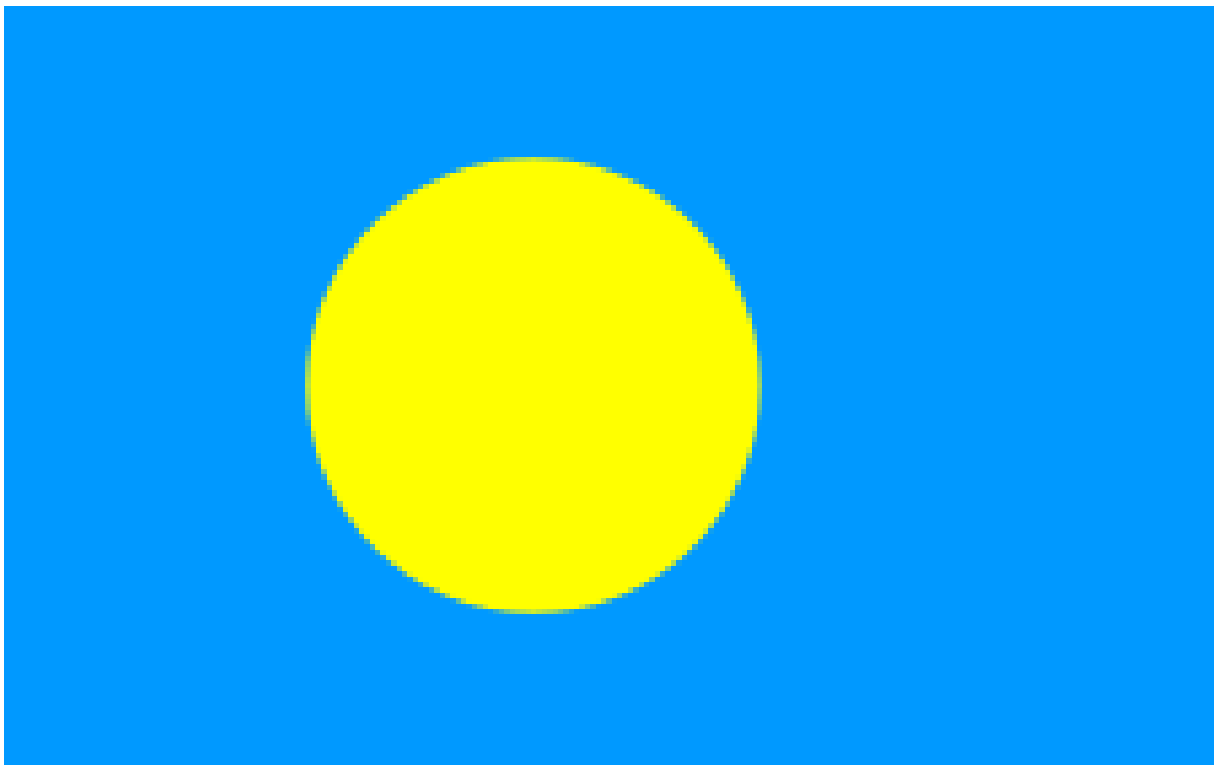
The United Nations Micronesia
Palau National Study 2024/25



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United Nations publication

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Abbreviations and Acronyms

ADB	Asian Development Bank
BlueEARTH	Blue-economy, education, aid, remittance, tourism and health
BPT	Business profits tax
BRI	Belt and Road Initiative
CIP	Country implementation plan
CoFA	Compact of Free Association
COP 19	19th Conference of parties
CROP	Council of Regional Organisations of the Pacific
CROSS	Coronavirus Relief One-Stop Shop
CSO	Civil society organization
DRR	Disaster risk reduction
EEZ	Exclusive economic zone
ESCAP	Economic and Social Commission for Asia and the Pacific
ESG	Environmental, social and governance
FAO	Food and Agriculture Organization
FAS	Freely associated states
FDI	Foreign direct investment
FFA	(Pacific islands) Forum fisheries agency
FSM	Federated States of Micronesia
GDP	Gross domestic product
GHG	Greenhouse gas
GNI	Gross national income
GRT	Gross revenue tax
HDI	Human development index
IAEA	International Atomic Energy Agency
ICT	Information and communication technology
IFI	International financial institution
ILO	International Labour Organization
IOM	International Organization for Migration
IRENA	International Renewable Energy Agency
LDC	Least developed country
M&E	Monitoring and evaluation
MIRAB	Migration, remittance, foreign aid and public bureaucracy
MIYCN	Maternal, infant and young child nutrition
NCD	Non-communicable disease
NDBP	National Development Bank of Palau
NEMO	National Emergency Management Office
NGO	Non-governmental organization
NIIP	National Infrastructure Investment Plan
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the United Nations High Commissioner for Human Rights
ODA	Official development assistance

PBP	Partners in the Blue Pacific
PACC	Palau Pacific adaptation to climate change
PGST	Palau goods and services tax
PICRC	Palau International Coral Reef Center
PICTs	Pacific island countries and territories
PICTA	Pacific Island Countries Trade Agreement
PIF	Pacific Islands Forum
PIFS	Pacific Islands Forum Secretariat
PNA	Parties to the Nauru Agreement
PNCC	Palau National Communications Corporation
PNMS	Palau National Marine Sanctuary
PPP	Post-pandemic Palau
PPUC	Palau Public Utilities Corporation
PROFIT	People, resources, overseas engagement, finance and transport
PSDCF	Pacific Sustainable Development Cooperation Framework
REDD+	Reducing emissions from deforestation and forest degradation
SAMOA	SIDS Accelerated Modalities of Action
SDGs	Sustainable Development Goals
SIDS	Small island developing State
SITE	Small island tourism economy
SME	Small- and medium-sized enterprise
SOE	State-owned enterprise
SOP	Standard operating procedure
SPC	Pacific Community
SPREP	Secretariat of the Pacific Regional Environment Programme
TOURAB	Tourism, remittance, aid and bureaucracy
TTPI	Trust Territory of the Pacific Islands
UNAIDS	Joint United Nations Programme on HIV and AIDS
UNCT	United Nations Country Team
UNCTAD	United Nations Conference on Trade and Development
UNDG	United Nations Development Group
UNSDG	United Nations Sustainable Development Group
UNDP	United Nations Development Programme
UNDRR	United Nations Office for Disaster Risk Reduction
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
UNODC	United Nations Office on Drugs and Crime
UNPS	United Nations Pacific Strategy

UNWOMEN	United Nations Entity for Gender Equality and the Empowerment of Women
US	The United States of America
USD	United States dollars
USP	University of the South Pacific
VDS	Vessel Day Scheme
WASH	Water, sanitation and hygiene
WCPFC	Western and Central Pacific Fisheries Commission
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade Organization
5Ps	Five pillars

Executive Summary

The United Nations Micronesia Palau National Study is intended to be an up-to-date source of information on the development situation and challenges in Palau, thereby serving as a decision-making tool. This national study contributes towards achieving the 2030 Agenda and the Sustainable Development Goals in the country.

As a basis for the structure of this study, the five pillars (or 5Ps) of the 2030 Agenda have been used, namely: people, prosperity, planet, peace and partnerships. The study concludes by identifying the most likely and damaging risks to the development process and discussing key challenges and opportunities that are likely to have the most impact on achieving the SDGs in Palau.

Palau is a small island developing State in the Pacific, with an economy primarily dependent on tourism and development assistance. Thanks to its pristine marine environment, Palau's tourism sector expanded before the COVID-19 pandemic. Foreign grants also contributed to place Palau among the countries with the highest standard of living in the Pacific and to classify Palau as an upper-middle-income country. In particular, Palau benefits from grants issued under a Compact of Free Association (CoFA) with the United States, which was renewed in May 2023.

However, COVID-19 and the war in Ukraine have highlighted some of the important challenges Palau is facing. These include: (i) the country's dependence on essential imports from abroad, due to its small domestic market (the total population size of Palau was just over 17 600 in 2020); (ii) its lack of domestic resources, due to narrow industrial diversification and its dependence on official development assistance, tourism and fishery; and (iii) its fragile health system, with Palau ranking the third highest in the world for its prevalence of obesity. All of these serve to increase the country's vulnerability to external shocks and constrain its resilience.

During the pandemic, Palau adopted measures to constrain the spread of COVID-19, including border closure and the suspension of commercial flights. The Government also delivered a package of temporary relief measures to mitigate the hardship being felt by Palauans. A Coronavirus Relief One-Stop Shop (CROSS) programme provided unemployment assistance, temporary jobs and concessional business loans. The Government also expanded lifeline utility subsidies to help cushion the most severe socio-economic impacts on affected businesses and workers during 2020-2021.

Despite beginning to experience partial economic recovery, with the gradual return of international travel, Palau remains fragile and highly vulnerable to exogenous and structural risks, especially the ones arising from climate change. The Government estimates the negative economic impact of climate change to be between 4 and 20 per cent of GDP annually, largely stemming from adverse effects on agricultural and fisheries production and a decline in tourism revenues. Indeed, climate change poses an existential threat to the country, through coral bleaching, intense periods of rainfall and/or drought, rising sea levels and increased storm activity, thereby highlighting the importance of climate change adaptation and mitigation.

This study concludes by recommending that Palau consider revising some of its development policy priorities, in this post-pandemic period. **It identifies "eight priority" policy measures which, combined, form a new development model for Palau, called "BlueEARTH".** The term BlueEARTH denotes a [Blue] economy, [E]ducation, [A]id, [R]emittances, [T]ourism and [H]ealth. These eight policy measures comprise the following:

This Palau national study underscores the need to strengthen food system pathways and rejuvenate traditional agri-food systems so as to mitigate food security shocks. In the near term, the priority

should be to support domestic agriculture production and to provide sustainable, nutritious and healthier substitutes for imported goods. To this end, land ownership reform might be necessary to free up more land for onshore agriculture and other food-related activities. In the medium term, the diversification of its agricultural sector on an environmentally sustainable basis would be desirable. For this purpose, Palau could, on the one hand, focus its efforts and interventions around contract farming, atoll fishing and aquaculture and, on the other hand, invest in innovations intended both to boost productivity and reduce the carbon footprint of those sectors.

To reduce the "brain drain" and encourage private investment, there is merit in increasing the pool of skills and expertise available in Palau. Pursuing the establishment of a fully-fledged four-year vocational and further education college in Palau, along with improvements in the secondary education system, would be welcome. Courses and curricula that align with Palau's economic, social and environmental needs and priorities would be expected to reap dividends in the years ahead.

To recover from the pandemic and rebuild fiscal resilience in the near term, Palau must take immediate policy measures to revive the tourism sector, emphasizing sustainability. Promotional activities in the tourist market should be enacted, air routes revived, accommodation and hospitality facilities renovated and upgraded, and more favourable conditions for employing foreign workers should be introduced. In the medium term, Palau has the potential to build a profitable and long-lasting tourism industry through "blue ocean tourism", with greater emphasis placed on the quality of experience over the number of inbound tourists.

This study highlights the need to improve the business-enabling environment by providing robust information, communication and technology infrastructure where private capital and technical support must be active. In this vein, Palau should leverage increasing private sector interest for its benefit. Advances in these areas should attract and catalyze businesses and investors to help make Palau's economy more vibrant.

Preserving the health of the marine ecosystem is essential for Palau's development. Palau should continue pursuing a more sustainable use of ocean resources, spanning fishing practices, eco-tourism, sustainable aquaculture and mariculture. Looking ahead, these activities will not only support climate change adaptation but also enhance economic resilience. Indeed, Palau could seek to diversify its economic profile, increase tourists' arrivals and leverage considerable climate funding by positioning itself as a leading and active proponent of the "blue economy". In mid-January 2024, Palau became the first country to officially ratify the United Nations Ocean Treaty.

New international funding sources and technical assistance are needed to implement Palau's climate change adaptation and mitigation strategy. To help accommodate higher climate spending and Palau's graduation from the OECD's list of countries eligible for lower concessional financing, this study emphasizes the need to plug into international climate financing and enlarge its investor base. Participating in regional initiatives would assist in this regard, as would exploring the potential for issuing a sovereign "blue bond", a thematic or sustainability bond, or a debt-for-climate swap to raise funding.

To strengthen Palau's resilience to climate change, timely implementation of sustainable infrastructure and utility projects is needed. In this regard, the development and deployment of renewable (wind, hydro, solar and tidal) energy, as well as the implementation of reducing emissions from deforestation and forest degradation (REDD+) and the management of waste diversion and recycling, would all help protect the country's pristine and unique environment. Foreign direct investment and technical assistance must be key in supporting those activities.

In conclusion, Palau must navigate a successful and sustainable path through geostrategic dynamics in the Pacific. Palau should consider adopting a twin-track stance of: (i) working to develop more robust and vibrant domestic value creation systems within Palau's borders; while simultaneously (ii) pursuing international cooperation with external powers and organizations that can support its efforts to become a more resilient, sustainable and self-determining nation-state.

"Certain natural environments have figured prominently in humanity's dreams of the ideal world: they are the forest, the seashore, the valley and the island".

