 in FY2015 to 28,504 in FY2019. However, as a result of a period of surge in tourism from China, various infrastructure in the country, including hotel rooms, became tighter, and the number of tourists from other countries declined and has not recovered since then. It has continued to decline. As a result, the overall number of visitors declined by 47%, from 168,770 in FY2015 to 89,726 in FY2019.



Source: Graduate School USA data

Figure 11. Number of Visitors to Palau by Country

In terms of tourist spending, it is observed that although Palau's tourism strategy is to attract high value-added tourists, per capita spending has not increased that much in reality.

Overall, Palau's tourism revenue has shown a similar trend to that of the number of tourists: from USD67 million in 2009, it has grown steadily since 2010 in line with the increase in the number of visitors from Taiwan and China, reaching USD148 million in 2015, 2.2 times higher than in 2009. However, it has since entered a downward phase with the decline in the number of tourists, falling to USD102 million in FY2019, which is lower than the 2012 revenue level.

Spending per visitor has not really increased despite the Palau's policy of promoting high-end tourism. The length of stay of visitors has hovered between 4.6 and 5.2 days between FY2008 and FY2019, and has remained fairly constant at around 5 days. Spending during that period was around USD900 between FY2008 and FY2012, and has increased to the USD1,000 level on average since then, with the value of tourism spending per person per day exceeding USD200. However, consumer prices have also increased by more than 20 percent over the same period and are not considered to have increased in real terms.

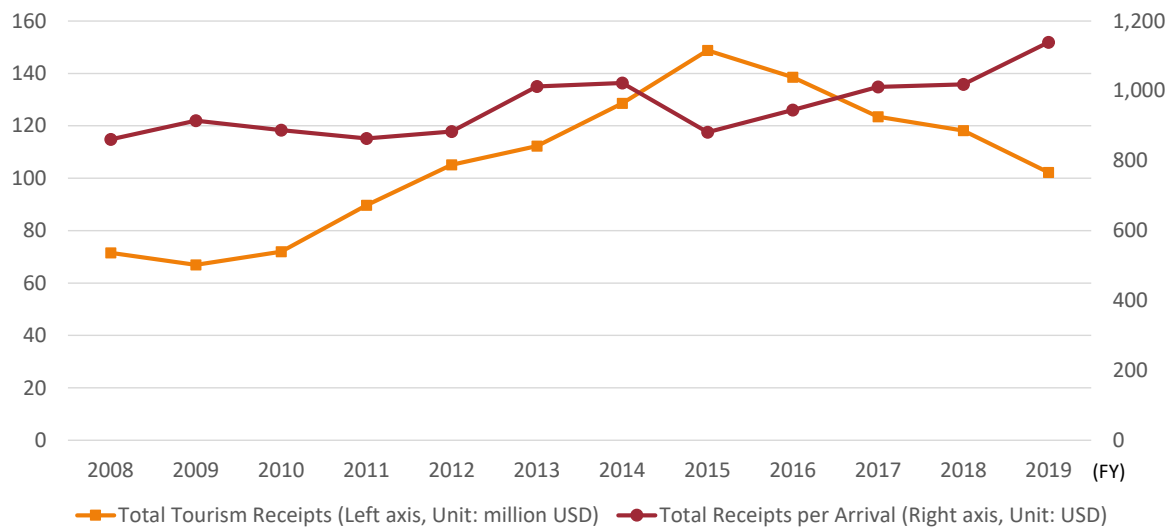
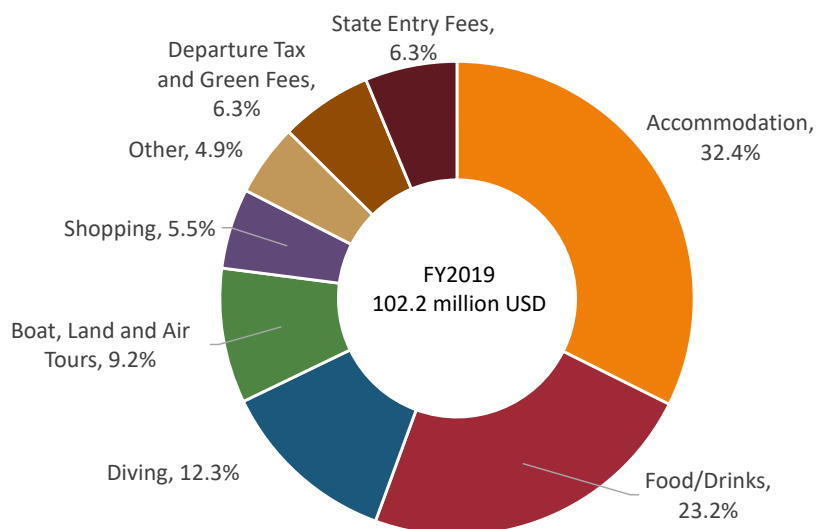


Figure 12. Total and Per Visitor Tourism Revenues in Palau

The percentage of spending by visitors to Palau during their stay (FY2019) is shown in the figure below. More than half of the total amount was spent on accommodation and food and drink, with the rest going to diving, various tours and shopping, in that order. Eighty-eight percent of the total amount comes from the private sector, while 6% goes to the Departure Tax and Green Fees as well as the State Entry Fees, which also contribute to government revenues.



Source: Graduate School USA Data

Figure 13. Percentage of Spending by Visitors to Palau (FY2019)

(2) Development Plan

In Palau, the Palau Responsible Tourism Policy Framework (2017-2021) and Action Plan was released in December 2016. The framework aims to provide visitors with a ‘Pristine Paradise’ at all times to ensure the long-term benefits and sustainability of tourism, and its vision is ‘A Pristine Paradise. Palau for everyone’. This vision is supported by the following six Targets, each of which has a Goal and Objectives.

Table 27. Goals of the ‘Palau Responsible Tourism Policy Framework’

	Target	Goal	Objective
1	Responsible Tourism Awareness and Alignment is a National Priority	Tourism development and management is prioritized, organized, and coordinated across national and local government sectors.	1.1 National and state governments are united on the central priority of engaging responsible tourism policy toward the fulfilment of Palau’s social, economic, environment, and cultural goals. 1.2 Tourism development, management, enforcement, and marketing is coordinated between national and state governments and private sector organizations. 1.3 The collection, management, and public dissemination of tourism data is formalized. The cooperation of all public and private sector data sources is required.
2	Palau's Visitor Economy is Responsibly Managed	Visitor-to-resident ratio reflects sustainable carrying capacity.	2.1 Sustainable carrying capacity ranges are established, determining acceptable levels of environmental, cultural, and community impacts. 2.2 Airline access is closely aligned with carrying capacity, accommodation stock, and targeted markets. 2.3 User fees levied appropriately assist in reduction of low-end markets. 2.4 Strengthened visitor communication and outreach ensures that all visitors are provided with clear and compelling information about respectful, appropriate behavior and environmental dos and don’ts.
3	Responsible Product Development Attracts Targeted High-Value Markets	Diverse, high-value, low-impact consumer segments are the core of Palau’s visitor industry.	3.1 The development of accommodations, services, and experiences that meet the market demands and expectations of high-value visitors such as Free Independent Travelers (FITs) and targeted niche markets such as birding, soft adventure, cultural heritage, private cruising, ecotourism, etc., is prioritized. 3.2 Marketing activities focus on a variety of high-performing, niche and diverse geographic source markets in pursuit of highest-value customers—those who stay the longest and spend the most.
4	Palau's Visitor Experience is the Living Brand	The complete visitor experience reflects the Pristine Paradise. Palau brand.	4.1 Standards of quality, authenticity, health, safety, and security are established, incentivized, and enforced for all tourism sector products and services. 4.2 ROP policies and practices support Palau’s identity as a pristine conservation nation.
5	Palau's Tourism Industry Provides Improved Visitor Yield	Responsible tourism practices reflects optimal retention of revenue in the local economy.	Guidelines are in place for the evaluation and approval of tourism development projects, which are evaluated and approved based on their contributions to the following goals: - Maximum local ownership and participation, Strengthening linkages with other sectors of the economy, Preservation and promotion of Palau’s culture and heritage, Preservation and enhancement of the environment, Utilization of local resources, Local job creation, Increased national revenue and net foreign exchange earnings 5.2 A culture of Palauan tourism entrepreneurship is developed and fostered 5.3 Agriculture and fisheries sectors and markets are strengthened to improve local entrepreneurship, food security, and protection for specified marine life. 5.4 Public-private partnerships support a local Palauan-made production

			industry, including the development of creative industries, with market links. 5.5 Raise local profile and preparation for tourism careers.
6	Palau's Tourism Development is Community-Driven	Communities are actively engaged in responsible tourism planning and decision making.	6.1 National industry partners work together to educate and inform local media and communities about Palau tourism success stories and positive impacts. 6.2 A Tourism Council is established in each state to engage bottom-up responsible tourism development and follow through. 6.3 Public-private partnerships focus on community-driven cultural and terrestrial nature-based tourism outside of Koror.

Source: Palau Responsible Tourism Policy Framework

It can be observed in the tourism policy framework that tourism should be positioned as an important industry, and that it should be promoted while taking into account not only the economic aspect, but also the environmental and cultural aspects. In addition, the plan does not allow low-priced mass tourism, but aims to promote tourism by accepting high-value (high-spending) visitors within the scope of environmental and social acceptability. Furthermore, it emphasizes harmony with the Palauan economy and society for sustainable development, and aims to promote the regional development through the active involvement of communities across the country, rather than being an area of activity for a small group of businesses and foreign capital.

As of 2020, the tourism industry has been hit hard by the spread of COVID-19 (as described later), but as the spread of the virus is brought under control and the tourism industry recovers, these ideas and goals are expected to be reemphasized¹⁸.

(3) Issues in Human Resources and Infrastructure for Tourism

Human Resources in Tourism

The number of workers directly employed in the tourism industry is 2,552 (FY2019), of which Palauans make up only a quarter. The remaining three quarters are non-Palauan, characterized by a high dependence on foreign workers (wages per employee are 45% higher for Palauans). While the shortage of human resources at the management level is indicated in a separate section, it is recognized that there is a need to improve the capacity of Palauans in the areas of tourism product development, data development, promotion, planning and implementation in order to ensure that the benefits of tourism can be reaped in the country.

Only the Palau Tourism and Hospitality School of Excellence (PCC) has a tourism human resource development program in Palau, which is not able to meet the demand for human resources. There is a need to collaborate with the Belau Tourism Association, the Palau Chamber of Commerce, and the Bureau of Tourism, Ministry of Natural Resources, Environment and Tourism to train and retain the human resources needed in the industry.

¹⁸ As of August 2020, the content of the post-COVID-19 tourism recovery plan was not available, as it was being discussed and formulated by the agencies involved.

Tourism Infrastructure

In order to attract high-spending tourists, it is important to improve and maintain a high level of satisfaction with their experiences in Palau, and in order to do so, the provision of services through high quality infrastructure facilities is essential. In this study, the agencies concerned indicated that there is room for improvement in infrastructure such as air and sea transportation, roads, public transportation, water supply and sewerage, waste management, electricity and telecommunications.

Airport facilities are currently being upgraded through the PPP project, and it is important to set up value-added markets for air routes, and to open and maintain them with those countries. With regard to maritime transport, it is necessary to develop facilities for yachts, cruisers and other vessels to dock at an appropriate cost. In addition, since public transportation does not exist in Palau, it is necessary to study the possibility of introducing it and to train human resources for this purpose. Other areas have also improved in recent years with the cooperation of donors, but further improvement and maintenance of these facilities, including operational aspects, is considered important.

(4) Direction of Cooperation

In addition to Japan, the U.S., Australia, Taiwan, and India are providing grant aid and technical cooperation to Palau in the tourism-related field. In terms of future cooperation from Japan, expectations were expressed in the following areas:

- Infrastructure development: Establishment of sidewalks in urban roads, installation of toilets in central Koror, and improvement of the tourist area in the southern lagoon of Koror.
- Tourism human resource development

4.3.3. Agriculture

(1) Overview

In Palau, the cost of food production exceeds the cost of imports and sufficient agricultural workers cannot be recruited. For these reasons, agricultural production is not actively undertaken and the domestic agricultural production alone is not sufficient to meet the domestic demand. It is also 3% of GDP (2016) and significant increase in production cannot be expected in the future.