Tuan, Yi-Fu (1990).[1]

[1] Tuan, Y. (1990) *Topophilia: A Study of Environmental Perception, Attitudes and Values, 2nd edition*. New York: Columbia University Press, p. 247.

1. Introduction

The United Nations Micronesia Palau National Study was developed within the framework of the 2030 Agenda for Sustainable Development or the Sustainable Development Goals (SDGs).[2] This national study is intended to serve as an integrated, forward-looking and evidence-based analysis of Palau's context for sustainable development. It is also intended to serve as an impartial, collective and independent analysis, undertaken by the United Nations Multi-Country Office (MCO) for Micronesia, to help Palau realize its development vision and achieve the 2030 Agenda. The study aims explicitly to ensure that the United Nations' support to the country is relevant and linked to its national development priorities and within its normative role, as mandated by the United Nations Sustainable Development Group (UNSDG), and as guided by the United Nations member States.[3]

As a basis for the structure of this national study for Palau, the five pillars (or 5Ps) of the 2030 Agenda have been used, namely: people, prosperity, planet, peace and partnerships. Within these five pillars, the 17 SDGs are posited (see figure 1 below). The study concludes by identifying the most likely and damaging risks to the development process and discussing key challenges and opportunities that have the most impact on achieving the SDGs in the country. It is a living document that will be refreshed annually to reflect evolving trends and integrate new data.

Figure 1. SDGs and their five pillars

Source: United Nations.[4]

[2] United Nations Department of Economic and Social Affairs (DESA) (2015). *Transforming our world: the 2030 Agenda for Sustainable Development*, see: https://sdgs.un.org/2030agenda.

[3] UNSDG, previously the United Nations Development Group, established in 2008, unites 31 United Nations funds, programmes, specialized agencies, departments and offices that promote change and innovation, to deliver together on sustainable development. The research exercise is outlined in the UNSDG Programming Principles. See: https://unsdg.un.org/about/who-we-are.

[4] United Nations Sustainable Development Group (UNSDG) (2022). *Key Features and Principles of the 2030 Agenda: Towards sustainable development for all, see*: https://sdgs.un.org/sites/default/files/2022-04/4.Ms_.%20Carol.Pollack-Key%20features-and-principles-of-the-2030-Agenda_CP%2027%20March%20Version.pdf.

Following the introduction section, this study will present the regional and country context, often providing relevant Micronesian and Pacific comparisons. Then, Palau's status with regard to each of the 5Ps (people, prosperity, planet, peace and partnership) will be assessed separately, again showing regional and sub-regional data for context and comparison, in addition to national details. Before concluding, key gaps and challenges for Palau to realize the SDGs will be discussed, humbly proposing a new development model for Palau and other PICTs.

Box 1. The SAMOA Pathway

As a SIDS, Palau is part of the "SAMOA Pathway", which recognizes the adverse impacts of climate change and sea-level rise on the efforts of SIDS to achieve socio-economic development, food security, disaster risk reduction and ocean management, among other challenges.[5] While many SIDS have advanced in achieving sustainable development, their inherent vulnerabilities—including small size, remoteness, climate change impacts, biodiversity loss and narrow resource base—mean that progress for numerous continues to be hampered, and their status as a special case for sustainable development still pertains. The SAMOA Pathway, adopted at the United Nations' Third International Conference on Small Island Developing States in 2014, aims to address the unique challenges that PICTs and other small island States face and support their development via five priority areas. They are: (i) promoting sustained and sustainable, inclusive and equitable economic growth with decent work for all, sustainable consumption and production and sustainable transportation; (ii) acting to mitigate climate change and adapt to its impacts by implementing sustainable energy and disaster risk reduction programmes; (iii) protecting the biodiversity of SIDS and caring environmental health by mitigating the impact of invasive plant and animal species and by properly managing chemicals and water, including hazardous waste, as well as protecting oceans and seas; (iv) improving human health and social development through food security and nutrition, improved water and sanitation, reducing the incidence of non-communicable disease and by promoting gender equity and women's empowerment; and (v) fostering partnership among SIDS, United Nations agencies, development partners and others to achieve these goals.[6]

[5] Ibid. Also, United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) (2014). *The SAMOA Pathway*, see: https://www.un.org/ohrlls/sites/www.un.org.ohrlls/files/samoa_pathway.pdf.

[6] Ibid.

2. Regional and Country Contexts

Before assessing the detailed status of the 5Ps in Palau, this section highlights some pertaining issues to the country's sustainable development. Both regional and domestic issues are covered, including demographic, geopolitical, historical and socio-economic aspects. They are all crucial elements in better understanding Palau's present and emerging development challenges and opportunities.

2.1. The Pacific Island countries and territories

The 14 states that comprise the PICTs (see figure 2 below) have a cumulative population of slightly less than 2.5 million people (less than 0.03 per cent of the global population). However, they possess territories that cumulatively span 15 per cent of the world's surface. While the country profiles of the 14 PICTs, including Palau, vary quite considerably, they also share some common denominators, including: relative remoteness, limited landmasses, small populations, modest sizes of their economies and high exposure and vulnerability to external environmental and economic shocks.[7] The PICTs have also tended to depend on tourism, inward remittances, development partner assistance, and high levels of imported food and other commodities.[8] This broad depiction of the PICTs is also pertinent to Palau.

Figure 2. Pacific island countries and territories (PICTs)

Source: United Nations.[9]

[7] United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) (2022). *Asia-Pacific Countries with Special Needs Development Report 2022: Financing a Sustainable Recovery from COVID-19 and Beyond*. Bangkok: United Nations.

[8] Tisdell, C. (2016). "Models of the International Economic Dependence of Pacific Microstates: A Critical Review with Important Implications for International Policies and Relations", *Journal of Self-Governance and Management Economics*, 4(2), 7-27.

[9] The United Nations in the Pacific (2022), p. 9.

Nine of the PICTs are ranked in the Human Development Index (HDI):[10] Palau (80th), Fiji (99th) and Samoa (111th) are in the "high" human development category, while Tuvalu (130th), Marshall Islands (131st), the Federated States of Micronesia (FSM) (134th), Kiribati (136th), Vanuatu (140th) and Solomon Islands (155th) are in the "medium" category. No PICT is ranked in either the very high or low human development category. However, Kiribati, Solomon Islands and Tuvalu are currently classified as least developed countries (LDCs).

Notwithstanding their large offshore territories, the PICTs possess a narrow resource base and host small domestic markets, which deprive them of any benefits stemming from economies of scale (although they contribute significantly to a few global food supply chains, such as tuna and copra).[11] They face a combination of being far from export markets and import resources, and must also contend with low and sometimes irregular international traffic volumes of many essential inputs.[12] This in turn translates into high energy, infrastructure, transportation and communication costs (particularly when viewed on a per capita basis). Moreover, most of the PICTs tend to rely on exporting a few primary commodities and attracting in-bound tourists, making them highly vulnerable to external economic shocks, such as the recent COVID-19 pandemic, as they lack some of the resilience that comes from having a more diverse range of income sources. As a cumulative result, there are limited, relatively niche opportunities for private sector development in the PICTs, which experience severe volatility regarding their economic growth patterns. This partly explains why the PICTs have tended to suffer from a vicious cycle of low productivity and sparse investment. All these characteristics act as further structural impediments to their long-term development.

The PICTs also face numerous other challenges, such as high rates of non-communicable diseases (NCDs), vulnerable food systems and burgeoning perils posed by climate change (e.g., erratic and extreme weather-related events and sea-level rise), all of which impact adversely on livelihoods.[13] The impact of the recent global pandemic – and various measures implemented to restrict its spread –

[10] United Nations Development Programme (UNDP) (2021). *Human Development Index*, see https://hdr.undp.org/data-center/human-development-index#/indicies/HDI.

[11] Although almost no cereals are grown in the PICTs, wheat-based foods and rice play a significant role in the diets of their populations, substituting for traditional staple foods like taro, breadfruit and cassava.

[12] United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and United Nations Conference on Trade and Development (UNCTAD) (2022). "Analysis of maritime connectivity in the Association of Southeast Asia Nations and small island developing States in the Pacific", *Transport and Trade Facilitation Series No. 18*. Geneva, see https://unctad.org/system/files/official-document/dtltlb2022d1_en.pdf.

[13] It is perhaps worth noting that a relatively recent International Monetary Fund (IMF) analysis suggests that of all the PICTs, Palau is the least likely to encounter a natural disaster, based on 204 natural disaster events recorded between 1980 and 2016, spanning: storms, floods, earthquakes and other volcanic activity, droughts, landslides, wildfires, epidemics and mass movements. However, in 2012, Typhoon Bopha caused damage and losses in Palau, equivalent to 7 to 9 per cent of GDP, while Typhoon Haiyan in 2013 caused estimated losses for Palau of 4 per cent of GDP. Also, a severe *El Niño* effect in 2016 led to a significant loss of jellyfish in the Rock Islands – a major tourist attraction. Extreme changes in weather conditions – or "climate whiplash" – are a phenomenon that is becoming more apparent across all PICTs, especially in Palau. The jellyfish lake has been in a long-term "spawning" cycle which impacts the number of jellyfish visible due to increasing temperatures. Also see: Lee, D., Zhang, H. and Nguyen, C. (2018). "The Economic Impact of Natural Disasters in Pacific Island Countries: Adaptation and Preparedness", *IMF Working Paper, WP/18/108*, see https://www.imf.org/en/Publications/WP/Issues/2018/05/10/The-Economic-Impact-of-Natural-Disasters-in-Pacific-Island-Countries-Adaptation-and-45826.

were pronounced for PICTs, leading to a near total economic paralysis for the region and far-reaching ramifications for agriculture and food security.[14] Palau was no exception in this regard.

2.2. Pacific development strategies and models

Experts have proposed numerous development strategies and economic models to overcome the challenges the PICTs face.[15] Earlier, some strategies were proposed to enhance PICTs' self-sufficiency, such as securing external funds and/or earning adequate incomes to sustain lifelines and imports, and develop the provision of modern infrastructure, given that their economies are too small to capture economies of scale domestically.[16] More recently, development strategies have tended to shift more towards addressing and mainstreaming sustainability issues – such as maintaining maritime ecosystems – congruent with the pursuit of the SDGs.[17]

The most cited model is MIRAB, proposed in the 1980s, which has four main components: migration, remittances, foreign aid and public bureaucracy.[18] The MIRAB model proposes two distinct income sources. The first source depends on the provision of foreign aid, which is used to fund the government bureaucracy, leading to a local multiplier effect on incomes and employment. The second income source involves inward remittances from emigrants to citizens remaining at home, again leading to the multiplier effect. However, the "import leakage" from these effects is typically high, so the multiplier effect may not be as significant as desired.[19] In the mid-1990s, the TOURAB (tourism, remittance, aid and bureaucracy) model focused on tourism for revenues, supplemented with aid inflows. In the mid-2000s, the SITE (small island tourism economies) and PROFIT (people, resources, overseas engagement, finance and transport) economic development models focused on domestic capacity building by promoting private sector development and foreign direct investment (FDI).[20] There have also been attempts to generate economic revenues from providing offshore services, such as offshore private banking, vessel registration,[21] digital residency and so on. Table 1 summarizes those development models for PICTs.

[14] World Food Programme (WFP) (2023). *Pacific multi country strategic plan (2023-2027)*, Executive Board Annual session, Rome, see: https://docs.wfp.org/api/documents/WFP-0000148987/download.

[15] Tisdell (2016).

[16] Baldacchino, G. (2006). "Managing the hinterland beyond: Two ideal-type strategies of economic development for small island territories", *Asia Pacific Viewpoint*, 47(1), 45-60.

[17] United Nations Conference on Trade and Development (UNCTAD) (2022). *Note by the UNCTAD secretariat, TD/B/C.II/EM.6/2*, at the Expert Meeting on Revisiting Development Strategies for Small Island Developing States in the Post-Pandemic Competitive Landscape, Trade and Development Board, Investment, Enterprise and Development Commission, Geneva.

[18] Tisdell (2016).

[19] Import leakage results in funds being spent on acquiring imported products and services, causing less money to remain within the domestic economy from which to generate a multiplier effect.

[20] Tisdell (2016).

[21] "Flags of convenience" are a practice whereby a merchant ship is registered in a country other than its owners, and the ship flies the civil ensign of that country. In 2022, Marshall Islands had almost 4 000 commercial vessels registered, accounting for 290 million deadweight tons. Only Panama and Liberia had larger numbers of vessels registered.

Table 1. Development models for PICTs

Models	Key elements	Income sources	Enablers	Past studies
MIRAB	[MI]gration [R]emittance [A]id [B]ureaucracy	International remittances and foreign aids	Migration and public bureaucracy	Bertram and Watters (1985 and 1986)[22]
TOURAB	[TOU]rism [R]emittance [A]id [B]ureacracy	Tourism, international remittances and foreign aids	Tourism specialization, dynamic private sector, migration and public bureaucracy	Guthunz and von Krosigk (1996)[23]
SITEs	[S]mall (warm water) [I]sland [T]ourist [E]conomie[s]	Tourism	Tourism specialization and FDI	McElroy (2006); McElroy and Oberst (2007)[24]
PROFIT	[P]eople (immigration) [R]esources [O]verseas engagement (diplomacy) [FI]nance [T]ransport	Various	Enabling domestic policy framework, dynamic private sector and strategic diversification	Baldacchino (2006)[25]

Sources: various.

In August 2022, the UNCTAD secretariat issued a note on "Revisiting Development Strategies for Small Island Developing States in the Post-Pandemic Competitive Landscape", noting that "the need to reduce vulnerability and build resilience to external shocks has guided collective efforts by small island development states and the international community".[26] It encourages a discussion on alternative economic development strategies for SIDS, in the context of global value chains and the "fourth industrial revolution". UNCTAD broadly categorizes development strategies for the SIDS, which include all the PICTs, in terms of: (i) agriculture-led development; (ii) manufacturing-led industrialization; (iii) extraction-led development; and (iv) service-led development.[27] The organization argues that SIDS can take one or more development strategies to fit well with their geographic and demographic endowment structure. Figure 3 depicts an overview of the development strategies among SIDS. The figure also includes the "blue economy" strategy. Palau and three other

[22] Bertram, G. and Watters, R. (1985). "The MIRAB Economy in South Pacific Microstates", *Pacific Viewpoint*, 26(3), 497-519.

[23] Guthunz, U. and von Krosigk, F. (1996). "Tourism Development in Small Island States: From 'MIRAB' to 'TOURAB'", in Briguglio, L., Archer, B., Jafari, J. and Wall, G. (eds.), *Sustainable Tourism in Islands and Small States: Issues and Policies*. London: Pinter, 18-35.

[24] McElroy, J. (2006). "Small Island Economies across the Life Cycle", *Asia Pacific Viewpoint*, 47(1), 61–77; McElroy, J. and Oberst, A. (2007). "Contrasting Socio-Economic and Demographic Profiles of Two, Small Island, Economic Species: MIRAB versus PROFIT/SITE", *Island Studies Journal*, 2(2), 163-176.

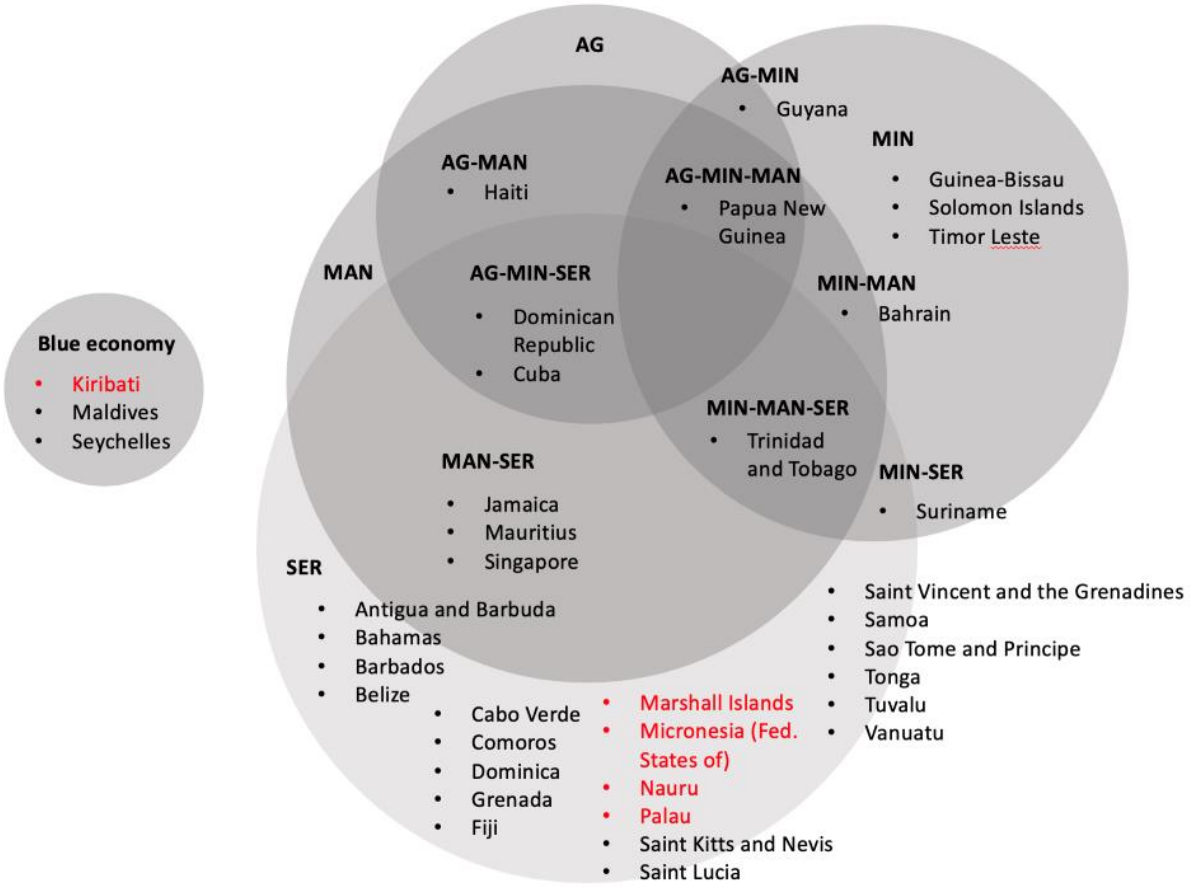
[25] Baldacchino (2006).

[26] United Nations Conference on Trade and Development (UNCTAD) (2022). *Note by the UNCTAD secretariat, TD/B/C.II/EM.6/2*, at the Expert Meeting on Revisiting Development Strategies for Small Island Developing States in the Post-Pandemic Competitive Landscape, Trade and Development Board, Investment, Enterprise and Development Commission. Geneva: UNCTAD. See: https://unctad.org/system/files/official-document/ciiem6d2_en.pdf.

[27] Ibid., p. 9.

Micronesian countries – i.e., FSM, Marshall Islands and Nauru – are grouped in service-led development states, while Kiribati is categorized as a state pursuing the blue economy strategy.

Figure 3. Development strategies for small island developing states (SIDS)



Source: UNCTAD.[28]
Note: AG: natural resource-led strategy, agriculture variant; MAN: manufacturing-led industrialization; MIN: natural resource-led strategy, minerals variant; SER: service-led development.

The "blue economy" is a development concept that aims to achieve socio-economic progress simultaneously with ocean environmental protection and sustainable maritime resource extraction.[29] It spans: fisheries, eco-tourism, maritime transport, aquaculture, seabed extractive activities, marine biotechnology and bioprospecting. It is a relatively new term and largely translates the "green economy" concept in a maritime context. The blue economy's greatest challenge is reconciling two competing interests: (i) opportunities for local development and growth; and (ii) the protection of vulnerable and threatened space.[30]

[28] Ibid.

[29] Mridula, S., Kaullysing, D., Bhagooli, R. and Pratt, S. (2022). "Marine tourism and the blue economy: Perspectives from the Mascarene and Pacific Islands", in Urban, E. R. and Ittekot, V. (eds.), *Blue Economy*, Singapore: Springer, 153-189.

[30] Ibid.; Lee, K. H., Noh, J. and Khim, J. S. (2020). "The Blue Economy and the United Nations' sustainable development goals: Challenges and opportunities", *Environment International*, 137:105528.

In recent years, multiple PICT governments and agencies have been increasingly dedicated to promoting the blue economy by implementing various proactive policies and programmes.[31] As a major step in this trajectory, the "2050 Strategy for the Blue Pacific Continent" was endorsed by 18 countries and territories, including Palau, at the Pacific Islands Forum (PIF) in 2022.[32] The strategy consists of seven themes, namely: (i) political leadership and regionalism; (ii) resources and economic development; (iii) climate change; (iv) oceans and natural environment; (v) people-centred development; (vi) technology and connectivity; and (vii) peace and security. The strategy is intended to guide how the countries of the Pacific navigate various challenges confronting the region (including the impacts of climate change, slow economic growth, poor health and education outcomes and significant ocean and land-based environmental degradation) and also leverage their collective strengths (including culture and traditions, a youthful population and significant island and ocean resources).

Although numerous development strategies and models have been proposed for the PICTs, including Palau, it is unlikely that any single one can comprehensively serve the specific needs of a single territory, due to their diversified and distinct characteristics. Here, policy-makers will almost certainly need to "cherry pick" and prioritize specific policy options from different strategies and models, so as to create a bespoke policy framework that can bring about the most impactful results.

2.3. Foreign development assistance

The PICTs' small economic base and narrow fiscal space, compounded by losses caused by occasional external shocks and natural disasters, means that their reliance on official development assistance (ODA) has been some of the highest globally, whether on a per capita basis or as a proportion of GNI.[33] Disbursement flows of net ODA and official aid into the PICTs, in the period between 2010 and 2021, held steady or rose for the majority (9 of the 11) countries.[34] This includes Palau, where flows roughly doubled over that period, broadly on par with the pace of net ODA disbursement flow increases seen in FSM and Tonga. Even greater increases were seen across some of the other PICTs, including Kiribati and Tuvalu (roughly tripling), and Marshall Islands (roughly quadrupling). Nauru and Vanuatu saw broadly constant net ODA disbursement numbers across that period, while Samoa and Solomon Islands witnessed slight declines in their net ODA disbursement flows (in current US terms).

Figure 4 provides the longitudinal statistics of net ODA flows to Micronesia, between 2010 and 2021. It shows the large differences in received net ODA amounts and year-by-year fluctuations among the five recipient Micronesian countries: Palau, FSM, Marshall Islands, Nauru and Kiribati.

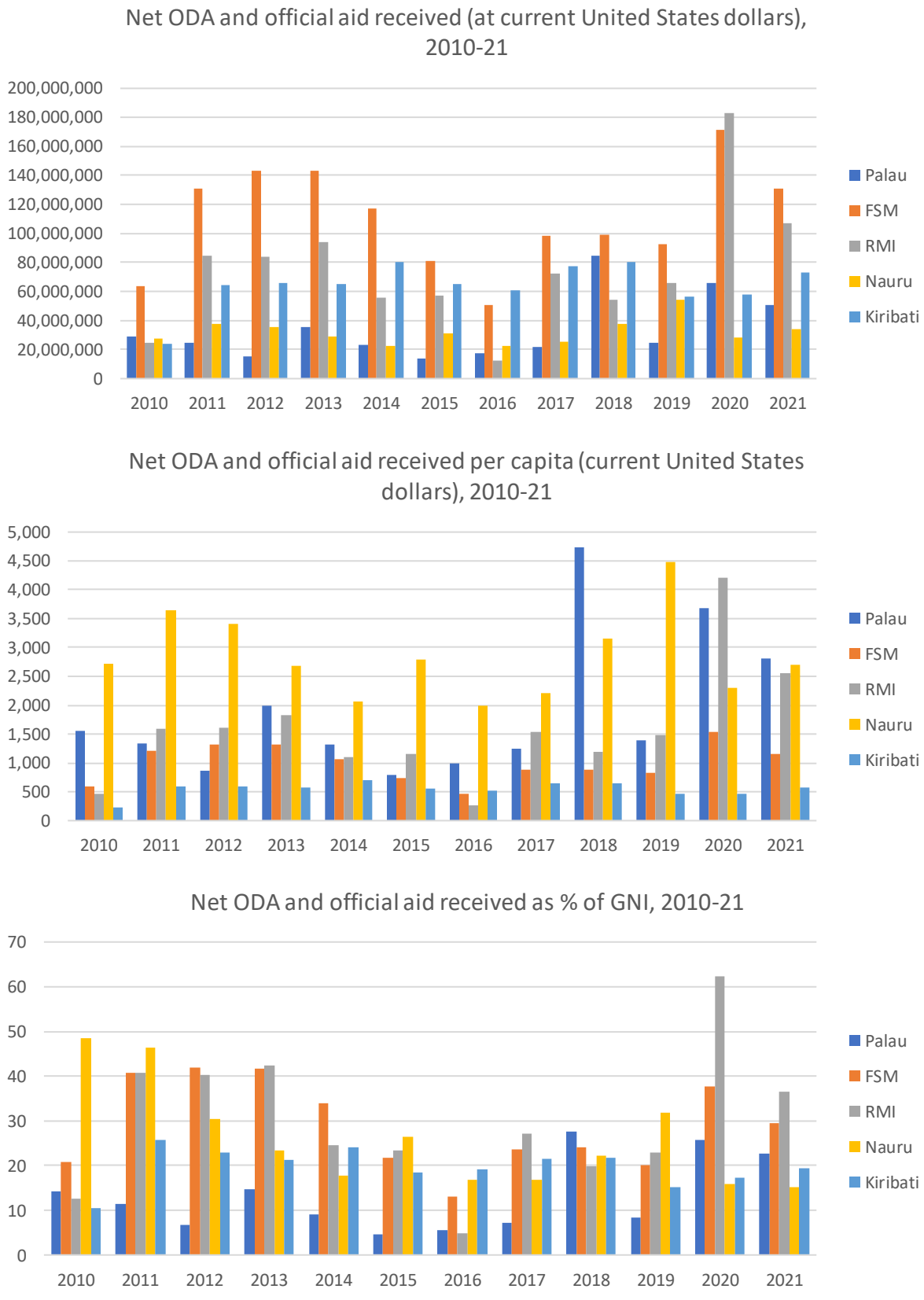
[31] Pacific Islands Forum Secretariat (PIFS) (2022). *2050 Strategy for the Blue Pacific Continent*, Suva, see: https://www.forumsec.org/2050strategy.