According to the Palau Bureau of Agriculture, Palau has a cropped area of 2,456 hectares (ha), accounting for about 6% of Palau's land area. Of this, 52% is under agroforestry, 7% is under cultivated wetlands and 41% is under cultivation. By type of agriculture, 60% of agricultural production is subsistence farming, 35% is for partial sale and 5% is for full sale, indicating that subsistence farming activities are more common than those for market distribution. Major crops include taro, cassava, sweet potato, yam, banana, papaya, coconut, coconut, beetle nut (betel nut), and breadfruit traditionally, while beans, eggplant, pumpkin, cabbage, and watermelon were introduced to Palau more recently.

(2) Development Plan

The Bureau of Agriculture Strategic Plan FY2014-2019, covering the period 2014-2019, had been developed and implemented by the Bureau of Agriculture in Palau, and during the time of this study, a version of the plan for the period FY2020-2025 was under development. The plan had set goals and objectives in the areas of office management, horticultural crops and extension, livestock, forestry and biosecurity. The main strategy for agriculture (horticultural crops and extension) is summarized in the table below.

Table 28. Bureau of Agriculture Strategic Plan
(Horticulture section partially extracted and summarized)

Goal	Objective
1. Promote and increase production of traditional and non-traditional crops to increase sustainable livelihoods and food security	1. Increase production of food crops to address food security and family livelihoods.
	2. Work with Ministry of Education to introduce agriculture program to 10 schools in the next five years.
	3. Increase adoption of new variety and species of fruit crops and vegetables (and growing techniques including fertilizers, soil improvement and so on)
2. Promote consumption of locally grown agricultural products	1. Work with the Farmers' Association to establish a weekly farmers' market and an annual agricultural fair.
	2. Work with Ministry of Health to promote locally grown agricultural products.
	3. Maintain and provide statistics on agricultural production, farm size and numbers, and agricultural commodities in all market outlets.
3. Improve quality and quantity of horticulture and extension services	1. Ensure well-trained extension officers.

Source: Bureau of Agriculture Strategic Plan (FY2014-2019)

(3) Key Issues and Countermeasures for Agricultural Development

As a general challenge, Palau's low production of fruits and vegetables has not been able to adequately meet the demand by the public and tourists. As a result, as with other food products, the country is dependent on imports, and there have been instances where vegetables and fruits temporarily disappear from stores when shipping schedules are delayed. In addition, there are not a few foreigners (Filipinos and Bangladeshis) working in agricultural production, and the industry is not popular, especially among young Palauans.

According to the Palau Bureau of Agriculture, various aspects of production, distribution, information, and soil and pest management have been identified as challenges to promoting agriculture. Along with the measures to be taken, the following table shows the challenges.

Table 29. Issues and Policies for Agricultural Development

Issues	Measures
Insufficient market	Construction of central market
Insufficient export competitiveness	Establishment of subsidy programs by the government
Lack of plant seedlings	Investment in the development of tissue culture laboratories and nursery facilities
Low Production volume	Enhancing training for farmers and promoting organic farming
Lack of market information	Utilization of ICT for awareness-raising activities
Expensive input materials	Establishment of subsidy programs by the government
Pests and diseases	More training for farmers and more stringent biosecurity measures
Inadequate soil and water management	Enhancing training for farmers and promoting organic farming
Lack of technical know-how	Improve training and extension services for farmers
Lack of post-harvest processing techniques	Improved training for farmers

Source: Information provided by the Bureau of Agriculture

Information sharing among farmers, dealers and government is not sufficient, especially for crop and market information, and it is important to use social media to establish a mechanism to communicate information and share good practices. This includes establishing a mechanism for investors and owners to share information about arable land that can be used for agriculture.

(4) Direction of Cooperation

(i) Cooperation in Agriculture by Other Donors

As of July 2020, the following donor-supported projects are mainly being implemented in the agricultural sector in Palau.

- (a) Secretariat of the Pacific Community (SPC): a project to encourage women's participation in the implementation of organic farming and to promote sustainable livelihoods for women in agriculture.
- (b) Food and Agriculture Organization (FAO): a project aiming at strengthening biosecurity preparedness capacity
- (c) Taiwan Technical Mission: promotion of vegetable cultivation for urban residents in cooperation with the Bureau of Agriculture, Palau Community College, Koror State, etc.
- (d) Taiwan: A project to increase the production of pork, poultry meat and eggs
- (e) International Atomic Energy Agency (IAEA): Support for strengthening fruit fly control to increase fruit production

(ii) Direction of Agricultural Cooperation by Japan

In Palau, there is little domestic agricultural production and a heavy dependence on imports; the number of Palauan farmers is very small and unpopular; there is almost no system of agricultural management guidance; soil improvement is difficult and pest control is difficult; and in addition to the lack of information network that connects producers and consumers, there is also a lack of an adequate physical trading market. In this way, there are various issues and it is essential to take a comprehensive view of various aspects when considering specific cooperation.

Considering the small size of the country and its susceptibility to the effects of climate change, it is necessary to secure the production volume to satisfy domestic consumption (by tourists and citizens) of agricultural products while minimizing the environmental burdens, and to develop high value-added products to be used as export crops in the future, based on sustainable agriculture. In the future, it is important to make the industry economically self-sustainable and to promote the private sector vitality. In providing support, it is considered important to make the industry economically self-sustainable in the medium to long term and to promote the vitality of the private sector.

4.3.4. Fisheries

A recent study on the fisheries industry in Palau was conducted by the Marino Forum 21 in 2019¹⁹ to understand and analyze the latest situation of the industry. This section summarizes the current status of the fisheries industry, its challenges and directions for cooperation based on the information obtained from the report of the survey and the responses to the questionnaire to the Bureau of Marine Resources, Ministry of Natural Resources, Environment and Tourism of Palau.

(1) Overview

The fisheries sector accounts for 2.2 percent of total GDP (2018), and there has been no significant change in its share in recent years. Characteristically, subsistence in-reef fisheries and small-scale offshore fisheries account for the majority of the sector, while large-scale operations within the Exclusive Economic Zone (EEZ) have been carried out mainly by foreign-flagged vessels.

According to the 2015 Census, 1,751 people, or nearly 10% of the total population, were engaged in the fishery, which appears to be a large proportion of the population. However, a breakdown shows that 22 people (1%) are dedicated to ‘selling’ their catches, and a total of 315 people (18%) are engaged in a combination of self-consumption and selling, showing that a low percentage of people are selling their catches in some form or another. About 80% consume their catches on their own.

Since no statistics on fish catches are available in Palau and no quantitative assessment of the

¹⁹ ‘Report on Regional Fisheries Issues Extraction Project, in the Regional Fisheries Development Study (FY Heisei 31)’ (https://www.maff.go.jp/j/kokusai/kokkyo/yosan/pdf/R1_15_001.pdf)

amount of fish caught has been conducted, the actual situation is unknown. According to the estimates by the Marino Forum 21, based on data obtained from the Palau Statistical Yearbook and fish collection and sales offices, the amount of landings (sales) in 2018 was about 103 tons, down by half from about 214 tons in 2010. For the offshore fishery by foreign vessels, the total catch in 2018 was 4,347 tonnes, according to data from the Bureau of Marine Resources, but as discussed below, this catch is expected to decrease significantly after 2020.

(2) Development Plan and Policy

No development plan specific to the fisheries sector has been formulated; rather, the Palau 2020 National Master Development Plan, the national plan, contains the fisheries sector. The directions for the development of the fisheries sector continue to be effective in terms of a) sustainable development of the industry, b) participation of the public in fisheries-related activities, c) creation of an enabling environment for sustainable development, and d) management and protection of resources for all users, as indicated in the plan.

In Palau, although no stock assessment has been conducted, the fisheries resources within the reef have been analyzed as declining, and the Palau National Marine Sanctuary Act (PNMSA), which came into effect in January 2020, states that in terms of environmental protection and resource security, operations are to be limited to 20% of the waters in the Domestic Fishing Zone (DFZ) designated by the Government of Palau²⁰. Domestic fishermen in Palau are mainly engaged in the reef fishery, with only 16% of fishermen operating offshore. The government has organized stakeholders to promote offshore fishing in the DFZ and in May 2020, the country's first national fisheries association, Belau Offshore Fishers' Inc (BOFI), was established.

(3) Major Issues in the Promotion of the Fisheries Industry

The following challenges have been identified in Palau's fisheries industry, mainly in terms of legislation, supply chains, infrastructure, access to finance and capacity building.

²⁰ The measures have been fully implemented since January 2020 after a four-year transition period, during which time Chinese and Taiwanese fishing vessels operating in Palauan waters have ceased operations and withdrawn.

Table 30. Key Issues in Palau's Fisheries Industry

Issues	Major Contents
Laws and Regulations	Laws and regulations on the environment are outdated. There is currently a movement to revise them, but even if they are revised, there is a high probability that they will not be able to be met at the stage of implementation due to the lack of personnel and budget.
Supply Chain	There is no consistent and stable mechanism to connect supply and demand.
Infrastructure	The limited number of vessel berthing points (fishing ports) and fish aggregating devices is a barrier to the development of the industry.
Access to Finance	Accessing funds for fishermen is difficult and cumbersome in terms of procedures.
Capacity Building	Capacity is lacking across the sector in all respects, including marketing, cold storage, fish handling and supply, fishing gear and management.

Source: Information provided by Bureau of Marine Resources

Among these challenges, supply-side and distribution network challenges can be pointed out as issues related to the domestic fish supply chain.

On the supply side, many fishermen in Palau are engaged in small-scale, subsistence fishing operations, and the supply of fish is too small and unstable for commercial fishing. Therefore, the promotion of off-shore fishing beyond the reef is necessary to ensure a stable supply of fish, and the government is trying to promote the development of fisheries from within the reef to outside the reef. However, in addition to the lack of technology for offshore fishing, procuring fishing vessels and gear for this purpose is difficult from a financial perspective, and there are many challenges to overcome.

In Palau, where many tourists visit every year, there is always a demand from hotels and restaurants for a constant and steady supply of seafood. However, there is only one fisheries cooperative, the Northern Reef Fisheries Cooperative (NRFC)²¹, which was established with the support of a U.S. NGO at the northern end of Babeldaob Island, and there is no system for fishermen to jointly market their catch. There is only one small fish market in the country, in Koror, and the supply is unstable. There are only two supermarkets that deal in fresh fish (with adequate freezing and refrigeration facilities) and they mostly deal in frozen imported fish. On the other hand, the domestic cold chain is not well developed and the public bus network is not well developed, which means that they need their own refrigerated transport vehicles to transport fish from all parts of the country. Against this backdrop, hotels and restaurants are forced to purchase small amounts of fish from some fishermen individually and on an irregular basis, making it difficult to procure marine products on a regular and stable basis.

Regarding aquaculture, in Palau, the Palau Mariculture Demonstration Center (PMDC) has been carrying out aquaculture of giant clams for many years, and the JICA grant aid 'The Project for Renovation of Palau Mariculture Demonstration Center Facility' (FY2016), has enabled the facility

²¹ A fishing cooperative with 74 members based in Ollei District, Ngarchelong State. The majority of the members of the association are part-time fishermen and they sell some of their catch to schools, but have not been able to establish sales channels to the more populous Koror State and other areas, and their sales are only in the neighborhood.

to be renovated, and technical cooperation by experts from the Overseas Fisheries Cooperation Foundation has also made it possible to stabilize seed and seedling production and increase production in recent years. As a result, in addition to increasing domestic consumption, especially by tourists, the potential for the fish as an export product has increased. However, whether or not it can actually become a promising export product for Japan remains to be seen, as the facilities for testing for shellfish poisoning are insufficiently developed and the market for the giant clams is small in Japan. Other than this, the only other aquaculture activity is a small-scale aquaculture of the fish called rabbitfish by a Taiwanese trader and the raising of ornamental fish by an Australian citizen on a private basis.

(4) Direction of Cooperation

(i) Direction of Fisheries Promotion by the Government of Palau

The Government of Palau's top priority in the future direction of fisheries promotion is to promote offshore fisheries and improve the capacity of fishermen to carry out commercial fishing activities. Specifically, the following items are to be promoted with priority.

- Securing fishing vessels that can use NRFC and BOFI
- Securing and deploying fish catching equipment
- Training for fishing boat captains and training on how to use fish aggregating devices and maintain the quality of the fish landed.