[32] Ibid.: the 18 countries and territories comprise: Australia, Cook Islands, FSM, Fiji, French Polynesia, Kiribati, Marshall Islands, Nauru, New Caledonia, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

[33] World Bank Group (2023a). *Net official development assistance and official aid received (current United States dollars)*, see: https://databank.worldbank.org/source/world-development-indicators.

[34] Ibid.

Figure 4. Net ODA and official aid received by Micronesia



Source: World Bank Group.[35]

[35] Ibid.

In the previous five-year programming cycle (2018-2022), the Pacific UNCTs disbursed over $700 million to the PICTs under the United Nations Pacific Strategy (UNPS) 2018-2022, albeit down from close to $1 billion during the 2013-2017 development framework.[36] This relative decline is primarily attributed to the impact of the COVID-19 pandemic on the United Nations operations and the capacity of the PICTs to continue with investments and absorb funds during major operational restrictions stemming from the pandemic.

Box 2. United Nations Pacific Strategy 2018-22

Preceding the PSDCF 2023-2027, the UNPS 2018-2022 was a five-year strategic framework that encapsulated the collective response of the United Nations system to the development priorities in the 14 PICTs, including Palau.[37] The UNPS supported governments and peoples in the Pacific to advance a localized response to the 2030 Agenda. In Palau, the UNPS was aligned with the Palau National Master Development Plan 2020 – "Sustainable and widespread improvement in general standards of living while preserving cultural and environmental values of the people of Palau" – particularly in the areas of climate change, oceans, disaster risk reduction, infrastructure, tourism, health and education (see table 2).[38] The UNPS also complemented the work of regional organizations, in particular the Council of Regional Organisations of the Pacific (CROP), comprising, among others, the Pacific Islands Forum Secretariat (PIFS), the Pacific Community (SPC), the Secretariat of the Regional Environment Programme (SPREP), the Forum Fisheries Agency (FFA) and the University of the South Pacific (USP), congruent with the regional priorities.

Table 2. The UNPS country plan for Palau: six outcomes and United Nations agencies

Outcomes	Descriptions	United Nations agencies
1	Climate change, disaster resilience and environmental protection	UNDP, UNICEF
2	Gender equality	UNDP, UNICEF
3	Sustainable and inclusive economic empowerment	ESCAP, ILO
4	Inclusive, resilient and quality basic services	UNICEF, WHO
5	Governance and community engagement	UNDP, UNICEF
6	Human rights	ILO, OHCHR

2.4. Impact of the COVID-19 pandemic and the war in Ukraine

The COVID-19 pandemic (2020-2023) and the war in Ukraine (2022-present) both served to illustrate the vulnerability of the PICTs to exogenous shocks. The pandemic and the distant conflict disproportionately impacted the PICTs, with potentially devastating blows on human health through the socio-economic effects of the virus and containment policies, coupled with rapid inflation. The

[36] The United Nations in the Pacific (2022). *United Nations Pacific Strategy (UNPS) 2018-2022: Final Evaluation Report, April 2022*.

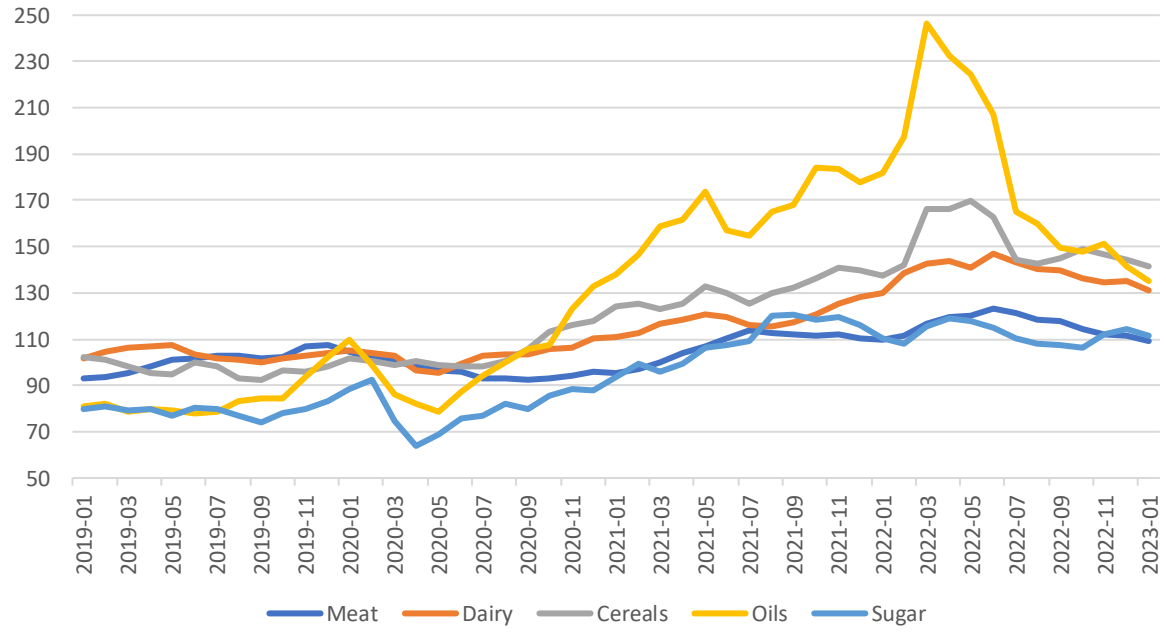
[37] United Nations in the Pacific (2017). *United Nations Pacific Strategy 2018-2022*, see: https://unsdg.un.org/resources/united-nations-pacific-strategy-2018-2022#:~:text=The%20United%20Nations%20Pacific%20Strategy,%2C%20Nauru%2C%20Niue%2C%20Palau%2C

[38] SGRIC International (1996). *Palau 2020 National Master Development Plan: Issues, Options and Strategies for Palau's Development—Final Report: The Foundation of Development, April 1996.* South Australia, see: https://chm.cbd.int/api/v2013/documents/863D1F62-8A10-1396-DEBC-ECF566BE0EF0/attachments/212181/Palau_NationalMasterDevelopmentPlan-2020_2010-06_Part1.pdf.

lack of domestic financial resources, elevated debt levels and fragile health systems all present crucial challenges in the PICT economies, including Palau.[39] The economic impacts of both the pandemic and conflict on PICTs have been particularly large due to their limited resources, small domestic markets, narrow industrial diversification and dependence on remittances and ODA, as well as on tourism and trade as drivers of economic growth.[40] All of these aspects increase their vulnerability to external shocks. Moreover, the short-term health crisis has had far-reaching and long-lasting impacts on education, human rights, food security and sustainable development.

However, towards the end of 2022, the Micronesian countries witnessed the gradual return of international travel, and with the increase in people and trade flows, these countries began to experience partial economic recovery in the second half of 2022. Nonetheless, post-pandemic inflationary forces caused by global increases in the prices of food, energy and transportation have hampered the PICTs' economies, and analysts have warned of the risk of potential recession in some economies.[41] One concern is the spectre of long-term price increase in global food and commodity markets, given that the PICTs rely heavily rely on imported foods and products (see figure 5 below). However, it is expected that economic growth will persist in 2023-24 (also see table 3 below). A key priority policy for all the PICTs is strengthening their own respective local environmental, societal and governance structures and findings ways of enhancing domestic and foreign capital flows, in order to achieve steady economic growth and implement comprehensive development programmes that are congruent with the 2030 Agenda.

Figure 5. International food commodity price indices
2019-2023



Source: FAO (2023).[42]

[39] ESCAP (2022).

[40] Ibid.

[41] Monteiro, A. (2023). "World Bank Cuts 2023 Forecasts and Warns of Global Recession," *Bloomberg: Economics*, 11 January.

[42] Food and Agriculture Organization of the United Nations (FAO) (2023). *FAO Food Price Index, World Food Situation*, see: https://www.fao.org/worldfoodsituation/foodpricesindex/en.

Table 3. GDP growth rates in Micronesia

2018-2024

	2018	2019	2020	2021	2022	2023*	2024*
Palau	-0.1	-1.9	-9.7	-17.1	-1.0	3.8	6.5
FSM	0.1	2.7	–3.6	–1.3	2.0	4.1	0.5
Marshall Islands	4.2	10.8	–1.8	1.1	–0.9	1.5	2.0
Nauru	5.7	1.0	0.7	1.5	1.2	1.8	2.2
Kiribati	5.3	–2.1	–1.4	1.5	1.8	2.3	2.8

Source: Asian Development Bank.[43]

Note: * indicates predicted figures.

2.5. Country profile

Palau is one of 38 United Nations member States classified as a SIDS, along with 20 non-member States and associate members of the United Nations.[44] Palau has a landmass of 459 square kilometres, making it the 16th smallest country globally, with around 18 000 inhabitants.[45] It is an archipelago comprising six island groups, totalling more than 340 islands of varying topography, from the high mountainous main island of Babeldaob to low coral islands, often fringed by large barrier reefs. Around 87 per cent of Palau´s land surface is covered by forest.[46] Ngerulmud, on Babeldaob Island, is the smallest national capital in the world, by population size. The town of Koror, on Koror Island, which served as the country's capital from independence in 1994 to 2006, is the largest settlement in Palau with over 11 000 residents, equivalent to around 70 per cent of Palau's total population, resulting in issues of overcrowding and water insecurity.[47]

The standard of living in Palau is among the highest in the Pacific, with relatively well-established health and education services and classified as an upper-middle-income country by the World Bank.[48] Palau's economy, dominated by the tourism sector, has stagnated somewhat in recent years, with a further economic slowdown experienced during the COVID-19 pandemic.[49] It has therefore had to rely in part on development assistance (such as from the Palau Trust Fund established as part of the Compact of Free Association between the United States and Palau), external grants and imported goods.[50]

[43] Asian Development Bank (ADB) (2023). *Asian Development Outlook 2023*. Manila: Asian Development Bank.

[44] For the list of countries classified as SIDS, see: https://www.un.org/ohrlls/content/list-sids.

[45] World Bank Group (2023b). *Population, total*, see https://data.worldbank.org/indicator/SP.POP.TOTL?locations=PW: Palauans make up about 70 per cent of the resident population, with the rest being migrants.

[46] Based on 2018 estimates. CIA (2023). *The CIA World Factbook 2023-2024*, see: https://www.cia.gov/the-world-factbook/countries/palau.

[47] World Bank Group (2023b).

[48] World Bank Group (2023c). *World Bank Country and Lending Groups*, see: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.

[49] Palau has some of the most pristine marine environments in the world, although the expansion of tourism has placed increasingly onerous demands on the country's fragile environment.

[50] For more details on the Palau Trust Fund, see: https://www.doi.gov/oia/compact-trust-funds.

2.6. Palau's historical development

In the 17th century, Spanish explorers named what is now Palau the Caroline Islands, eventually becoming part of the Spanish East Indies in 1885, along with the Mariana and Marshall Islands, administered from the Philippines. Before that, possession of the islands had been claimed by Germany, Britain and Spain, and the Pope decided to recognize the latter's claim, with trading concessions offered to the former two. The Palau islands were subsequently sold by Spain to Germany in 1899 after the former lost the Philippines in the Spanish-American War. Germany pursued several (bauxite and phosphate) mining and (coconut/copra) plantation activities in Palau.[51]

Japan seized Palau in 1914 at the beginning of World War I and was granted a League of Nations mandate in the "South Seas" to administer the island state, along with Northern Mariana Islands (Saipan and Tinian), Palau, Yap, Chuuk, Pohnpei, Kosrae and Marshal Islands, in 1920. Koror became the capital of Palau in 1922, hosting Japan's South Pacific Agency headquarters.[52] Japan continued and expanded the economic exploitation of Palau started by Germany and encouraged immigration from Okinawa and other parts of Japan (often called "Japanization").[53] By 1938, the number of Japanese livings in Palau was 2.5 times greater than that of native Palauans. Japanese trading companies pursued commercial fishing, farming and pearl harvesting during this period.[54]

In 1944, Palau was taken by the United States after the battle of Peleliu. Following World War II, Palau became part of the Trust Territory of the Pacific Islands (TTPIs), administered by the US Navy from 1947 to 1951, and the US Department of the Interior from 1951 to 1986 (and until 1994 for Palau).[55] The United States implemented the so-called "zoo theory", allowing Micronesians, including Palauans, to maintain their traditional culture and livelihood, and were essentially left to their own devices.[56] However, the island states' policy-making would be based on the United States' security needs, with far less attention paid to their socio-economic development.[57]

Palau adopted its constitution in 1981, which included a declaration that Palau was to be a nuclear-free country.[58] In 1986, Palau signed a 50-year Compact of Free Association (CoFA) with the United States' Department of the Interior, which would govern Palau's "free association" with the United States as a sovereign country or a freely associated state (FAS). The CoFA granted Palau financial assistance, which would expire after 15 years, and permanent US entry for its citizens as lawful non-immigrants or "habitual residents", in exchange for exclusive US military access and defence

[51] Hezel, F. X. SJ. (1995). *Strangers in Their Own Land: A Century of Colonial Rule in the Caroline and Marshall Islands*. Honolulu: University of Hawaii Press.

[52] Ibid.

[53] Ibid.

[54] Ibid.

[55] Ibid.

[56] Marianas Variety (2020). *Variations | Zoo theory in Micronesia*, Saipan, see: https://www.mvariety.com/views/editorials/variations-zoo-theory-in-micronesia/article_f459298b-e852-5b3d-98be-8e1153b927cc.html#:~:text=In%20line%20with%20what%20was,"zoo%20theory"%20of%20administration.

[57] Andrews, C. (2017). *Micronesia in Modern Geopolitics.* Austin: University of Texas at Austin, see: https://repositories.lib.utexas.edu/handle/2152/63613.

[58] Hezel (1995).

responsibilities.[59] Palau is also eligible for several US federal programmes and services, including US postal services and federal education scholarships.

However, Palau's nuclear-free stance prompted voters to reject ratification of the CoFA in seven successive referenda, as the constitutionally mandated 75 per cent majority in favour was not achieved to over-ride the nuclear ban (as required under the terms of the CoFA). However, a 1992 amendment to the Constitution, that revised the approval requirement to 50 per cent, enabled the eighth plebiscite to successfully ratify the CoFA, in November 1993, garnering approval from 68 per cent of Palauan voters. Subsequently, the CoFA entered force in 1994, with US assistance beginning in 1995.[60]

After Palau completed its sovereign act of self-determination, the United Nations Security Trusteeship was dissolved. At the time, Palau was the last of the Trust's jurisdictions remaining under the oversight of the United Nations Security Council. This trusteeship was formally dissolved in 1994, and the United Nations General Assembly Resolution 49/63 granted Palau membership in the United Nations.[61]

In 2010, the United States and Palau concluded the US-Palau Compact Review Agreement to extend economic assistance and trust fund contributions for another 15 years (2010-2024). Negotiations to renew the CoFA for the second time began in 2020 but stalled later that year and remained largely suspended through early 2022.[62] Several factors contributed to a halt in negotiations: (i) the COVID-19 pandemic, which prevented in-person discussions; (ii) the Trump Administration's proposals to provide future Compact assistance through discretionary rather than mandatory funding; (iii) the lack of a high-level, political appointee to lead negotiations and coordination among agencies on the US side; (iv) an absence of specific funding proposals from Palau; and (v) resistance by some US agencies to continue programmes and services in the FAS, largely due to cost implications. However, in mid-January 2023, it was reported that Palau and the United States had signed a memorandum of understanding to renew the CoFA, after the United States doubled its aid offer to $800 million over 20 years. This came shortly after an announcement was made that the United States is to build an over-the-horizon radar station in Palau by 2026.[63] The United States signed the third CoFA with Palau in May 2023.[64]

2.7. Geopolitical dynamics

The United States' "Indo-Pacific Strategy", released in February 2022, articulates the United States' goals in the Pacific, including building climate resilience, addressing needs in digitalization, and

[59] See: https://www.congress.gov/bill/99th-congress/house-joint-resolution/626/text/pl?overview=closed and https://www.doi.gov/sites/doi.gov/files/uploads/ROP-COFA-Subsidiary-Agreements.pdf. Also see: https://www.doi.gov/oia/compacts-of-free-association and https://pw.usembassy.gov/wp-content/uploads/sites/282/2017/05/rop_cofa.pdf.

[60] Andrews (2017).

[61] Ibid.

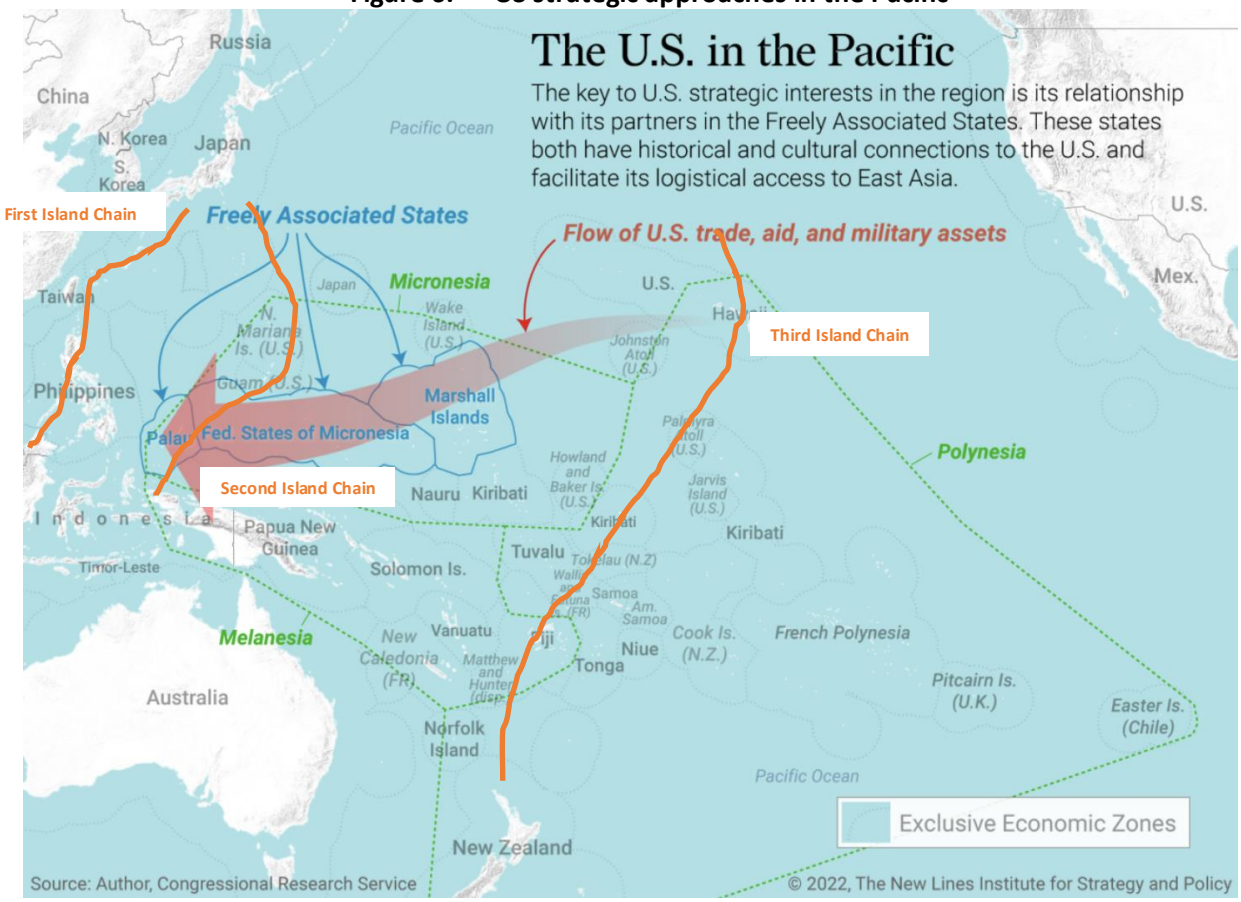
[62] Ibid.

[63] Rane Network (2023). "U.S., Palau: Countries Sign Radar Agreement, MoU to Renew Compact of Free Association", *Situation Report – Worldview*.

[64] Reuters (2023). *U.S. signs agreement to continue Micronesia assistance under strategic pact*, May 23, see: https://www.reuters.com/world/asia-pacific/us-signs-agreement-continue-micronesia-assistance-under-strategic-pact-2023-05-23/.

protecting fisheries.[65] It also aimed to prioritize negotiations on the CoFA with the FAS, including Palau, as the bedrock of the US role in the Pacific. With specific regard to Palau, the United States deems the country to occupy "a strategic location" and a "key focus for US Indo-Pacific planning" as the "anchor of the second island chain" sitting at a "critical juncture" in the Pacific (see figure 6 below).[66]

Figure 6. US strategic approaches in the Pacific



Source: developed based on the New Lines Institute for Strategy and Policy.[67]

In June 2022, the Partners in the Blue Pacific (PBP) was launched, intended as an informal mechanism by which the United States, Australia, New Zealand, Japan and the United Kingdom would support "Pacific priorities more effectively and efficiently."[68] In September 2022, the United States also

[65] For more details on the United States' Indo-Pacific Strategy, see: https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf; https://gpilondon.com/publications/the-usa-indo-pacific-strategy-2022; and https://www.eastasiaforum.org/2022/10/30/blind-spots-in-washingtons-indo-pacific-strategy.

[66] Ibid.

[67] New Lines Institute for Strategy and Policy (2022). *A New U.S. Approach to the Pacific Island Countries, 13 October*, see: https://newlinesinstitute.org/strategic-competition/a-new-u-s-approach-to-the-pacific-island-countries/.

[68] For further details, see: https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/24/statement-by-australia-japan-new-zealand-the-united-kingdom-and-the-united-states-on-the-establishment-of-the-partners-in-the-blue-pacific-pbp.

unveiled its "Pacific Partnership Strategy" at a summit with the 14 PICTs, held in Washington D.C.[69] Its four stated objectives, which closely link with the United States' Indo-Pacific Strategy, comprise: (i) a strong United States Pacific partnership; (ii) a united Pacific connected to the world; (iii) a resilient Pacific prepared for the climate crisis and other 21st century challenges; and (iv) empowered and prosperous Pacific islanders.[70]

In the United States' most recent country strategy for Palau, three main "mission goals" are identified, thus:[71]

i. Protect the United States and its citizens, while bolstering regional security;
ii. Increase Palau's resiliency to the impacts of climate change and natural disasters and promote sustainable growth; and
iii. Improve health and education for Palauans.

Increasing the US military's presence in Palau and around its territorial waters is intended to provide monitoring capabilities throughout Oceania and the South China Sea, of up to 3 000 miles (4 800 kilometres). Under the CoFA, the United States has exclusive rights to station troops and assets in Palau's territory, as Washington D.C. and Beijing vie for geo-strategic influence in the Pacific.

Since 1999, Palau has been one of just fourteen countries worldwide – along with Nauru, Marshall Islands and Tuvalu – that formally recognize the Taiwan Province of China as a sovereign country.[72] In 2019, Kiribati and Solomon Islands shifted their diplomatic relations from Taipei to Beijing. Both countries have embassies in the other. Relations between Palau and the Taiwan Province of China are reported to be strong, and the latter has provided Palau with economic development support in areas such as health, as well as investments in a number of tourism and hospitality ventures. In 2021, there was an attempt to establish a "travel bubble" between Palau and the Taiwan Province of China that would allow Taiwanese tourists to visit the latter, in organized tours. In October 2022, the Palau President said that "the people of Palau deeply value the friendship between our two nations and are committed to supporting the Taiwan Province of China despite the mounting aggressions in our region".[73]

[69] For further details, see: https://www.whitehouse.gov/wp-content/uploads/2022/09/Pacific-Partnership-Strategy.pdf.

[70] The "strong United States Pacific partnership" objectives include increasing United States commitments to the region and building up US capacity support. The objectives of the "united Pacific connected to the world" includes bolstering Pacific regionalism, elevating the Pacific in the regional architecture and coordinating with allies and partners. The "resilient Pacific prepared for the climate crisis and other challenges" objectives include building climate resilience, supporting marine conservation, maritime security and sovereign rights, as well as supporting good governance and human rights. And the "empowered and prosperous Pacific islanders" objectives include creating economic opportunities and forging connectivity, bolstering health and health security and partnering with Pacific islanders to strengthen ties and "seize 21th century opportunities."

[71] US Department of State (2022). *Integrated Country Strategy: Palau*. Washington D.C.

[72] Nauru changed its diplomatic tie to China in January 2024.