Although Palau has had a transitional period since 2016 for the full implementation of fishable area restrictions under the Palau National Marine Sanctuary Act, no measures have been put in place until January 2020 to promote offshore fisheries in the country, nor has there been any capital investment for the domestic market. Recent developments have just recognized the need to organize associations and support for those associations, and the implementation of the above three items is important for the commercial development of the offshore fishery.

(ii) Direction of Fisheries Cooperation by Japan

Japan is the only country in Palau that has been providing large-scale fisheries cooperation, except for the partial support from Taiwan. As mentioned above, the current state of the fisheries industry in Palau and the challenges it faces are quite diverse. For the stable development of the Palauan economy, it is necessary to establish a system that can provide a stable supply of fisheries products to tourists and the people of Palau for the future.

Based on the studies conducted so far and the direction of fisheries promotion by the Palau Bureau of Marine Resources, the following cooperation in a step-by-step manner to increase fish catches and improve the distribution network will help achieve a stable supply of fisheries products in the domestic market (and some exports).

- Development of offshore fisheries:
 - Technical cooperation on the use of fish aggregating devices and ensuring the freshness of fish catches (including the provision of fishing boats and fishing equipment).
- Improved distribution network:
 - Organizing fisheries associations, supporting the establishment of a joint collection and sales system, and centralizing information on consumers.
 - Establishment of a joint collection and sales system, and the establishment of a stable supply system through the commencement of trading with consumers.
 - Technical guidance on the construction and operation of the fish market

4.4. Education and Health

4.4.1. Education

(1) Overview of the Sector and Development Plan

1) Development Plan

As a development plan for the education sector, the Education Master Plan (2006-2016) has been formulated. In the development plan, five priority areas are set: (1) governance and policy setting, (2) curriculum and instruction, (3) school administration and management, (4) personnel management, and (5) facilities and support services. In addition, strategic objectives, major activities to achieve the objectives, expected costs, timeframe and others are specifically stipulated in the development plan. As of August 2020, a successor development plan has not yet been set.

2) Education System

The education system in Palau consists of compulsory education from grades 1 to 12, which is from primary education (elementary school) to secondary education (high school), as stipulated in the Constitution. In addition, there are preschool education such as kindergarten and post-secondary education such as college. Elementary schools are scattered throughout Palau and more than half of the high schools and Palau Community College (PCC) are located in Koror.

Table 31. Education System and Schools in Palau

Education	School / Level	Grade	Age	No. of public schools	No. of private schools
Child Education (ECCE : Early Childhood Care and Education)	Pre-School and Kindergarten	P-K	3 ~ 5	1	3
Primary	Elementary	1 ~ 8	6 ~13	17	2
Secondary	High School	9 ~ 12	14 ~17	1	4
Post-Secondary	College	13 ~	18 ~	1	-

Source: Materials provided by the Ministry of Education

The gross enrollment rate²² has exceeded 100% from 2014 to 2017 in both primary education (elementary school) and secondary education (high school), so it can be said that the necessary compulsory education has been broadly provided to Palauan citizens. The literacy rate is also high as it was 97.1% for the entire population in the census conducted in 2015.

²² The gross enrollment rate is the ratio of people who are actually educated regardless of age to the total population of the age to be educated at a certain level of education.

Table 32. Gross Enrollment Rate in Palau

Elementary Education									
Year	Enrollment (age 6-13)			Population Estimate (age 6-13)			Gross Enrollment Rate (%)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
2014	1,141	1,014	2,155	1,005	891	1,896	113.5	113.8	113.7
2015	1,159	1,021	2,180	993	894	1,887	116.7	114.2	115.5
2016	1,099	986	2,085	981	904	1,885	112.0	109.1	110.6
2017	1,127	1,053	2,180	966	904	1,870	116.7	116.5	116.6
High School Education									
Year	Enrollment (age 14-17)			Population Estimate (age 14-17)			Gross Enrollment Rate (%)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
2014	534	555	1,089	474	444	918	112.7	125.0	118.6
2015	512	534	1,046	479	441	920	106.9	121.1	113.7
2016	512	476	988	494	444	938	103.6	107.2	105.3
2017	529	565	1,094	510	449	959	103.7	125.8	114.1

Source: Materials provided by the Ministry of Education

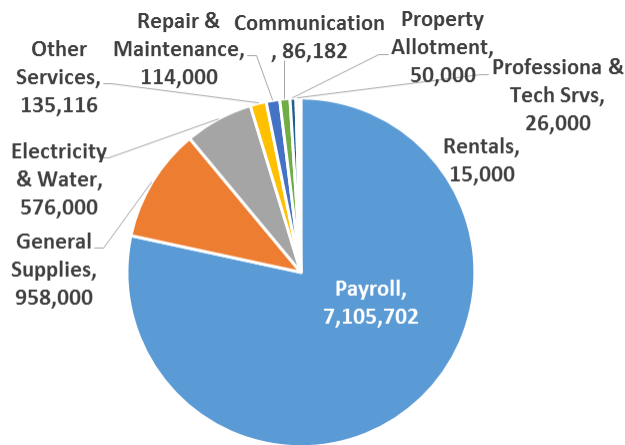
It is characteristic that the curriculum in primary education incorporates the Singapore Mathematics standards and the U.S. Common Core standards²³ for both English and Mathematics. In the curriculum of private primary schools, it is mandate to teach five subjects: Mathematics, Science, English, Social Studies and Palauan Studies. In secondary education in Palau High School, which is the only public school attended by about two-thirds of high school students in Palau, and four other private schools, the curriculum includes the same five major subjects with those of primary education, as well as Health, Physical Education, Career Academy courses and others. The Career Academy courses provide classroom and hands-on learning opportunities in subjects such as Agriculture, Automotive, Business Information, Construction, Health, Liberal Arts, and Tourism and Hospitality as part of student career preparation.

The Palau Community College (PCC), Palau's only higher education institution, offers associate degrees in a two-year course and certificate programs. In the year of 2019-2020, 444 students are enrolled, including international students from Micronesia.

3) Educational Budget

The total budget of the Ministry of Education in 2020 is about USD9 million, of which 78% is payroll to teachers and others, followed by general supplies of 11%.

²³ The unified education standard across the United States



Source: Materials provided by the Ministry of Education

Figure 14. Educational Budget of the Ministry of Education in 2020

Regarding a scholarship program for students receiving higher education overseas, the Palau National Scholarship Board provides the Palau National Scholarship Program, which mainly supports admission in the fields of Medicine, Engineering, Law, Education and Special Education. As of June 2020, 260 students have received the scholarship program and are studying in tertiary institutions abroad. The Palau National Scholarship Program also offers the Palau Fellowship Award for students in their junior and senior year of university, and provides paid internship opportunity for them. Moreover, scholarship programs from foreign governments such as Japan, Australia, New Zealand and Taiwan, and private companies such as IP & E Scholarship are also available.

Table 33. Annual Appropriation of the Palau National Scholarship Board

		Amount (USD)
Administrative Fund	-	105,000
Program Fund (e.g. scholarships, students loan, internship)	Fall semester	949,000
	Spring semester	949,000
Total	-	2,003,000

Note: Of the program fund, USD100,000 is for internships program

Source: Materials provided by the Ministry of Education

4) Palau Community College: PCC

PCC is a two-year college founded in 1969 and is the only higher education institution in Palau. The number of students enrolled in the past five years has been around 1,100 to 1,500 (every year), and the number of students who actually obtained a degree was 60 to 120 (every year) in the past five years.

PCC provides relatively wide range of programs such as 21 degree programs and 12 certificate programs with the features of vocational training. As of June 2020, the College is in the process of

developing a baccalaureate degree program in Science.

With regard to the partnership with overseas educational institutions, PCC has partnered with San Diego State University to make it possible for students to pursue their bachelor's and/or master's degree in the university. Moreover, there are 18 overseas sister schools of PCC, including Ryukyu University in Japan.

Table 34. Programs Provided by PCC (Degree Programs and Certificate Programs)

Degree Programs			
No.	Name	No.	Name
1	Agricultural Science	12	General Electronics Technology
2	Air-Conditioning & Refrigeration	13	Information Technology
3	Automotive Mechanics Technology	14	Liberal Arts
4	Business Accounting	15	Library and Information Services
5	Business Administration	16	Nursing
6	Criminal Justice	17	Office Administration
7	Community & Public Health	18	Palauan Studies
8	Construction Technology	19	Small Engine and Outboard Marine Technology
9	Education	20	Science, Technology, Engineering & Mathematics (STEM) Disciplines
10	Electrical Technology		
11	Environmental/Marine Science	21	Tourism & Hospitality
Certificate Programs			
1	General Agriculture	7	Carpentry
2	Horticulture	8	Law Enforcement
3	Automotive Air-Conditioning Servicing	9	Commercial/Industrial Wiring
4	Engine Servicing	10	Motor/Motor Control
5	Power Train Servicing	11	Consumer Electronic Technology
6	Under Chassis Servicing	12	Industrial Control Technology

Source: Materials provided by PCC

(3) Challenges and Countermeasures

According to the Ministry of Education of Palau, there is a need for further training and guidance for teachers, especially in the fields of Mathematics, Science and Physical Education. In addition, in secondary education in high schools, many teachers of Mathematics and Science are currently hired from the Philippines, but the Ministry is interested in receiving teachers and experts from Japan such as the JICA Overseas Cooperation Volunteers. Inexpensive salaries in Palau and the exodus of talented human resources overseas were also stated as challenges, as well as a challenge that many students who used scholarships to obtain higher education in the U.S. and other countries and acquire knowledge and skills do not return to Palau immediately after graduation but often find employment opportunities overseas.

(4) Direction of Cooperation

The Ministry of Education in Palau expressed a desire to dispatch JICA Overseas Cooperation Volunteers and other experts to provide training and guidance to teachers in the fields of Mathematics, Science and Physical Education, as mentioned above, as well as to dispatch Palauan teachers to Japanese educational institutions for study tours. In addition, support for the provision of educational and vocational training materials and equipment, for such as automotive technology and electrical engineering, were also mentioned as possibilities for cooperation.

According to the PCC, they are preparing for the establishment of a baccalaureate degree program in Science, so they would like to expect to receive experts in this field. In addition, providing scholarships from the Japanese government or Japanese universities for PCC students to study in Japan after they have earned necessary credits at PCC is also stated as possibilities for cooperation.

4.4.2. Health

(1) Overview of the Sector and Development Plan

In Palau, health care services are provided by the Ministry of Health and Non-Communicable Disease Unit under the Ministry.

Table 35. Implementing Agencies of Health Care Services in Palau

Provider	Role and Situation
Ministry of Health	The Ministry of Health consists of three bureaus (Bureau of Hospital & Clinical Services, Bureau of Public Health Services, and Bureau of Nursing Services) and Hospital Administration & Support Services
Non-Communicable Disease Unit ²⁴ (Non-Communicable Disease Program)	The Non-Communicable Disease Unit (Non-Communicable Disease Program) is responsible for addressing the non-communicable disease issues in Palau

Source: JICA report on maternal, child and community health in the Pacific region (April 2020)

Public medical institutions that provide health care services include the Belau National Hospital, which is a major medical facility in the country, four community centers called Super Dispensaries, and four satellite dispensaries. Regarding human resources in the field of health care services, the number of registered doctors in 2019 was 34, the number of registered nurses was 81, and the population per doctor was 554 (Statistical Yearbook of Palau 2019), so it is difficult to say that medical staff are secured enough in Palau.

Regarding the development plan of health sector, the Ministry of Health Strategic Plan 2014-2018 has been formulated with five strategic priorities: 1) providing accessible and quality patient-centered hospital services, 2) providing accessible and quality primary health and preventive services, 3) ensuring the development and maintenance of effective partnerships, 4) valuing the people and supporting their growth and development, 5) accountability of government and support

²⁴ It is under the Bureau of Public Health Services of the Ministry of Health.

services, and ensuring sustainability are stated.

In addition, in order to reduce the preventable burden of non-communicable diseases in Palau, the ‘Non-communicable Disease Prevention and Control Strategic Plan of Action (2015-2020)’ has been formulated with specific objectives and strategic actions in five areas: 1) reducing tobacco consumption, both smoking and chewing tobacco with betel nut; 2) reducing harmful alcohol use; 3) reducing physical inactivity; 4) improving nutritional intake; and 5) reducing prevalence of metabolic risk factors that precede the major non-communicable diseases.