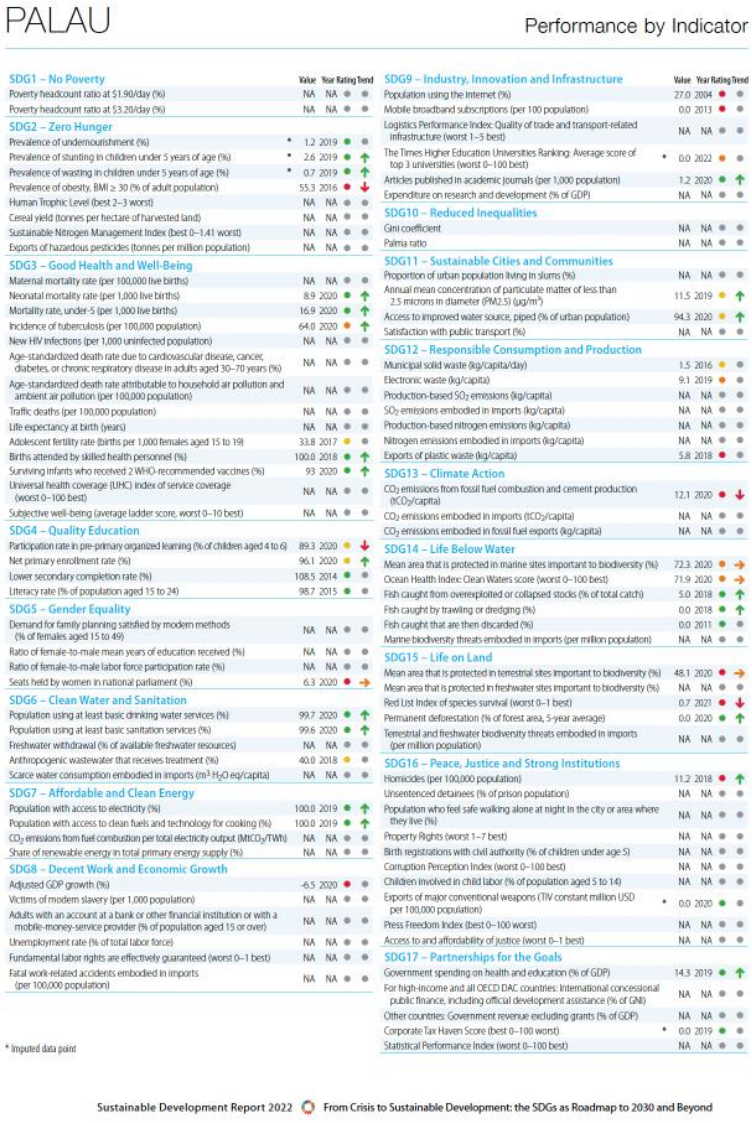
[73] Reuters (2022). Palau says committed to supporting Taiwan despite "mounting aggressions", 6 October, see: https://www.reuters.com/world/asia-pacific/palau-says-committed-supporting-taiwan-despite-mounting-aggressions-2022-10-06/.

2.8. Implementing the SDGs in Palau

The most recent (2022) iteration of the "Sustainable Development Report" tracks Palau's progress across just eight of the 17 SDGs.[74] Of these eight, Palau has thus far achieved just one of the SDGs: affordable and clean energy. "Moderate challenges" are said to remain for three other SDGs: (i) quality education; (ii) clean water and sanitation; and (iii) sustainable cities and communities. "Significant challenges" pertain to two other SDGs: (i) zero hunger; and (ii) life below water. And "major challenges" exist for further two SDGs: (i) industry, innovation and infrastructure; and (ii) life on land. Insufficient information is available for the remaining nine SDGs (see figure 7 below).

Figure 7. Palau's progress in SDG implementation

[74] Sachs, J., Lafortune, G., Kroll, C., Fuller, G. and Woelm, F. (2022). *Sustainable Development Report 2022: From Crisis to Sustainable Development: the SDGs as Roadmap to 2030 and Beyond*. Cambridge: Cambridge University Press.



PALAU

Performance by Indicator

	Value	Year	Rating	Trend
SDG1 – No Poverty				
Poverty headcount ratio at $1.90/day (%)	NA	NA		
Poverty headcount ratio at $3.20/day (%)	NA	NA		
SDG2 – Zero Hunger				
Prevalence of undernourishment (%)	* 1.2	2019		
Prevalence of stunting in children under 5 years of age (%)	* 2.6	2019		
Prevalence of wasting in children under 5 years of age (%)	* 0.7	2019		
Prevalence of obesity, BMI ≥ 30 (% of adult population)	55.3	2016		
Human Trophic Level (best 2–3 worst)	NA	NA		
Cereal yield (tonnes per hectare of harvested land)	NA	NA		
Sustainable Nitrogen Management Index (best 0–1.41 worst)	NA	NA		
Exports of hazardous pesticides (tonnes per million population)	NA	NA		
SDG3 – Good Health and Well-Being				
Maternal mortality rate (per 100,000 live births)	NA	NA		
Neonatal mortality rate (per 1,000 live births)	8.9	2020		
Mortality rate, under-5 (per 1,000 live births)	16.9	2020		
Incidence of tuberculosis (per 100,000 population)	64.0	2020		
New HIV infections (per 1,000 uninfected population)	NA	NA		
Age-standardized death rate due to cardiovascular disease, cancer, diabetes, or chronic respiratory disease in adults aged 30–70 years (%)	NA	NA		
Age-standardized death rate attributable to household air pollution and ambient air pollution (per 100,000 population)	NA	NA		
Traffic deaths (per 100,000 population)	NA	NA		
Life expectancy at birth (years)	NA	NA		
Adolescent fertility rate (births per 1,000 females aged 15 to 19)	33.8	2017		
Births attended by skilled health personnel (%)	100.0	2018		
Surviving infants who received 2 WHO-recommended vaccines (%)	93	2020		
Universal health coverage (UHC) index of service coverage (worst 0–100 best)	NA	NA		
Subjective well-being (average ladder score, worst 0–10 best)	NA	NA		
SDG4 – Quality Education				
Participation rate in pre-primary organized learning (% of children aged 4 to 6)	89.3	2020		
Net primary enrollment rate (%)	96.1	2020		
Lower secondary completion rate (%)	108.5	2014		
Literacy rate (% of population aged 15 to 24)	98.7	2015		
SDG5 – Gender Equality				
Demand for family planning satisfied by modern methods (% of females aged 15 to 49)	NA	NA		
Ratio of female-to-male mean years of education received (%)	NA	NA		
Ratio of female-to-male labor force participation rate (%)	NA	NA		
Seats held by women in national parliament (%)	6.3	2020		
SDG6 – Clean Water and Sanitation				
Population using at least basic drinking water services (%)	99.7	2020		
Population using at least basic sanitation services (%)	99.6	2020		
Freshwater withdrawal (% of available freshwater resources)	NA	NA		
Anthropogenic wastewater that receives treatment (%)	40.0	2018		
Scarce water consumption embodied in imports (m^3 H_2O eq/capita)	NA	NA		
SDG7 – Affordable and Clean Energy				
Population with access to electricity (%)	100.0	2019		
Population with access to clean fuels and technology for cooking (%)	100.0	2019		
CO_2 emissions from fuel combustion per total electricity output ($MtCO_2$/TWh)	NA	NA		
Share of renewable energy in total primary energy supply (%)	NA	NA		
SDG8 – Decent Work and Economic Growth				
Adjusted GDP growth (%)	-6.5	2020		
Victims of modern slavery (per 1,000 population)	NA	NA		
Adults with an account at a bank or other financial institution or with a mobile-money-service provider (% of population aged 15 or over)	NA	NA		
Unemployment rate (% of total labor force)	NA	NA		
Fundamental labor rights are effectively guaranteed (worst 0–1 best)	NA	NA		
Fatal work-related accidents embodied in imports (per 100,000 population)	NA	NA		

	Value	Year	Rating	Trend
SDG9 – Industry, Innovation and Infrastructure				
Population using the Internet (%)	27.0	2004		
Mobile broadband subscriptions (per 100 population)	0.0	2013		
Logistics Performance Index: Quality of trade and transport-related infrastructure (worst 1–5 best)	NA	NA		
The Times Higher Education Universities Ranking: Average score of top 3 universities (worst 0–100 best)	* 0.0	2022		
Articles published in academic journals (per 1,000 population)	1.2	2020		
Expenditure on research and development (% of GDP)	NA	NA		
SDG10 – Reduced Inequalities				
Gini coefficient	NA	NA		
Palma ratio	NA	NA		
SDG11 – Sustainable Cities and Communities				
Proportion of urban population living in slums (%)	NA	NA		
Annual mean concentration of particulate matter of less than 2.5 microns in diameter (PM2.5) ($\mu g/m^3$)	11.5	2019		
Access to improved water source, piped (% of urban population)	94.3	2020		
Satisfaction with public transport (%)	NA	NA		
SDG12 – Responsible Consumption and Production				
Municipal solid waste (kg/capita/day)	1.5	2016		
Electronic waste (kg/capita)	9.1	2019		
Production-based SO_2 emissions (kg/capita)	NA	NA		
SO_2 emissions embodied in imports (kg/capita)	NA	NA		
Production-based nitrogen emissions (kg/capita)	NA	NA		
Nitrogen emissions embodied in imports (kg/capita)	NA	NA		
Exports of plastic waste (kg/capita)	5.8	2018		
SDG13 – Climate Action				
CO_2 emissions from fossil fuel combustion and cement production (tCO_2/capita)	12.1	2020		
CO_2 emissions embodied in imports (tCO_2/capita)	NA	NA		
CO_2 emissions embodied in fossil fuel exports (kg/capita)	NA	NA		
SDG14 – Life Below Water				
Mean area that is protected in marine sites important to biodiversity (%)	72.3	2020		
Ocean Health Index: Clean Waters score (worst 0–100 best)	71.9	2020		
Fish caught from overexploited or collapsed stocks (% of total catch)	5.0	2018		
Fish caught by trawling or dredging (%)	0.0	2018		
Fish caught that are then discarded (%)	0.0	2011		
Marine biodiversity threats embodied in imports (per million population)	NA	NA		
SDG15 – Life on Land				
Mean area that is protected in terrestrial sites important to biodiversity (%)	48.1	2020		
Mean area that is protected in freshwater sites important to biodiversity (%)	NA	NA		
Red List Index of species survival (worst 0–1 best)	0.7	2021		
Permanent deforestation (% of forest area, 5-year average)	0.0	2020		
Terrestrial and freshwater biodiversity threats embodied in imports (per million population)	NA	NA		
SDG16 – Peace, Justice and Strong Institutions				
Homicides (per 100,000 population)	11.2	2018		
Unsentenced detainees (% of prison population)	NA	NA		
Population who feel safe walking alone at night in the city or area where they live (%)	NA	NA		
Property Rights (worst 1–7 best)	NA	NA		
Birth registrations with civil authority (% of children under age 5)	NA	NA		
Corruption Perception Index (worst 0–100 best)	NA	NA		
Children involved in child labor (% of population aged 5 to 14)	NA	NA		
Exports of major conventional weapons (TIV constant million USD per 100,000 population)	* 0.0	2020		
Press Freedom Index (best 0–100 worst)	NA	NA		
Access to and affordability of justice (worst 0–1 best)	NA	NA		
SDG17 – Partnerships for the Goals				
Government spending on health and education (% of GDP)	14.3	2019		
For high-income and all OECD DAC countries: International concessional public finance, including official development assistance (% of GNI)	NA	NA		
Other countries: Government revenue excluding grants (% of GDP)	NA	NA		
Corporate Tax Haven Score (best 0–100 worst)	* 0.0	2019		
Statistical Performance Index (worst 0–100 best)	NA	NA		

* Imputed data point

Sustainable Development Report 2022 From Crisis to Sustainable Development: the SDGs as Roadmap to 2030 and Beyond

Source: Sachs, *et al*.[75]

In mid-2019, Palau published its first voluntary review on the SDGs, entitled "Pathway to 2030: Progressing with Our Past Toward a Resilient, Sustainable and Equitable Future", as part of the government's "commitment to transform Palau along a path of sustainability, while also ensuring that no one is left behind" with specific development targets.[76] The SDG framework has been the primary compass that the Government of Palau has used in setting out its development priorities and strategies, and "localizing" the SDG approach to best meet the specificities of Palau's particular context. The primary objectives of the Government's actions include: (i) closing gaps; (ii) improving quality; and (iii) building resilience. At the time of writing, the Palau government has been preparing the second voluntary SDG review, in collaboration with some United Nations agencies.

[75] Ibid.

[76] Republic of Palau (2019). *Pathway to 2030. Progressing with Our Past Toward a Resilient, Sustainable, and Equitable Future: 1st Voluntary National Review on SDGs, June 2019*, p. 1. See: https://sustainabledevelopment.un.org/content/documents/23606VNR_FINAL_21June2019_UN_Version.pdf.

3. People

This section assesses the crucial components of the SDG's people pillar and spans: (i) population; (ii) education; (iii) labour; (iv) food and nutrition; (v) health and sanitation; (vi) gender and inclusion; and (vii) human rights.

3.1. Population

Palau's first dwellers originally organized Palau as a relatively complex matrilineal society where high-ranking women picked the chiefs, and all land, money and titles passed through the female line. To this day, some clan lands continue to be passed to first daughters.[77]

The 2020 census data indicates that the population of Palau was just over 17 600, with 22.9 per cent aged 18 or under, and 10.8 per cent aged 65 or more. Between 2005 and 2020, the total population size of Palau contracted by around 12 per cent; and the latest data suggests that it has further reduced to less than 17 000 (see figure 8 below).[78] The median age has slowly increased, from 32 in 2005 to 38 in 2020. Life expectancy at birth is 72 years.[79] Palau has just over 5 000 households, with an average size of 3.5 people per household. The average population density in Palau is just over 42 people per square kilometre, but as high as 197 people per square kilometre in Koror, home to 11 200 of the total population. Seventy-eight per cent of the population reside in urban areas, and 22 per cent in rural areas. Under 71 per cent of the population is Palauan, and almost 34 per cent – mostly Asian in origin – were born outside of the country. Over 46 per cent of the population is Catholic, and 25 per cent are (Christian) Evangelical.[80] The standard of living among the residents of Palau is among the highest in the Pacific, with relatively well-established health and education services. All Palauans have access to electricity.

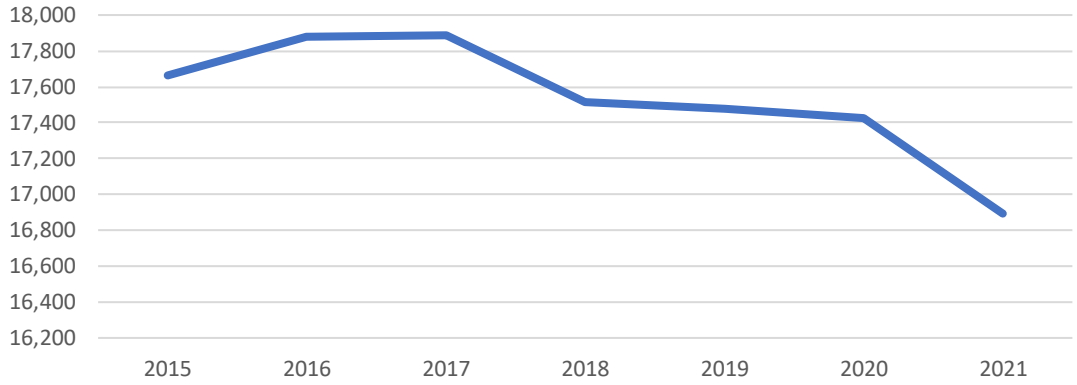
[77] Nero, K. L., Murray, F. B. and Burton, M. L. (2000). "The meanings of work in contemporary Palau: Policy implications of globalization in the Pacific", *Contemporary Pacific*, 12(2), 319-48.

[78] Office of Planning and Statistics, Republic of Palau (2022). *2020 Census: Population and Housing*. Koror, see: https://www.palaugov.pw/executive-branch/ministries/finance/budgetandplanning/census-of-population-and-housing.

[79] Country Reports, (2023), *Palau Demographics Web*, see: https://www.countryreports.org/country/Palau/population.htm.

[80] Ibid.

Figure 8. The declining trend in Palau's population



Source: Developed based on The World Bank Group.[81]

Official figures suggest that crime levels are modest. In 2019, there were just over 2 050 crimes, of which just 30 were felony crimes, mostly for misconduct (such as burglary, fraud or sexual assault crimes), and the rest were misdemeanour crimes (such as traffic violations, road accidents, drunk and disorderly conduct) requiring a court order. Less than 100 people are held in Palau's sole prison.[82] The Global Initiative Against Transnational Organized Crime's index ranks Palau 179th out of 193 countries.[83]

3.2. Education

In 2019, Palau's expenditure on education amounted to 6.8 per cent of GDP, the lowest in Micronesia, or 15.7 per cent of total government expenditures (see figure 9 below). Around 96 per cent of children attend primary education, and 84 per cent of adolescents attend secondary schools. Compulsory education is until the age of 16 or graduation from high school (12 years in total duration).[84] The youth literacy rate is close to 99 per cent, slightly ahead of an adult literacy rate of 97 per cent. The 2020 census indicated that 26 per cent of persons aged between 18 and 24 were enrolled in college, and that slightly over 15 per cent of people aged 25 or more have an undergraduate degree or higher. Around 69 per cent of the population can speak English. Palau has achieved gender equality at primary and secondary school levels.[85]

[81] World Bank Group (2023b).

[82] Republic of Palau, National Government (2022). *Crime and Offenses*. Available at https://www.palaugov.pw/executive-branch/ministries/finance/budgetandplanning/crime-and-offenses/. Also see: https://ocindex.net/assets/downloads/english/ocindex_profile_palau.pdf.

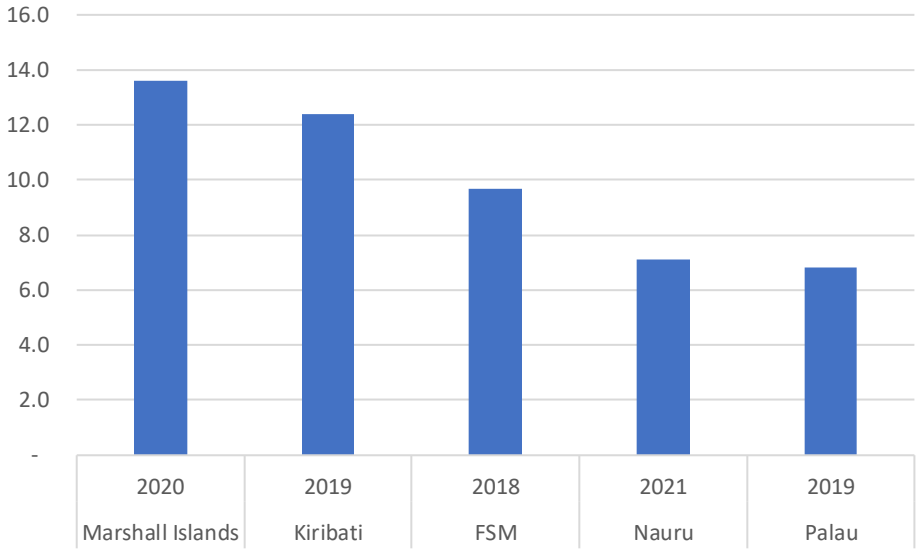
[83] For further details on the Global Organized Crime Index, see: https://ocindex.net/.

[84] World Bank Group, (2023d), *Secondary education, pupils,* see: https://data.worldbank.org/indicator/SE.SEC.ENRL?locations=PW.

[85] Ibid.

Figure 9. Education expenditure

Percentage of GDP, latest years



Source: Developed based on The World Bank Group.[86]

The Palau Community College is the sole provider of higher education in Palau. The college offers associate degrees in numerous disciplines, including: agriculture, business, education, engineering, information and communication technologies (ICTs), nursing, Palauan studies and science. Its students can choose either academic or vocational education streams. It also provides two bachelor's degree courses in accounting and elementary education.[87] Palauan students who look for full higher education degrees often attend US colleges in Guam and Hawaii, as well as other institutions on the west coast of the United States, sometimes using US federal scholarships. Other popular higher education destinations include Australia, Japan, the Philippines, the Republic of Korea and the Taiwan Province of China. Women tend to be more successful in higher education than men but are under-represented in science, technology, engineering and mathematics.[88] Among the youth in Palau, widespread cannabis use has become a policy issue.[89]

3.3. Labour

As noted above, Palau has a declining population, especially in the working age group and a general shortage of human resources. This is a result of both outward migration and falling birth rates.[90] According to the 2020 census, there were just over 14 000 Palauans aged 16 or over, with 77 per cent in the labour force (and of which 86 per cent were paid, 13 per cent unpaid and one per cent

[86] Ibid.

[87] For further details, see: https://pcc.palau.edu/.

[88] Australian Government, Department of Foreign Affairs and Trade (2020). *Pacific Women Shaping Pacific Development. Palau Country Plan Summary*, see: https://www.toksavepacificgender.net/wp-content/uploads/2023/05/Palau-Country-Plan-Summary_Overview-of-all-activities_Aug-2020.pdf?.

[89] Sata, M., *et al.* (2021). "Determinants of alcohol consumption and marijuana use among young adults in the Republic of Palau", *Environmental Health and Preventive Medicine*, 26(12).

[90] While the United States is the primary migration destination for Palauans, Australia also offers a formal migration channel if they can secure jobs.

unemployed).[91] Just under 5 150 were employed by the private sector, and 3 250 in the public sector.[92] Around 19 per cent are in managerial, professional or speciality occupations; 20 per cent in technical, sales or administrative support positions; 27 per cent hold service occupations; 10 per cent are in precision production, crafts or repair work; around 20 per cent are in manual or operator positions; and less than four per cent are engaged in farming, forestry or fishing. The tourism sector alone employs almost 75 per cent of the entire workforce.[93] Of the 14 235 Palauans earning an income, around 64 per cent were paid a salary, with an average of $12 500 per annum, according to the 2020 census. Just three per cent derived an income from growing crops (earning an average of $2 700), a further three per cent from fishing or aquaculture (earning an average of $2 225), and even fewer sourcing an income from handicrafts or livestock.[94]

In 2020, there were almost 4 500 foreign nationals in Palau, of which 96 per cent were from Asia, including the Philippines, Bangladesh, China and Japan. Over 3 000 Filipinos lived and worked in Palau, most commonly as contract workers across a wide range of business sectors, comprising around one-fifth of the resident population.[95] There are also small numbers of Bangladeshi, American, Chinese and Japanese residents. Under the terms of the CoFA, Palauans are permitted to live and work in the United States, and approximately 500 Palauans currently serve in the United States armed forces.[96]

Box 3. Facilitating foreign worker migration

Compared to other PICTs, Palau has a comparably high number of workers from foreign countries, and guest workers are important to the country's development strategy. Looking at future trends suggests that Palau will have to rely long-term on foreign workers, and especially highly skilled ones. This is partly because numerous local workers have migrated to the United States where they do not need to obtain a visa. After becoming skilled in a particular field, many Palauans tend to migrate to the United States instead of staying in Palau. The government has prioritized local hiring in the job market in a bid to try and mitigate this phenomenon and not become excessively dependent on the foreign workforce.

To legally work in Palau, visa applicants need to fulfil several requirements. The initial process of obtaining a working visa for a foreign national involves obtaining approval from the employer to hire non-residents (and some nationalities from excluded countries may obtain a visa only to replace an incumbent). Once approval has been granted, the next step is to apply for a provisional non-resident worker identification certificate. Employees can only enter Palau once they have received their provisional identification certificate or provisional labour visa. Upon arrival, the non-resident worker has 60 days to present evidence of a completed physical exam and obtain a social security number within 10 days of entry. Upon meeting these requirements, the individual will receive a non-resident worker identification certificate valid for one year from arrival.

Human rights reports show that there are several issues of concern regarding the protection of foreign workers in Palau. Non-citizens are not allowed to own land or gain citizenship, as having at

[91] Office of Planning and Statistics (2022).

[92] Ibid.

[93] Multiplier (2023). *Work Permit in Palau*, see: https://www.usemultiplier.com/work-permit/palau.

[94] Office of Planning and Statistics (2022).

[95] Graduate School USA (2023). *Palau FY22 Economic Statistics (Preliminary), Version 1*, available at: https://pitiviti.org/palau.

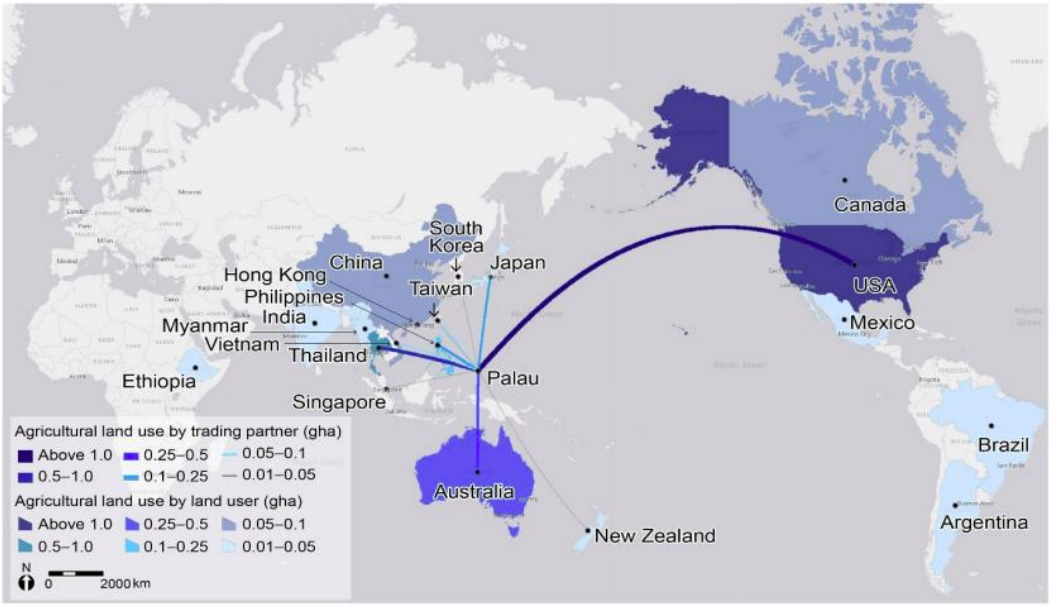
[96] Office of Planning and Statistics (2022).

least one Palauan parent is the only means of obtaining citizenship. This makes it challenging for non-citizens to achieve financial stability in Palau. Furthermore, the fear of economic insecurity among some Palauans has resulted in the mistreatment of foreign workers. They have sometimes been abused by their employers, with authorities failing to prosecute these crimes adequately. Discrimination against foreign workers is prevalent in areas such as salaries, housing, education and access to social services. Additionally, there is a risk of fraudulent recruitment, with employers falsely advertising job positions and salaries. When foreign workers attempt to leave these situations, they may be threatened with violence or employers may withhold their essential travel documents, such as passports.[97]

3.4. Food and nutrition

The government has noted that "under-nutrition is uncommon in Palau, but over-nutrition, unhealthy diets, and national food insecurity due to dependence on food imports are significant concerns".[98] Palau is "off course" to meet all targets for maternal, infant and young child nutrition (MIYCN). Over 80 per cent of food expenditures are for imported products, much of which is of low nutritional quality. Even a short disruption in shipping can result in rapid depletion of food stocks, while a lengthier disruption, such as one arising from conflict, pandemic or natural disaster, could be potentially catastrophic. Figure 10 illustrates Palau's food supply chains.