The status of health expenditure is shown in the table below, and it shows that the total health expenditure per capita is increasing year by year. In addition, the ratio of public health expenditure to total government expenditure is increasing year by year, and has been around 17% from 2016 to 2017. It is not clear from the collected data in this survey why the proportion of public health spending remains high. On the other hand, the Palauan government has agreements with hospitals in Taiwan, the Philippines, and Hawaii, and patients with severe illness and those in need of advanced medical care such as cancer treatment are transferred to those overseas hospitals for treatment. Moreover, it is estimated that the Ministry of Health will bear all or part of the cost of urgent transportation of the injured and sick by air from a domestic remote island to Koror, where a general hospital is located.

Table 36. Status of Health Expenditure in Palau

	2013	2014	2015	2016	2017
Current Health Expenditure per Capita in USD	1,292	1,402	1,499	1,675	1,596
Current Health Expenditure as % Gross Domestic Product (GDP)	12.01	12.02	10.89	11.84	11.96
Domestic General Government Health Expenditure as % General Government Expenditure	11.55	11.03	10.99	16.51	17.39

Source: WHO ‘Global Health Expenditure Database’

4.5. Finance

4.5.1. Overview of the Financial Sector

(1) Overview of the Financial Sector

The financial sector in Palau is regulated and supervised by the Financial Institution Commission (FIC). Banks currently allowed to operate in Palau include the government-affiliated Palau National Development Bank, which will be described later, as well as five commercial banks such as Bank of Guam (head office: Guam), Bank of Hawaii (head office: Hawaii), Bank Pacific (head office: Hawaii), Palau Investment Bank (head office: Palau), and Asia Pacific Commercial Bank (head office: Palau). As shown in the table below, three of the five banks headquartered in the United States account for the majority of bank revenues in Palau, with 98% of total assets in the sector (as of the end of 2018).

Table 37. Overview of the Financial Sector of Palau

(Unit: million USD)

	2017			2018		
	USA (3 banks)	Local (2 banks)	Total	USA (3 banks)	Local (2 banks)	Total
Interest And Fee Income	6,880	574	7,454	8,049	658	8,707
Interest Expense	228	6	234	326	0	326
Net Interest Income	6,652	568	7,220	7,723	658	8,381
Provisions For Bad Loans Expense	473	3	476	308	▲12	296
Non-Interest Income	984	2	986	967	9	976
Non-Interest Expense	2,474	402	2,876	2,611	411	3,022
Net-Income (loss) Before Taxes	4,689	165	4,854	5,771	268	6,039
Applicable Income Taxes	174	12	186	217	14	231
Year-to-date Income (Loss)	4,515	153	4,668	5,554	254	5,808

Source: Annual Report of the Palau Banking Sector for Calendar Year 2018

The industry ratio of non-performing loans to total loans remains low and is stable at 0.60%, so it can be said that the banks have been operated with high soundness in whole. The liquidity is also well secured as USD237 million of the total assets, which is USD276 million, in the sector in 2018 considered to be liquid assets.

(2) National Development Bank of Palau (NDBP)

The National Development Bank of Palau (NDBP) is a government-affiliated development bank wholly owned by the government. It takes risks that commercial banks do not take, and is responsible for economic diversification, job creation and solving income inequality in Palau. The bank's main business is providing housing loans (interest rate is 6-10%), business loans (interest rate is 10%), agriculture / fishing and microfinance loans (interest rate is 6%). In terms of the financial status of

the bank, outstanding loans, interest income on loans, and change in net position have been on the rise for the past three years (2017-2019). In the loan portfolio, housing loans account for about half and business loans account for about 40%. It can be said that NDBP plays an important role as a major provider of housing loans and agriculture / fishing loans in Palau.

Table 38. Financial Status of NDBP

	2017	2018	2019		2017	2018	2019
Net position at end of year	18,457,359	19,007,809	20,273,114	Interest income on loans	1,611,157	1,704,965	1,890,784
Time certificates of deposit	456,143	457,494	459,060	Other operating revenues	126,019	224,440	274,069
Outstanding loans	20,027,532	23,167,055	25,744,132	Change in net position	▲32,135	550,450	1,265,305
Total assets	32,849,117	32,349,954	32,425,684	Return on asset	▲0.1%	1.7%	3.9%

Source: National Development Bank of Palau 'Financial Statements and Independent Auditors' Report' (2018 and 2019)

Table 39. Loan Portfolio of NDBP (by sector)

Sector	2017	2018	2019
Housing	11,187,398	12,226,308	14,039,969
Commercial (business)	7,618,347	8,923,332	9,529,582
Agriculture	847,471	1,602,271	1,717,111
Fishing	374,316	415,144	457,470
Total	20,027,532	23,167,055	25,744,132

Source: National Development Bank of Palau 'Financial Statements and Independent Auditors' Report' (2018 and 2019)

4.5.2. Issues and Countermeasures

According to the FIC, although the liquidity of the financial sector is secured as mentioned above, most of it is held abroad in the financial institutions which have the head offices in the United States. Therefore, it was stated that Palau's financial sector relied heavily on the financial institutions based in the United States, and domestic deposits and investment were limited.

In addition, in order to respond to the global financial system, the FIC has completed work on a draft of new amendments to the banking law and is waiting for the enactment. The FIC is also currently looking at the potential of asset protection institutions as well as an off-shore corporate regime similar to that of the Cook Islands, to supplement economic growth for Palau.

On the other hand, the NDBP pointed out that Palau lacks human resources who are familiar with banking and finance operations, especially those who have practical experience in commercial banks. Moreover, as an issue for all financial institutions in Palau, the NDBP thinks that it is necessary to support the sector affected by COVID-19.

4.5.3. Direction of Cooperation

(1) Cooperation by Other Donors

In terms of laws and regulations, the FIC has been working with ADB to develop a modern Corporations Law and an electronic registry that will allow for ease of registration of corporations, increased transparency in corporate registry, better tracking of corporate entities as well as increased ability to gather financial data from registered corporations. The FIC also has developed a comprehensive law on Credit Unions in order to increase the reach of financial institutions, especially to rural areas and small communities with an assistance of ADB, but the law has yet to be enacted. At the operational level, an electronic 'Secured Transaction Registry', which allows financial institutions to register personal movable assets, was developed in 2013 supported by ADB. It increased the security and efficiency of the NDBP and commercial banks' lending.

(2) Areas of Cooperation

According to the FIC, as mentioned above, Palau's financial sector is heavily dependent on US financial institutions, so it can be considered that providing an alternative way and dispatching experts for Palau to access the international financial system in areas such as the transfer of funds.

On the other hand, it was mentioned by the NDBP that technical assistance for strengthening the financial sector, such as conducting training, is desirable. Moreover, according to the NDBP, although not directly related to the financial sector, if experts are dispatched to the NDBP in the fields of agriculture and fisheries, alternative construction methods that meet international construction standards, and energy-efficient products and services, there customer performance is expected to improve through the NDBP.

4.6. Environmental Conservation and Climate Change

4.6.1. Environmental Conservation

(1) Overview and Development Plan of the Environmental Conservation

Environmental conservation is emphasized in Palau, and tourism development utilizing the rich natural environment is the major part of the economic development. In the aforementioned Medium-Term Development Strategy (2009-2014), environmental conservation is listed as one of the highest priority development agendas. Other environmental conservation-related laws include the Protected Area Network (PAN) Law established in 2003, that enacts a framework in which each state sets protected areas including the ocean and the government manages and supports them. There is also the National Biodiversity Strategy and Action Plan (NBSAP)²⁵ established in 2004. In addition, as mentioned above, under the Palau National Marine Sanctuary Act (PNMSA), which came into effect in January 2020, fishery operations has been limited to 20% of the exclusive economic zone designated by the government for the purpose of environmental conservation and resource security.

Regarding a government agency responsible for environmental laws and regulations, Environmental Quality Protection Board (EQPB), which was established based on the Environmental Quality Protection Act enacted in 1981, plays a key role. EQPB functions as a supervisory body in the field of the environment, such as the formulation of regulations for Environmental Assessment and Environmental Impact Statement. EQPB also establishes and manages water-related rules and conducts seawater monitoring surveys. The National Environmental Protection Council (NEPC) is a cross-institutional framework for nature conservation and plays a role in integrating policies in the field of environmental conservation into national strategies.

As part of securing funding for environmental conservation, the Pristine Paradise Environmental Fee (PPEF), which is aimed at protecting the environment, was introduced on January 1, 2018 for international visitors under the Palau National Marine Sanctuary Act. With the introduction of this environmental tax, the previous departure tax (USD20) and environmental tax (USD30) were abolished and the PPEF is charged on top of the ticket price.

(2) Issues and Countermeasures

In the Medium-Term Development Strategy (2009-2014), the five key issues in the field of environment are listed as in the table below.

²⁵ The plan was revised in 2016 and an action plan was developed for the period of 2015-2025.

Table 40. Key Issues in the Field of Environment
in the Medium-Term Development Strategy (2009-2014)

	Key Issues
1	The lack of an overarching policy framework
2	An outdated, inappropriate and cumbersome regulatory framework
3	Over-lapping and conflicting mandates and functions
4	Insufficient funding leading to difficulties in undertaking evaluation, review, monitoring, compliance, and enforcement activities
5	Ongoing tensions between state and national governments as to land and resource ownership and management and EQPB requirements.

Source: Medium-Term Development Strategy (2009-2014)

According to the Ministry of Natural, Environment and Tourism (MNRET) and the EQPB, it is necessary to secure specialists in the field of environmental conservation and improve the environment for that by updating of the civil service rules. EQPB also stated that the bottleneck is the inability to secure sufficient salaries and benefits for professionals although there are training programs for environmental assessments, sewage treatment engineers, water quality experts and environmental educators.

(3) Direction of Cooperation

The MNRET mentioned the development of a data management system for the environmental sector as a possible cooperation from Japan. The EQPB also mentioned that an attempt is being made to consolidate the data obtained from Environmental Assessment / Environmental Impact Statement and to create an electronic database for such data. Related to this, the post of Information Technology Technician has been newly established in the EQPB's organizational revision in December 2019.

Other potential areas of cooperation mentioned by the two organizations includes revising civil service rules in the field of environmental conservation (including EQPB-related rules), supporting the development of environmental curriculum in schools, and dispatching water quality specialist, environmental educators and other experts.

4.6.2. Climate Change

(1) Overview and Development Plan in Climate Change

In the area of climate change, the Palau Climate Change Policy (Palau Climate Change Policy) was released in 2015. As an island nation exposed to a variety of natural disasters, research and community feedback indicate that Palau is experiencing an increase in sea level rise and extreme weather events, and the high level of awareness of climate change was the backdrop for the formulation of the Palau Climate Change Policy.

The policy sets out a vision of ‘a happy, healthy, sustainable and resilient Palauan community in a changing world,’ with strategic goals in the areas of climate change adaptation, disaster risk management, mitigation and low emissions development, as well as institutional mechanisms and financial requirements for effective policy implementation.

Table 41. Vision and Strategic Objectives of the ‘Palau Climate Change Policy’

Area	Vision / Strategic Objective
Overall	Happy, healthy, sustainable and resilient Palauan communities in a changing world
Adaptation to Climate Change	Enhance adaptation and resilience to the expected impacts of global climate change across all sectors
Disaster Risk Management	Improve Palau’s ability to manage unexpected disasters and minimize disaster risk
Mitigation and Low Emission Development	Mitigate global climate change by working towards low carbon emission development, maximizing energy efficiency, protecting carbon sinks, and minimizing greenhouse gas emissions

Source: Palau Climate Change Policy

The Office for Environmental Response and Coordination, the government agency responsible for implementing this policy, was dismantled in October 2015 and a new Office of Climate Change was established within the Ministry of Finance. In addition, the Palau Automated Land and Resources Information System (PALARIS) office has been established under the Ministry of Finance to handle the land and resources information system.

The Office of Climate Change and the National Climate Change Committee review the progress of climate change policy annually against the measurement indicators set out in the action plan, and will conduct a comprehensive assessment by four years after the policy is developed, followed by a formulation of the action plan for the following 5 years.

4.7. Review of Donors' Support to Palau

4.7.1. ADB

Asian Development Bank (ADB) has been implementing a wide range of projects in Palau, with multiple projects in the fields of ICT, disaster prevention and the environment. For the support of COVID-19, in addition to the USD15 million loan that was decided to be diverted from the Disaster Resilience Program in April 2020, medical equipment was provided and the Health Expenditure and Livelihoods Support Program, a USD20 million financial support program aimed at providing financial and other relief to companies, was approved in July 2020.

Table 42. Assistance Projects by ADB for Palau (excerpts)

Project	Status (Approved month)	Content
ICT		
Pacific Information and Communication Technology Investment Planning and Capacity Development Facility- Phase 2	Active (2017/9)	<ul style="list-style-type: none"> • Project type: Technical assistance • Amount: USD 1 million • Description: Strengthen the capacity of Pacific countries, including Palau, in their ICT strategies and policies
North Pacific Regional Connectivity Investment Project	Active (2015/12)	<ul style="list-style-type: none"> • Project type: Loan • Amount: USD 16.47 million • Description: Palau and Federated States of Micronesia jointly connect to Guam's fiber optic submarine cable hub to establish a network environment
Telecommunications Sector Reform Program	Proposed	<ul style="list-style-type: none"> • Project type: Loan • Amount: USD 20 million • Description: Promote the spread of cheap, high-quality, secured Internet services in Palau through policy reforms in the ICT sector
Disaster Management and Environment		
Disaster Resilience Program	Active (2018/10)	<ul style="list-style-type: none"> • Project type: Loan • Amount: USD 15 million • Description: Financial support for fiscal risk management arising from a natural disaster
Disaster Resilient Clean Energy Financing	Proposed	<ul style="list-style-type: none"> • Project type: Grant, technical assistance • Amount: 0.4 million USD (for technical assistance) • Description: Promote the access of low income households and female borrowers to affordable disaster resilient clean energy financing
COVID-19		
Health Expenditure and Livelihoods Support Program	Approved (2020/7)	<ul style="list-style-type: none"> • Project type: Loan • Amount: USD 20 million • Description: For responding to COVID-19, the loan for strengthening health system's COVID-19 response measures, compensation for the unemployed and economic relief for affected businesses was provided.

COVID-19 Emergency Response	Active (2020/7)	<ul style="list-style-type: none"> • Project type: Grant • Amount: USD 1 million • Description: For responding to COVID-19, the grant was provided for provision of personal protective equipment and other necessary supplies, payment of overtime for essential workers and replenishment of medical workers.
Others		
The Economic Impacts of the End of Compact Grant Assistance	Active (2018/12)	<ul style="list-style-type: none"> • Project type: Technical assistance • Amount: USD 0.75 million • Description: An assessment of the fiscal and economic impact of the termination of the US Compact on three Micronesian countries, including Palau
Palau Public Utilities Corporation Reform	Active (2020/5)	<ul style="list-style-type: none"> • Project type: Technical assistance • Amount: USD 0.23 million • Description: Assist the Palau Public Utilities Corporation (PPUC), which manages government-owned electricity, water and other energy sources, with corporate reform by strengthening its governance and implementing a capital investment program.
Koror-Airai Sanitation Project	Active (2013/11)	<ul style="list-style-type: none"> • Project type: Loan • Amount: USD 30 million • Description: Rehabilitation and development of sewerage network and waste treatment systems in Koror and Airai province to support improved sanitation services.

Note: The status is as of August 14, 2020

Source: Website of ADB

4.7.2. Taiwan

Taiwan provides assistance to Palau mainly through the International Cooperation and Development Fund (ICDF), with six projects underway as of June 2020. Apart from the projects, the Embassy of Taiwan in Palau and the Taiwan Technical Mission also provide assistance for COVID-19, such as providing medical equipment for PCR testing, and supplying food such as fruits and vegetables in cooperation with the Palau Red Cross Society.

Table 433. Assistance Projects by Taiwan for Palau

Project	Content
Health	
2020 Healthcare Personnel Training Program	<ul style="list-style-type: none"> • Implementation period: January 2020 – December 2020 • Description: Provide 1-3 months of on-the-job training to medical workers in partner countries, including Palau, to increase their knowledge and experience and improve the quality of health care in the countries.

Agriculture	
Horticulture Extension Project (Palau)	<ul style="list-style-type: none"> • Implementation period: January 2019 – December 2023 • Description: Support the Palauan government's national policies and strategies regarding food security and balanced nutrition, and provide technical assistance for research and development of related fruit and vegetable to increase income of farmers.
Education	
Overseas Professional Mandarin Teaching Project	<ul style="list-style-type: none"> • Description: Dispatch Mandarin teachers to partner countries, including Palau. In 2020, 17 teachers were sent to 10 partner countries.
Other	
Taiwan Youth Overseas Service	<ul style="list-style-type: none"> • Description: Send Taiwanese youth to overseas technical and medical projects.
Taiwan ICDF Overseas Volunteers Program	<ul style="list-style-type: none"> • Implementation period: January 2020 – December 2020 • Description: Send volunteers to Palau and other countries to provide expertise and services in areas such as the environment, public health, agriculture, education, and ICT.
Women and Youth Entrepreneurs and MSMEs Re-lending Project (Palau)	<ul style="list-style-type: none"> • Implementation period: March 2020 – March 2025 • Description: Provide funding to the National Development Bank of Palau (NDBP) through the Government of Palau to improve access to funds for women and young entrepreneurs, micro, small and medium enterprises, and to strengthen the capacity of the NDBP for lending to these sectors.

Note: The information is as of June 2020.

Source: Materials provided by Taiwan Embassy in Palau

5. Economic and Financial Impact of Responding to COVID-19 in Palau and Samoa

5.1. Economic and Financial Impact of Responding to COVID-19 in Palau

5.1.1. Impact of and Countermeasures against COVID-19

Due to the global spread of the Novel Coronavirus (COVID-19), although there are no confirmed cases in Palau as of the end of September 2020, some measures have been taken, including the establishment of the Ministry of Health Emergency Operations Center for preventive measures, the development of a PCR testing system, and the suspension of scheduled commercial flights.

The prolonged impact of COVID-19 has a significant impact on the country's tourism industry, which is one of the country's key industries and accounts for about 20% of its GDP²⁶ (tourism receipts in percent of GDP). With regard to the impact on the economic growth rate, the April 2020 report of the Joint Leadership COVID-19 Impact Mitigation Working Group, which was established in Palau to respond to COVID-19, forecasts a 10% decline in 2020 and 13% decline in 2021. According to projections by international organizations, IMF has forecast economic growth of -11.9%²⁷ in 2020 (with an initial forecast of plus 1.8%²⁸) as of April 2020, and ADB has announced economic growth of -9.5%²⁹ in 2020 and -12.8%³⁰ in 2021 as of September 2020 (see table below).

Table 444. Economic Growth Projections for Palau by Some Organizations

Organization (Announcement time)	2020	2021
Joint Leadership COVID-19 Impact Mitigation Working Group (April 2020)	▲ 10%	▲ 13%
IMF (April 2020)	▲ 11.9%	-
ADB (September 2020)	▲ 9.5%	▲ 12.8%

Source: Joint Leadership COVID-19 Impact Mitigation Working Group (April 2020)

'Report and Recommendations', website of IMF and website of ADB

There are also concerns about a significant drop in tourist arrivals in Palau. The United Nations World Tourism Organization (UNWTO) predicts a 65% decline in international tourist arrivals worldwide in 2020 compared to the previous year, while Palau is projected to have a 31% decline³¹. In particular, the actual number of international tourist arrivals in Palau has been zero since April 2020 to data (as of the end of September) due to the suspension of regular commercial flights, so

²⁶ Website of IMF 'Pacific Islands Threatened by COVID-19' (May 2020)

²⁷ IMF, World Economic Outlook (April 2020)

²⁸ IMF, World Economic Outlook (October 2019)

²⁹ ADB, Asian Development Outlook (September 2020)

³⁰ Same as above

³¹ If the number of international tourist arrivals in Palau in April, May and June 2020 is assumed to be zero, the number of arrivals from January to June 2020 is estimated to be -62% compared to the same period last year (the published data by the government of Palau is referred).

the serious impact on the tourism industry is concerned.

Table 455. Projected International Tourist Arrivals in 2020 (month-on-month and year-on-year, %)

	2020						
	1	2	3	4	5	6	YTD
World	1	-16	-64	-97	-96	-93	-65
Asia and the Pacific	-5	-51	-82	-99	-99	-99	-72
Oceania	6	-20	-60	-98	-99	-99	-58
Palau	33	-43	-70	-	-	-	-31
Cook Island	-1	17	-45	-	-	-	-13
French Polynesia	-7	-7	-60	-	-	-	-27
Fiji	2	-5	-53	-99	-99	-100	-65
Guam	7	-15	-76	-99	-99	-98	-60
N. Mariana Island	51	-32	-85	-	-	-	-21
Samoa	-24	-22	-63	-	-	-	-36
Vanuatu	25	13	-51	-	-		-2

Source: Website of UNWTO 'UNWTO Global Tourism Dashboard' (update on September 15, 2020)

In terms of employment, the aforementioned projections by the Working Group indicate that 2,600 people (700 Palauans and 1,900 foreigners) are expected to be directly affected, which is equivalent to 38% of Palau's private sector employment.

In response to this situation, the government of Palau has embarked on various measures to support the health sector, companies and individuals affected by COVID-19. In March 2020, the government decided on a supplementary budget for fiscal year 2020³² to fund the costs of monitoring and preventive measures against COVID-19, and decided on an additional contribution of about USD920,000 (0.3% of GDP) to the Hospital Trust Fund. On the corporate and individual side, in April of the same year, a supplementary budget provided USD20 million (8% of GDP) and announced bailout measures, including an unemployment benefit scheme, subsidies for utility payments, new job creation through public works projects, and a loan scheme for the private sector.

According to IMF, the National Development Bank of Palau has also announced fiscal relief measures for businesses and households affected by COVID-19, including interest-only payments (deferral of principal repayments), term extension, loan consolidation, and temporary payment deferral. In addition, some private banks have also introduced loan deferral and forbearance programs for three months.

³² Palau's fiscal year is from October to September.

Table 466. Countermeasures against COVID-19 in Palau

Policy or Program Name (laws)	Description	Amount (USD)	Period
Contribution to the Hospital Trust Fund (RPPL 10-53, supplementary budget for FY2020)	Contribution from the Non-Communicable Diseases Fund for monitoring and prevention of COVID-19	916,808	FY2020
Private sector remedies for COVID-19 based on Coronavirus Relief one Stop Shop Act (CROSS Act) (RPPL 10-56, supplementary budget for FY2020)	<ul style="list-style-type: none"> • Temporary relief for employers and employees • Temporary job programs • Unemployment benefits: Unemployment benefits for employees whose employment has been terminated, suspended and reduced due to COVID-19. • Expanded lifeline utility service: Provide subsidy program for lifeline utility service such as electric and water & sewer for low or fixed income households. • A new temporary job creation scheme for public works • Relief measures such as loans to private sector: <ul style="list-style-type: none"> - Provide concessionary or interest-free loans to cover an employer's fixed costs, or to finance improvement of an employer's tourism facilities. - Deferral of tax payments. 	20,000,000 ³³	April 2020 to January 2021
Funding for stranded citizens overseas based on CROSS Act (RPPL 10-56, supplementary budget for FY2020)	Support for Palauans stranded abroad to return home	180,000	-
Fiscal relief measures by the National Development Bank of Palau	Principal repayment deferment, extension of repayment period, etc.	-	-

Note: As of the end of August 2020

Source: Website of the government of Palau and website of IMF

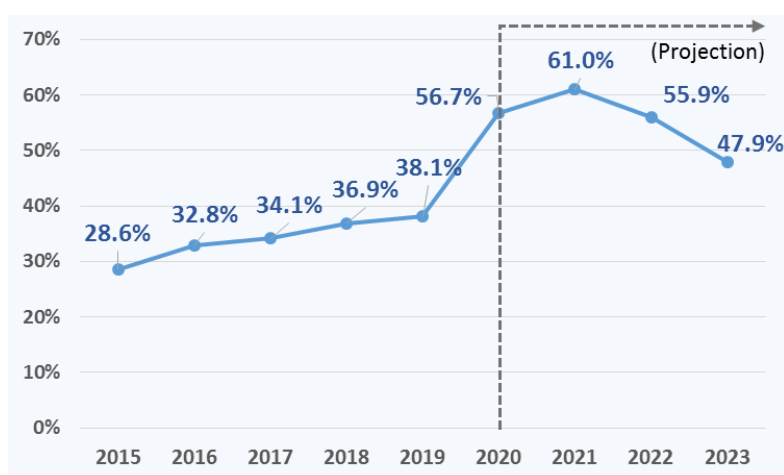
5.1.2. Financial Situation in Response to the Spread of COVID-19

The financial impact of COVID-19 has been serious in Palau. According to the aforementioned working group, the government's fiscal impact, excluding emergency health response and economic relief measures to COVID-19, is projected to reach -USD17 million in FY2020 and -USD28 million in FY2021. On the revenue side, according to the Ministry of Finance of Palau, it

³³ According to the Ministry of Finance of Palau, actual expenditures as of September 2020 are: Unemployment Assistance USD 1,929,577; Temporary Work Program USD749,218; Business Loans USD1,500,000; and Utility Subsidy USD0.

is expected to be -24% in FY2020 and -26% in FY2021 compared to the previous years. The Ministry also stated that Palau National Treasury's General Fund Reserve will contribute USD10 million to adjust for the budget shortfall in addition to the two loans received from ADB totaling USD45 million, but a financial gap of approximately USD40 million will be occurred in FY2022 and FY2023 if spending cuts are not factored in. Therefore, the government of Palau has been considering additional loans from international donors. However, if Palau receives such additional loans, it is expected that the balance of external debt will rise sharply due to the temporary additional borrowing, and there is concern that the risk of debt increase will occur. On the other hand, the terms of loans from international donors for COVID-19 are assumed to be relatively concessional compared to other general fiscal loans³⁴ (the breakdown of Palau's external debt is as described in section 2.3.2.).

As stated above, the general government debt (as a percentage of GDP) including external debt is expected to rise sharply to around 50 to 60% in the next few years after 2020 due to the impact of COVID-19. However, as the economy recovers, the ratio is expected to decline to 42% by 2025. According to the Ministry of Finance of Palau, regarding the repayment of external debt, they plan to meet their repayment obligations, taking into account the external debts that existed before COVID-19. However, it was also stated that adjusting the repayment schedule with donors may be an option if the need arises in the wake of the influence of COVID-19.



Source: Materials of IMF

Figure 15. General Government Debt (as a percentage of GDP)

5.1.3. Responses by Other Aid Organizations

As of the end of August 2020, as mentioned above, various donors' supports to Palau have been implemented. The major measures taken by each donor are shown in the table below.

³⁴ For instance, the financial assistance (loan of USD20 million) from ADB for medical maintenance, unemployment compensation, and others approved in August 2020, has a repayment period of 20 years and an interest rate of 2%.

Table 477. Major Measures by Each Donor Related to COVID-19 for Palau³⁵

Donor \ Area	Health / Medical	Unemployment Measures (for households /individual)	Education	Other
Japan	Provision of health and medical equipment (JPY 300 mil.)	-	-	-
ADB	Grant for health and medical equipment (USD 1 mil.)	-	-	Financial assistance (loan) for medical development, unemployment compensation, and others (USD15 million and USD20 million)
USA	Grant for health and medical equipment (USD 2 mil.) and provision of them	Grant for unemployment benefits under CARES Act (USD 19.7 mil.)	Grant of emergency assistance for educational institutions under the CARES Act	-
Australia	Financial assistance of and provision for health and medical equipment	-	-	-
Taiwan	Provision of health and medical equipment	-	-	Support for the supply of vegetables, fruits and other foodstuffs

Source: Website and materials provided by each donor

³⁵ Although the government of China has not provided direct support to Palau for COVID-19, a Chinese private investor based in Cambodia donated PCR test kits, medical masks and other medical equipment (worth USD 1.1 million), and the Guangdong People's Association for Friendship with Foreign Countries also donated protective clothing and medical masks.

5.2. Economic and Financial Impact of Responding to COVID-19 in Samoa

5.2.1. Impact of and Countermeasures against COVID-19

(1) Impact of COVID-19 on the Samoan Economy

While COVID-19 infection is spreading globally, no cases have been confirmed in Samoa as of the end of September 2020. However, at the time of the global spread of the disease, due to the weaknesses in the country's health and medical system and the occurrence of suspected cases of infection, a national state of emergency was declared on 20 March of the same year, and a fifth extension of the state of emergency was declared on 4 August. As a general rule, travel to Samoa is only open to returning residents and for transit purposes to American Samoa.

With the prolonged impact of COVID-19, economic activities have been severely restricted and the growth has been slowed. The economic activities had been growing negatively in the second quarter of the FY2019/20³⁶ (Q4 2020) as a result of the nationwide spread of measles, but with further negative impacts from COVID-19, the Samoan Ministry of Finance has forecasted Samoa's economic growth of minus 3.3 percent in the same year and minus 2.0 percent in 2020/21. In terms of economic growth rates by international organizations, IMF projects economic growth of minus 5.0 percent in FY2019/20 and minus 1.5 percent in FY2020/21³⁷, while ADB projects economic growth of minus 5.0 percent in 2020 and minus 9.7 percent in 2021³⁸. All of these projections indicate that negative growth is expected to continue not only in 2020 but also through 2021, indicating that COVID-19 is expected to have prolonged negative impacts on the economy, particularly in the tourism sector.

Table 48. Projections of Samoa's Economic Growth Rates by the Government of Samoa and International Organizations

Organization (Timing of announcement)	FY2019/20	FY2020/21
Ministry of Finance, Samoa	▲ 3.3%	▲ 2.0%
IMF (April, 2020)	▲ 5.0%	▲ 1.5%
ADB (September, 2020)	▲ 5.0%	▲ 9.7%

Note: Projection by ADB is based on the calendar year (January to December), not on the 'Fiscal Year (July to June)'

Source: Information provided by the Ministry of Finance of Samoa, IMF Report and ADB Report

³⁶ The financial year in Samoa runs from July to June of the following year.

³⁷ IMF Article 4 Report (published April 2020). The report states that the risk to external debt and the overall risk to debt are both high, given the country's vulnerability to natural disasters and its dependence on tourism. The Samoan Ministry of Finance's threshold for public debt as a percentage of GDP is set at 50 percent, but according to IMF, it is projected to be 62.8 percent in 2020 and 71.3 percent in two years' time. Data from the country's Finance ministry also shows that the figure is about 55% in 2020 and is expected to reach 73% by 2025. Most of the debt in the country is long-term, but the short-term portion is also on the rise. More than half of the external debt comes from ADB and World Bank multi-donors, with the rest coming from the bilateral donors (80 percent from China). Note that the budget deficit as a percentage of GDP is expected to widen to 9.8% in 2020 (projected at 7.3% in 2019).

³⁸ Asian Development Outlook Update (Announced in September 2020)

The prolonged impact of COVID-19 has had negative impacts on the balance of payments, lower international prices for fuel, lower imports, etc., in addition to a decline in tourism revenue (about 10.6% of GDP) due to a slowdown in the country's core industry, tourism, which accounts for more than 20% of GDP. The financing gap in the balance of payments amounts to approximately USD34.1 million (projected in late April).

The table below shows the actual and projected figures for the macroeconomic situation as presented by the Samoan Ministry of Finance when it released its FY2020/21 budget.

Table 49. Macroeconomic Indicators (FY2018/19- FY2022/23)

Item	Target Value	2018/19	2019/20	2020/21	2021/22	2022/23
Real GDP (% change)	3%-4%	3.5%	-3.3%	-2.0%	0.9%	1.7%
Budget Deficit (% of GDP)	Within range -2%	2.7%	-1.6%	-2.3%	-2.0%	-1.5%
Total Current Expenditure (% of GDP)	25%-30%	28%	30%	30%	27%	27%
Personnel Costs (% of total current expenditure)	35%-40%	38%	36%	39%	37%	39%
Official Public Debts (% of GDP)	Below 50%	48%	48%	44%	40%	40%
Debt Servicing (% of revenue)	Below 20%	11.7%	14.1%	16.2%	16.6%	16.3%
Nominal GDP (billion Tala)		2.1	2.2	2.3	2.3	2.4

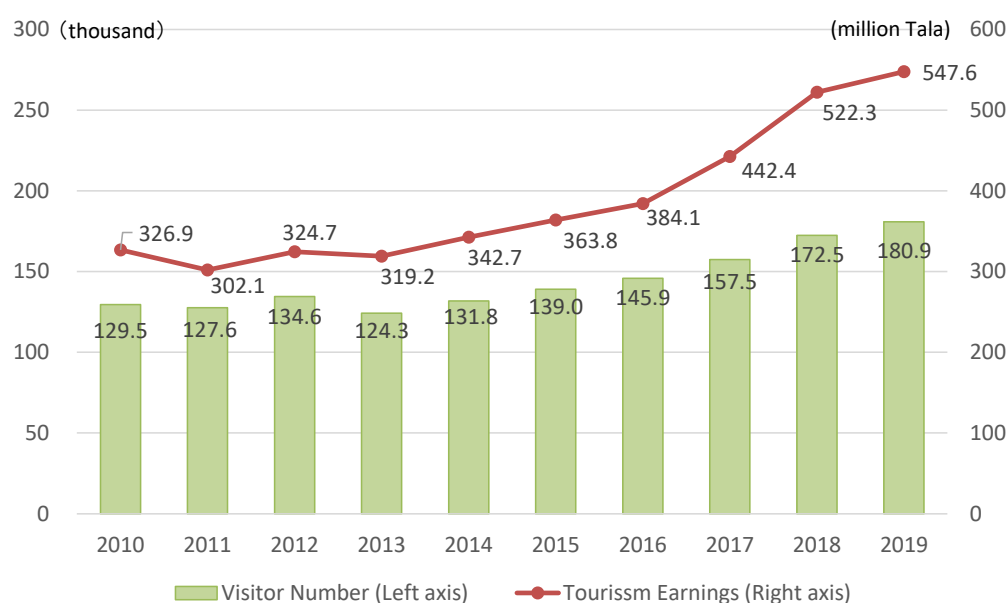
Source: Information provided by the Ministry of Finance of Samoa

According to the Samoan Ministry of Finance, economic growth is expected to be negative 2.0% in FY2020/21, a figure that assumes that economic activity will be negatively impacted against the backdrop of still-maintained restrictions on entry and exit, but that the effects of the government's economic stimulus package, shown in the next section, will also emerge. It is also assumed that border restrictions on major trading partners will be relaxed or removed as we enter 2021. While the outlook for the tourism sector is reported to be very uncertain, remittances from Samoans overseas are expected to gradually increase as the economies of countries with large Samoan populations recover.

The Samoan economy is then projected to return to positive growth in the FY2021/22. This is based on a scenario in which all previous restrictions will be removed and economic activities, both domestic and international, will be restored to its original level. Thereafter, the recovery is expected to be sustained in FY2022/23, with the spillover effects of economic activities spreading across various sectors. However, the negative impacts of COVID-19 on the economy, which began to have an impact from early 2020, are significant and are expected to take a long period of time to recover, with growth still at half the rate of FY2018/19 after three years.

Tourism, Samoa's main industry, grew steadily in the 2010s. As the number of visitors increased

by 1.5 times, from 125,000 in 2010 to 181,000 in 2019, the amount spent while in Samoa increased by 68%, from 327 million tala (about USD117 million) to 548 million tala (about USD197 million). However, by 2020, with the increased risk of COVID-19, the Samoan government gradually tightened restrictions on entry to the country, resulting in zero visitors from April 2020 onwards. In 2020, the tourism industry has been hit with an unprecedented blow.



Source: Central Bank of Samoa

Figure 16. Visitor Numbers and Expenditures in Samoa (2010-2019)

Table 480. Visitor Number and Expenditure in Samoa between January and July 2020

	Jan	Feb	Mar	Apr	May	Jun	Jul
Number of visitors	10,456	7,053	4,164	0	0	0	0
Visitor expenditure (million Tala)	29.5	20.9	12.6	0	0	0	0

Source: Central Bank of Samoa

(2) Samoan Government's Response to COVID-19

In response to the enormous negative economic impacts of COVID-19, on April 7, 2020, the Government of Samoa announced the COVID-19 Economic Stimulus Package consisting of a total of 66.3 million Samoan tala (approximately USD23.8 million). Due to the prolonged effects of COVID-19, the Phase II of the package, totaling 83 million samoan tala (approximately USD29.8 million), would also be implemented in the proposed FY2020/21 budget released on May 26. For the health sector, the Economic Stimulus Package announced in April allocated a total of 20.3 million Samoan tala (about USD7.3 million) to the health sector to counter COVID-19. Special budgetary measures have been provided mainly for preparedness and prevention, securing negative

pressure and isolation rooms, establishment of quarantine, testing, tracking, reporting and treatment systems, and purchase of medicines. The main components of the economic stimulus package for COVID-19 (both phases) are shown in the table below.

Table 491. Economic Stimulus Package I

(Unit: thousand Samoan Tala)

Area	Main Items	Amount
<u>Government Budget</u>		<u>38,343</u>
Health Response	Preparedness and preventions, Negative pressure room, Isolation room, Quarantine, Testing / tracing / reporting / treatment, Medical and consumables	20,266
Enable the Private Sector	Guarantee for small businesses, Development Bank of Samoa interest relief, free rent for businesses at the airport, markets, etc.	4,372
Secure the Purchasing Power of the Citizen	Special pension, Interest relief for household loans, Electricity rate reduction, Water rate reduction	7,733
Food Security	Production capacity improvement and commercialization of domestic agricultural produce (purchase of equipment and consumables)	3,472
Multisectoral	Communication, Community outreach, Education, Fire and emergency services, Police	2,500
<u>Direct Assistance from Corporations</u>		<u>18,199</u>
National Provident Fund	Moratorium (tourism), Free rent, Loan repayment refund	8,704
Accident Compensation Corporation	Moratorium (tourism), Free rent	1,500
Samoa Ports Authority	Discount on wharfage fees, Lease refund for stevedoring, Lease suspension	529
Samoa Airport Authority	Lease suspension	193
Electric Power Corporation	Usage charge reduction (household), Daily fixed rate reduction (hotel)	2,673
Samoa Housing Corporation	Moratorium on loan repayments, Reduction in loan interest rates	4,600
<u>Revenues Foregone</u>		<u>9,776</u>
<u>Total</u>		<u>66,318</u>

Source: FY2019/20 Second Supplementary Budget

Table 502. Economic Stimulus Package II

(Unit: thousand Samoan Tala)

Area and Item	Amount	Source of Fund
National Provident Fund dividend payment	35,000	Samoa National Provident Fund
Additional Pension (One-off, \$100 Tala per pensioner)	1,100	COVID-19 Plan
Assistance to Households (\$50 Tala per person)	12,125	COVID-19 Plan
Agriculture Stimulus	2,000	COVID-19 Plan
Unemployment Subsidy	2,000	COVID-19 Plan
Market Vendor Subsidy (extension of free rent period)	1,163	COVID-19 Plan
Short-term Paid Training for the Hospitality Sector	1,000	COVID-19 Plan
Assistance to Talofa Airways	183	Samoa Airways
Partial Insurance Compensation to Samoa Primary Exporters	900	COVID-19 Plan
License Fees for Domestic Fishing Vessels Waived	15	Revenues foregone
2% Interest Relief for all Business Loans with Commercial Banks	3,898	COVID-19 Plan
Credit Facility for Specific Sectors focused primarily on COVID-19	4,000	COVID-19 Plan
Assistance to Vulnerable Groups	500	COVID-19 Plan
South Pacific Business Development (microfinance) Interest Relief	60	COVID-19 Plan
Community Outreach	1,314	COVID-19 Plan
Shelter Financing Assistance for Vulnerable Families	1,000	COVID-19 Plan
Samoa Housing Corporation Assistance	250	COVID-19 Plan
Electricity Rate Reductions Extended until December	4,423	Revenues Foregone Government Budget
Water rate Reductions Extended until December	995	COVID-19 Plan
Free Trade Concessions for Specific Food Items extended to August	1,000	Revenues Foregone
Increase in <i>le Samoa Show</i>	350	Government Budget
Increase in the One Government Grant to Schools	3,630	Government Budget
Pension to Increase Monthly by \$15	2,719	Government Budget
Frontline Workers' Risk Benefits	500	COVID-19 Plan
Construction and Upgrade of Rural Hospitals	3,000	Government Budget
Total	83,126	

Source: FY2020/21 Budget proposed

5.2.2. Financial Situation in Response to the Spread of COVID-19

(1) Government Finance

Samoa's government budget was 826 million tala (about USD296 million) for FY2019/20, while the proposed budget for FY2020/21, submitted to the Parliament at the end of May 2020, increased slightly to 838 million tala (about USD301 million). However, the budget amount was initially expected to be higher, and the budget amount was revised based on the expectation of a reduction

in tax revenues of 53 million tala (approximately USD19 million) due to the occurrence of COVID-19.

Expenditures exceeded revenues in both years, and the final cash shortfall after short-term borrowing was 60.9 million tala (approximately USD21.6 million) and 116.2 million tala (approximately USD41.7 million), respectively. These shortfalls are to be covered by the budget appropriated in statutory expenditure (for the repayment of government debt), which is not recognized as a problem since the debt repayment ratio is below the government's 20 percent target.

Table 513. Budget Balance of the Government of Samoa

(Unit: thousand Samoan Tala)

	FY2019/20	FY2020/21
<u>Revenue</u>	<u>826,026</u>	<u>838,230</u>
Ordinary Revenues	646,377	588,654
External Grants	179,649	249,576
<u>Expenditure</u>	<u>913,034</u>	<u>965,840</u>
Statutory Expenditures	145,631	137,428
Expenditure Programs	583,116	688,694
Development Expenditures	166,776	119,057
Unforeseen Expenditures	17,511	20,661
<u>Overall Balance</u>	<u>-87,008</u>	<u>-127,611</u>
Soft Term Financing	26,142	11,424
<u>Cash Deficit after Borrowing</u>	<u>-60,866</u>	<u>-116,187</u>

Source: Government of Samoa Budget

The budget for FY2020/21 includes a direct expenditure item of 43.8 million tala (approximately USD15.7 million) from the government's budget for COVID-19 measures, leading to an increase in the overall expenditure program. Although foreign aid income also increased, the deficit of the overall balance of payments has widened by 40.6 million tala (approximately USD14.6 million) compared to FY2019/20.

(2) Debt Sustainability

Samoa's government debt exceeded the government's target level of 50% of GDP in FY2012/13 and reached 57.6% of GDP in FY2014/15, but has been declining since then, falling to 46.9% of GDP in FY2018/19, within the government's target level. Public debt outstanding at the end of March 2020 was 1,085 million tala (about USD390 million), of which 99% was external debt. The outstanding debt by lender is shown in the figure below, with the Chinese government accounting for the highest percentage at 36%. This is followed by the multilateral donors (World Bank and ADB) at 29% and 21% respectively, with these two institutions accounting for about half of the total. The fourth highest percentage from JICA is due to the 'Power Sector Expansion Project', for which

a loan agreement was signed in 2007.

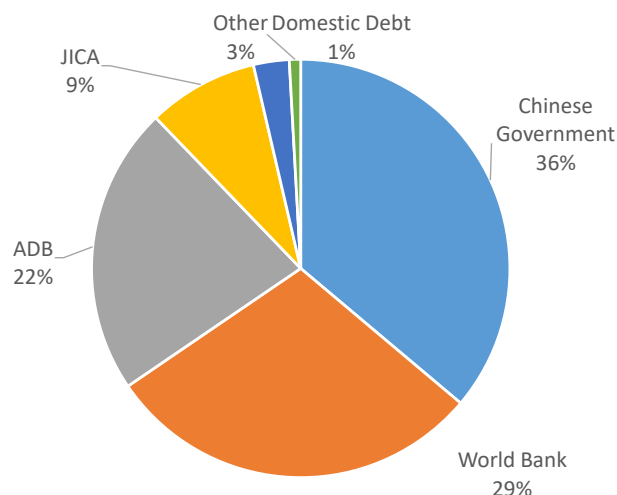


Figure 17. Composition of Public Debt Balance (as of the end of March, 2020)

Looking ahead, IMF expects Samoa's public debt to worsen in the coming years as a result of the slowdown in economic growth and spending on COVID-19 measures. Specifically, it is expected to gradually increase from 46.9 percent of GDP in FY2018/19 to 73.3 percent of GDP in FY2022/23 (of which 71.3 percent is external debt). Meanwhile, the Government of Samoa's financial strategy is to gradually reduce the public debt ratio after FY2020/21, which was 48% of GDP in FY2018/19, to make it reach 40% in FY2022/23, well below the government's target of 50%.

To achieve this goal, the Samoan government has developed a debt repayment plan, as shown in the table below, with a repayment of 84 million tala in FY2020/21 (approximately USD30 million; 3.8 percent of GDP and 14.3% of government revenue) and 82 million tala and 81 million tala to be repaid thereafter.

According to the IMF's April 2020 report, the IMF's analysis above (which expected the debt level to reach 73.3% in FY2022/23, well above the government's target) demonstrated that Samoa's debt risk was considered high. Accordingly, the Samoan government has no plans to make a new borrowing in FY2020/21. In addition, as of August 2020, the Government of Samoa was in the process of developing a 'Medium-Term Debt Management Strategy 2021-2025' and was developing a borrowing strategy to meet its fiscal needs.

Table 524. Prospect of Public Debt Repayment

(Unit: million Samoan Tala)

Fiscal Year	2018/19	2019/20	2020/21	2021/22	2022/23
Total Debt Servicing	82	81	84	82	81
<i>External Debt Servicing</i>	<i>70</i>	<i>71</i>	<i>80</i>	<i>80</i>	<i>78</i>
<i>Domestic Debt Servicing</i>	<i>12</i>	<i>10</i>	<i>4</i>	<i>2</i>	<i>2</i>
Debt Servicing (% of revenue)	11.7%	14.1%	16.2%	16.6%	16.3%

Source: Information provided by the Ministry of Finance of Samoa

The Government of Samoa has a line of credit with an overdraft of up to 60 million tala (approximately USD21 million) from the Central Bank, but in the context of the FY2020/21 budget, there is an estimated cash shortfall of 56 million tala (approximately USD20 million); further reduction in tax revenues due to prolonged COVID-19 effect is a concern. In this context, the Government of Samoa recognizes the need to consider improving the following funding gaps.

Fiscal Reconstruction

If the global impact of COVID-19 continues to affect government finances beyond December 2020, a supplementary budget will need to be prepared to restrain spending programs and adjust development projects.

Securing profits from government investment

The government has so far provided capital injections to the Corporation and others amounting to 574 million tala (about USD206 million). Based on the term deposit balances and financial position of those institutions, the government can secure investment income as needed.

Utilization of Sinking Fund

The Samoan government has accumulated 49 million tala (about USD18 million) in the Sinking Fund to date, a portion of which can be used to make payments for debt repayment and other purposes.

Another option is to consult with donors to obtain new financial support, and as shown in the next section, the country has actually obtained support from each donor.

5.2.3. Responses by Other Aid Organizations

The following table shows the main support measures for combating COVID-19 by each donor as of the end of August 2020.

Table 535. Key COVID-19-related Assistance through Aid Donors

	Name	Amount	Period	Outline
IMF	Rapid Credit Facility	22.03 million USD		[Grant] Emergency budget support to meet the urgent Balance of Payments needs
World Bank	Pacific Resilience Program	8.5 million USD		[Grant] Disaster budget support Medical equipment for COVID-19 measures
	Catastrophe Deferred Drawdown Option	5.1 million USD	2019/2020	[Grant] Budget support
	COVID-19 Emergency Response Project	2.9 million USD	2020 – 2023	[Grant] Purchase of goods and services for COVID-19 measures
ADB	Pacific Disaster Resilience Program	2.9 million USD	2020/2021	[Grant] Budget support
	Health Expenditure and Livelihoods Support Program	20 million USD	2020/2021	[Grant] Budget support
New Zealand	Budget Support	5.5 million NZD	2020/2021	[Grant] COVID-19 measures
Australia	Budget Support	10.5 million AUD	2020/2021	[Grant] Budget support (support for procurement of health equipment and economic measures)
China	COVID-19 Response ³⁹	0.2 million USD	2020/2021	[Grant] Project

Source: Information provided by the Ministry of Finance of Samoa

It is hoped that the government's two rounds of economic stimulus packages and support from various donors will avert some of the catastrophic blow, but the prolonged impact of COVID-19 has prevented 3,000 citizens in New Zealand alone from returning to Samoa. The quarantine and isolation of the 1,700 Samoans who have returned to Samoa so far after the border closure has already cost 4 million tala (approximately USD1.4 million). Further significant budgetary measures are required to carry out similar operations in the future, in which case the Samoan government will need support from donors.

³⁹ Medical materials and equipment, including protective clothing and non-contact thermometers, were provided. In addition, a Chinese medical team was sent to Samoa National Hospital since 2019 and has been staying and continuing its work even after February 2020, when it was scheduled to return home. Several articles have been published in local newspapers introducing the medical team, which specializes in otolaryngology, urology, gastroenterology, cardiovascular medicine and pathology.

5.3. Characteristics of Economic and Fiscal Impacts in Palau and Samoa

5.3.1. Impacts on the Economies

While COVID-19 continues to spread globally, both Palau and Samoa have continued to maintain a rare zero outbreak in the world. Both countries have suspended international passenger and commercial flights, effectively restricting entry to the country except for a limited number of returning nationals, which has resulted in zero tourist arrivals since April and has had a severe impact on the tourism industry.

The negative impact on tourism, as well as the economy as a whole, has fallen to unprecedented levels, with the following annual GDP growth rates.

[Palau]

Government projection: Negative 10% in 2020 and negative 13% in 2021

ADB projection: Negative 9.5 percent in 2020 and negative 12.8 percent in 2021

[Samoa]

Government projection: Negative 3.3% in FY2019/20 and negative 2.0% in FY2020/21

ADB projection: Negative 5.0% in 2020 and negative 9.7% in 2021

In both countries, it is assumed that tourism will be hit for a long time by COVID-19, not only in 2020, but also in 2021. As a result, ADB's projections (September 2020 Update) show that the negative impacts are expected to worsen in 2021 for both Palau and Samoa, which are highly dependent on tourism.

5.3.2. Impacts on the Government Finance and the Responses

With the domestic economic downturn becoming more apparent, both Palau and Samoa are expected to experience a deteriorating fiscal situation, mainly due to declining revenues. In both countries, tax revenues will decline through 2021, and Palau, which had been running a budget surplus, will also fall into deficit, as well as the withdrawal of its previously modest reserve funds.

External borrowing is also common in both countries, and the ratio of public financial balances to GDP is expected to rise significantly due to the impact of COVID-19. However, from FY2021/22 onwards, Palau's share of public debt to GDP is expected to decline as the economy recovers⁴⁰.

Table 546. Projection of Public Debt Ratio of Palau and Samoa (ratio to GDP) (projected by IMF)

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23
Palau	38.1%	56.7%	61.0%	55.9%	47.9%
Samoa	47.6%	55.6%	65.3%	70.4%	73.5%

Note: As stated above, the values projected by the Ministry of Finance of Samoa are substantially lower than those by IMF.

Source: IMF publication

⁴⁰ Samoa's economy will also recover, but the IMF expects the outlook to be tougher than the Samoan government's debt repayment plan, which is expected to remain high after FY2021/22.

As already described, Palau has made repayments for 10 external loan cases and there are no concerns about the ratio at this time. However, it should be noted that there is a risk that the public debt ratio could become even higher if the economy continues to experience negative growth as COVID-19 prolongs and the need for further borrowing increases.

5.3.3. Assistance by Aid Organizations

In Palau, donors are providing support, mainly for medical equipment to combat the COVID-19. In Palau, the United States is providing unemployment benefits and support to educational institutions under the CARES Act, and the ADB is also providing financial support as a loan project to maintain medical equipment and unemployment compensation. In Samoa, multilateral donors such as IMF, World Bank, and ADB are playing a central role in developing the medical system and providing general financial support.

ADB has provided significant support to both countries, while Palau has been characterized by the strong support by the U.S. and Samoa has been actively supported by IMF, World Bank, Australia and New Zealand.

6. Recommendations on the Priority Sectors and JICA's Cooperation

This study aimed to provide an overview of Palau's development and investment policies, and through the collection and analysis of detailed information on the current situation and challenges in the economy and key sectors, it identified promising sectors for Palau to focus on in order for the country to achieve development and economic self-reliance, as well as sectors that are conducive to promoting investment and industrial development. It also aimed to examine specific areas where JICA could provide assistance. This report has provided an overview of the overall economy, development policy and investment policy in Palau, as well as the current status, challenges and development plans of key sectors. It also provided an overview of the impact of COVID-19, which occurred in early 2020 and has had devastating impacts on Palau. In addition, based on the opinions of the Palauan officials, possible areas of future cooperation by Japan were also examined.

This section summarizes the 'directions of cooperation' proposed so far from the perspectives of investment promotion, industrial development, infrastructure development, public-private partnerships, and the use of ICT, and suggests possibilities for JICA's assistance in the future. Also, possible support measures that JICA could take to help Palau recover from the impact of COVID-19, which has had a devastating economic impact on the country since the first quarter of 2020, are discussed.

(1) Investment Promotion

Promotion of foreign investment is an important component of Palau's private sector development, and given the various challenges and support needs identified in this study, it is important to promote cooperation in the following areas.

- Revision and systematization of laws and regulations related to foreign investment and business operations
- Centralization of administrative services (including the establishment of a one-stop shop) and promotion of electronic services for efficient government management, transparency of procedures, and reduction of the burden on foreign investors.

As for the support in these areas, it would be effective to analyze in detail the current situation and issues in the investment environment, revise the legal system to promote investment, improve the foreign investment database, disseminate information to investors, work with trade and investment promotion agencies (such as the Pacific Islands Centre, an international organization located in Japan), and institutionalize investment procedures through the dispatch of JICA experts.

The sectors that are considered promising for investment include the development of various infrastructure, tourism/recreation, agriculture/fisheries, function as a location of company registration, and communications, as shown in Table 21.

In addition, there is a challenge in promoting PPPs: the procedures are not clear and are highly opaque. It is expected that Palau will implement PPP projects in such areas as renewable energy, communications/internet, resort development, and fisheries facilities, and it is necessary to establish a PPP legal system and process to ensure a certain level of transparency in the implementation of the projects. To this end, it is important to conduct a research and analysis on the introduction of PPP, to foster understandings within the government, and to provide technical cooperation to support the establishment of a legal framework for PPP projects.

(2) Industrial Development

‘Industrial development’ is a cross-sectoral theme, including employment promotion and human resource development, and at the same time, the promotion of each sector can be considered as industrial development in a broad sense. The following is a list of those sectors.

a) Employment promotion and human resource development

- The creation of a job-matching system between job seekers and employers, including an ICT-based system
- Establishment of a social security system, including the establishment of a pension system in the private sector.

In order to support these areas in the private sector, it is important that labor and social security experts first identify further issues and prepare a plan for the design of the system in order to promote the expansion and mobility of the labor market. In addition, because the utilization of human resources will not advance simply by improving the institutional system, it is also necessary to develop the human resources needed in the private sector. For this purpose, it is practical to

- Investigate the possibility of introducing vocational training programs and certificate courses and support the implementation in cooperation with PCC and SBDC.

In terms of support for the introduction of vocational programs and accredited courses at PCC, it would be practical to collaborate with Japanese universities and other institutions to introduce a new curriculum that includes online lectures and practical training in order to develop the skills (operational management and technical skills) needed by industries. This study revealed that there is a high need for managerial level personnel, especially those working in the tourism industry and those who operate and maintain infrastructure facilities at a high level.

b) Business Environment Development

In Palau, the company registration system has not been computerized and business licenses are

not necessarily obtained. Therefore, it is important to support the study of measures to promote business registration in order to understand the actual state of the economy and to improve the efficiency of tax collection, in order to improve the business environment. In such an environment, it will be easier to understand the actual state of business activities and to promote foreign investment.

c) Agriculture and Fisheries

This survey indicated a need for support for agriculture and fisheries from several related organizations. There is a need for stable growth in agriculture and fisheries to reduce over-dependence on food imports and to provide a stable supply of agricultural and fisheries products to hotels and restaurants, which play a central role in the tourism industry, as well as to the public, and to export in the future. In order to achieve this, cooperation to expand production capacity (agricultural and fisheries technical guidance), establishment of distribution networks, organization of farmers' and fishermen's associations, and construction and operation of distribution markets are necessary.

Since these cooperation are wide-ranging and long-term, it seems realistic to divide the cooperation into phases, conduct technical cooperation in each sector, and envisage the construction of facilities through grant aid once the market is established.

(3) Infrastructure

The directions of cooperation based on the support needs in each sector of the infrastructure sector are shown in the table below.

Table 557. Direction of Cooperation in the Infrastructure Area

Area	Details of Assistance
Roads and Bridges	Maintenance of structurally deficient road sections Structural diagnosis of bridges and replacement of bridges and box culverts
Electricity	Improving safety and efficiency by improving the power transmission and distribution network
Water Supply	Improving the water supply network in rural areas Improving non-revenue rates in the urban area

Source: Prepared by the Study Team

For structural diagnosis of roads and bridges, it is essential to provide expert guidance and to secure and train qualified personnel. Since it is difficult to secure human resources with a certain level of expertise and qualifications within the country, it is necessary to establish the know-how for proper maintenance and management of roads and bridges through outsourcing to consulting companies in neighboring countries such as Japan, Guam, Taiwan, and the Philippines and local

contractors in Palau. In addition to JICA's own cooperation, it would be effective to consider support measures in cooperation with the PRIF, since it is a multi-donor framework for strengthening the maintenance capacity of infrastructure facilities in the Pacific region.

In the electric power sector, diesel generators have generally been able to provide a stable supply of electricity, but in introducing and expanding renewable energy, it is desirable to support the reinforcement of the power transmission and distribution networks and the enhancement of the power storage facilities, as well as to improve the capacity to adequately maintain and manage them through technical cooperation and soft components.

As for the water supply system, the non-revenue water rate remains at a high level due to widespread leakages from the water distribution pipe network in the urban area. Therefore, there is an urgent need for technical cooperation in order to improve the ability to detect and repair water leakage areas.

Palau places an importance on sustainable development that minimizes the impact on the natural environment, and the country's pristine natural environment is positioned as a resource for the promotion of tourism. From this point of view, supporting capacity building in the environmental field could be an important aspect of JICA's assistance. Specifically, technical cooperation through the development of data management systems in the environmental sector and the dispatch of experts in environmental education can be emphasized. In addition, since the regulations for environmental impact assessment of infrastructure development have been established, future assistance should be directed to supporting the development of appropriate operational systems for the assessment and monitoring of environmental impact, and to the development of highly resilient infrastructure to counter climate change.

(4) Utilization of ICT

Palau is connected to submarine cables and has a better communication environment than the other Micronesian countries. This makes it easier to computerize various procedures and maintain databases for efficient information management and administrative execution in the areas of investment promotion, industrial development, and infrastructure development. In addition, it will also make it possible to enhance online education in the area of human resource development, as well as to cooperate in such areas as online medical care and the strengthening of cyber security measures. Therefore, planning and implementing programs and projects from the perspective of how ICT can be used in the future will further enhance aid effectiveness.

(5) Support for the Economic and Fiscal Impact of COVID-19

Since the outbreak of COVID-19, Palau has received assistance in the medical sector from various countries, as well as unemployment compensation and other support, mainly from the United States, which is considered to be functioning as a mitigating measure to a certain extent. However, the

degree of negative growth in the Palauan economy, which relies heavily on tourism, is expected to be very serious and prolonged, as is the case in Samoa, where tourism is a major industry, and the need for assistance may be prolonged. The recovery of the tourism industry is also very slow, and it is highly likely that it will take several years before the economy recovers to the pre-COVID-19 situation.

In light of these circumstances, the following areas and contents of Japan's assistance could be considered. It is important for the economy as a whole and for the improvement of people's livelihoods that Japan provides the necessary support based on an understanding of the status and effectiveness of other donors' support.

Medical Area

- Additional purchases of medical equipment, supplies, protective equipment, etc. (including quarantine system enhancement and maintenance support)⁴¹
- Provision of medical security for patients and health care providers
- Strengthen the capacity of testing, research and health facilities

Tourism

- Provision of benefits for sustainable business operations and unemployment compensation as financial support

Other Assistance

- Social support: Cash transfers to households in poverty, unemployment benefits, job training for the unemployed, etc.
- Small business relief: Wage subsidies, credit guarantees, tax relief measures, loan programs, etc. for small businesses
- Agricultural support: Interest-free loans for farmers and crop producers, purchase of emergency rice reserves, etc.
- Local government support: Additional funding for local governments, etc.

End

⁴¹ In June 2020, an Exchange of Notes for "Assistance for the prevention of the spread of COVID-19 through the provision of health and medical equipment" (Grant Aid "Economic and Social Development", 300 million yen) was signed.