Figure 10. Food supply chains of Palau



Source: Nakamura, *et al.*[99]

[97] Borgen Magazine (2017). *Foreign Workers: Are Human Rights in Palau in Trouble?*, see: https://www.borgenmagazine.com/human-rights-in-palau-trouble/; and Maekawa, M., Nakayama, M., Fujikura, R., Yoshida, T. and Shiiba, N. (2022). "Highly Skilled Migrant Workers as a Vulnerability of Small Island Developing States During the COVID-19 Pandemic: Cases of Three Countries in Micronesia", *Journal of Disaster Research*, 17(3), 380-387.

[98] Republic of Palau (2019). *First Voluntary National Review on SDGs. Pathway to 2030. Progressing with Our Past Toward a Resilient, Sustainable, and Equitable Future*, p. 9, see: https://sustainabledevelopment.un.org/content/documents/23606VNR_FINAL_21June2019_UN_Version.pdf.

[99] Nakamura, S. Iida, A., Nakatani, J., Shimizu, T., Ono, Y., Watanabe, S., Noda, K. and Kitalong, C. (2021). "Global land use of diets in a small island community: a case study of Palau in the Pacific", *Environmental Research Letters*, 16(6), 1-9.

Palau has attained limited progress towards achieving the diet-related NCD targets and shown no progress towards achieving the target for obesity, with an estimated 62.1 per cent of adult (aged 18 years and over) women and 55.8 per cent of adult men living with obesity. Palau's obesity prevalence is higher than the regional average of 31.7 per cent for women and 30.5 per cent for men.[100] Indeed, the country is currently ranked third in the world – behind Nauru and Cook Islands – for its prevalence of obesity, with 55.0 per cent of its citizens classified as obese, and 78.4 per cent of all adults (over the age of 15) are overweight.[101] This, in turn, results in high incidences of disabilities, type 2 diabetes, heart disease and other associated NCDs.[102] Factors behind the high degree of obesity include socio-cultural issues and practices, as well as importing foods high in salt and fat.

The government recognizes that to halt the rise in NCDs in Palau, there is a need to promote "food import substitution" by expanding the agriculture and aquaculture industries.[103] However, Palau's potential in food production faces some constraints, mainly because of the restricted supply of arable land and water, and difficulty in accessing forests. Remnants of the traditional agroforestry system account for less than three per cent of cultivated land. Climate change also challenges Palau's food security despite efforts to rehabilitate farmlands and promote salt and drought-resistant crops. For example, six per cent of taro production is lost yearly due to saltwater intrusion.[104]

3.5. Sanitation and health

In 2020, 99.6 per cent of Palau's population had access to sanitation, 91 per cent had access to improved water sources, and virtually all its citizens had access to safe drinking water.[105] Most of Palau's water (as well as waste management and power generation) is provided by a public utility – the Palau Public Utilities Corporation (PPUC) – and overseen by the Environmental Quality Protection Board. A recent analysis conducted by the Asian Development Bank (ADB) into water, sanitation and hygiene (WASH) in 14 PICTs found that the key challenges confronting Palau in this area are: (i) low-lying islands and atolls with brackish water; (ii) limited maintenance of village water systems; and (iii) difficulties in providing coordinated responses to disasters in outlying islands.[106] In 2016, severe drought conditions in Palau forced the government to declare an emergency and temporarily impose water rationing.[107]

Government spending on health in Palau has steadily increased in recent decades (see figure 11 below). In 2019, total government expenditure on health was equivalent to 6.8 per cent of GDP and

[100] Global Nutrition Report (2022). *Country Nutrition Profiles, Palau*, see: https://globalnutritionreport.org/resources/nutrition-profiles/oceania/micronesia/palau.

[101] World Population Review, (2023), *Obesity Rates by Country*, see: https://worldpopulationreview.com/country-rankings/obesity-rates-by-country.

[102] For a profile of disabilities in Palau, see: UNICEF Pacific, Office of Planning and Statistics and the Pacific Community (2017). *Palau Disability Report: An analysis of 2015 Census of Population, Housing and Agriculture*, Suva.

[103] SGRIC International (1996).

[104] Office of Environmental Response and Coordination, Republic of Palau (2001). *Current and Projected Impacts of Climate Change*, see: https://www.sprep.org/att/IRC/eCOPIES/Countries/Palau/1.pdf.

[105] Office of Planning and Statistics (2022).

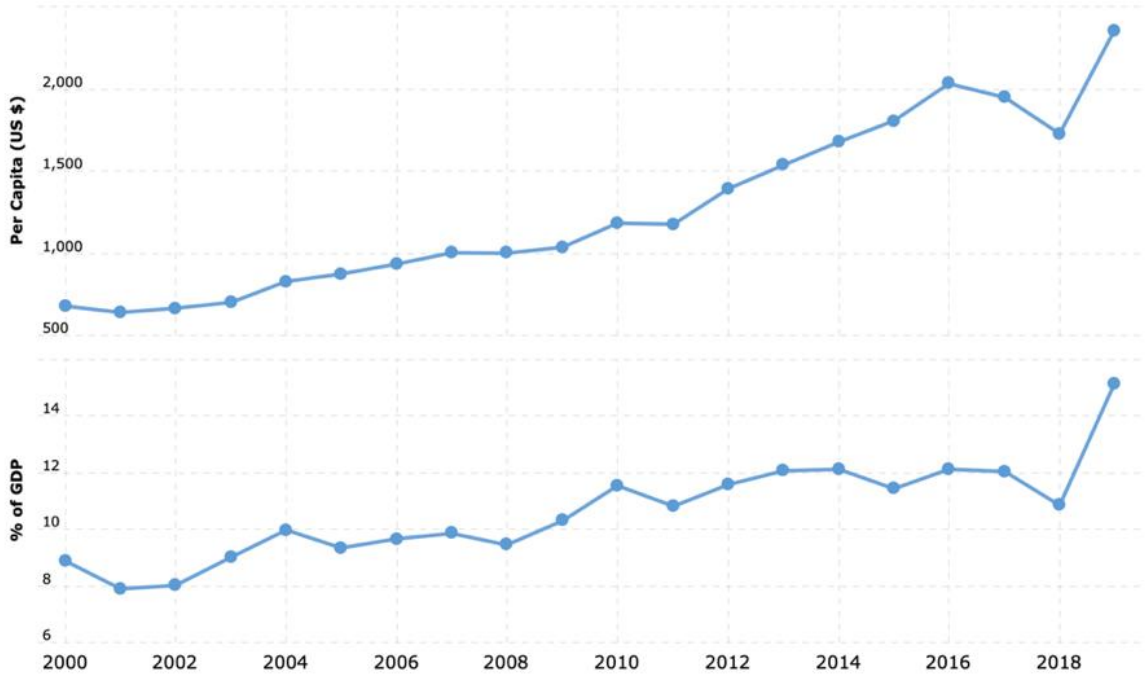
[106] Asian Development Bank (ADB) (2021). *Review of Opportunities for the Pacific WASH Sector, December 2021*. Manila.

[107] See: https://palaugov.pw/wp-content/uploads/2017/06/2016-Drought-Report.pdf.

15.8 per cent of total government expenditures.[108] The Belau National Hospital in Koror is the main healthcare facility in the country, with additional community centres and satellite dispensaries operating in more remote areas. The national hospital reached capacity during the COVID-19 pandemic, requiring urgent facility expansion.[109]

Figure 11. Health spending in Palau

2000-2019



Source: Developed based on The World Bank Group.[110]

As of early May 2023, there had been 5 999 cases of COVID-19 reported in Palau, resulting in seven attributable deaths. Most of these cases occurred in 2022, with a particular spike in community transmission of the Omicron variant seen in the first quarter of 2022. Almost all of the eligible population of Palau had received at least one dose of a COVID-19 vaccine by April 2022.[111]

The average annual suicide rate from 2003-2012 in Palau was 21.7 per 100 000, which is about twice the global suicide rate. Little data has been collected in Palau regarding the risk factors for suicide, including substance use and mental health.[112]

[108] World Bank Group (2023e). *Current health expenditure (% of GDP) – Palau*, available at: https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=PW.

[109] World Health Organization (WHO), Health Emergency Dashboard, (2023), Palau, see: https://covid19.who.int/region/wpro/country/pw.

[110] World Bank (2023g).

[111] Ibid.

[112] World Health Organization (WHO), (2017), *Non-Communicable Disease & Risk Factor Surveillance*, see: https://cdn.who.int/media/docs/default-source/ncds/ncd-surveillance/data-reporting/palau/palau_2016_hybrid_report.pdf.

3.6. Gender and inclusion

Under the Palau constitution, women have equality of opportunity with men. However, Palau has a mixed record on promoting gender equality, and is one of a few countries that has not ratified the Convention on the Elimination of All Forms of Discrimination Against Women.[113] There are currently no laws pertaining sexual harassment, human trafficking or sex tourism, and a quarter of women in Palau have reported experiencing gender-based violence.[114] Across all domains of disability, women and girls are more likely to have difficulties than men and boys.

In Palau, women remain under-represented in the national congress, cabinet and senior leadership positions. Less than seven per cent of all legislative seats are held by women, although no laws prohibit or limit the participation of women, or members of historically marginalized or minority groups, in the political process.[115] In the November 2020 election, two women were elected – one to the 13-seat Senate, and one to the 16-seat House of Delegates. The Vice President, elected separately from the President, is currently a woman.[116] A recent Council on Foreign Relations survey estimated that women comprised 13 per cent of Palau's national cabinet.[117]

While Palauan women are active in the economy and own many businesses, they face several challenges. A 2017 scoping on women's economic empowerment concluded that women in Palau undertake most community obligations and family care responsibilities.[118] The elevated prevalence of NCDs in Palau, as noted above, has an adverse impact on advancing gender equality for women and girls, as women and girls traditionally are caregivers and thus have the added burden of caring for the elderly and sick (including those with NCD-related illnesses or disabilities).[119] Women are almost as likely to be in the workforce as men, but less likely to be in business. Women in Palau are also significantly less likely to be employers than men and are just over one-third of all self-employed. The average monthly per capita income for Palauan households headed by men was $800 compared to $660 for households headed by women.[120] This equates to a gender gap of 18 per cent.

[113] For more details on the ratification status, see: https://tbinternet.ohchr.org/_layouts/15/treatybodyexternal/Treaty.aspx?CountryID=132&Lang=en.

[114] Australian Government, Department of Foreign Affairs and Trade (2020).

[115] Ibid.

[116] United States Department of State (2021). *2021 Country Reports on Human Rights Practices: Palau*, see: https://www.state.gov/reports/2021-country-reports-on-human-rights-practices/palau/.

[117] Council on Foreign Relations (2023). *Women's Power Index*, see: https://www.cfr.org/article/womens-power-index.

[118] Pacific Community (SPC) (2017). *Women's Economic Empowerment in the Pacific: Regional Overview*, 13th Triennial Conference of Pacific Women and 6th Meeting of Ministers for Women, August 2017, see: https://www.spc.int/sites/default/files/wordpresscontent/wp-content/uploads/2017/09/Provisional-Agenda-Womens-Conference.pdf.

[119] UNSDG (2021). *Food security challenges and vulnerability in Small Island Developing States (SIDS)*, see: https://unsdg.un.org/sites/default/files/2021-09/Food-security%20-vulnerability-SIDS-FINAL.pdf.

[120] Office of Planning and Statistics (2022).

3.7. Human rights

In Palau, human rights issues have been highlighted in various reports, and it has undergone three universal period reviews in 2011, 2016 and 2021.[121] [122] Recommendations from international human rights mechanisms call for stepping up efforts in several areas, including: (i) ratifying remaining core human rights treaties and optional protocols and the fundamental ILO Conventions; (ii) undertaking inclusive climate change and disaster risk reduction action; (iii) strengthening the justice system; and (iv) improving its legal and structural frameworks to advance human rights.[123]

Palau is currently on the US State Department's "tier 2 watchlist" for its current approach towards human trafficking, which was summarized as follows:

> "The Government of Palau does not fully meet the minimum standards for the elimination of trafficking but is making significant efforts to do so. These efforts included convicting a trafficker for the first time since 2018, convicting a government official for corruption in trafficking-related crimes, initiating two labour trafficking prosecutions, establishing an interagency working group, and conducting public awareness campaigns. In addition, the government finalized and implemented a national action plan (NAP) and hired an investigator and victim advocate for its Anti-Human Trafficking Unit. However, the government did not demonstrate overall increasing efforts compared with the previous reporting period, even considering the impact of the COVID-19 pandemic on its antitrafficking capacity. The government remained without standard operating procedures (SOPs) for victim identification and referral to services, leading to insufficient identification and protective services."[124]

Palau decriminalized same sex activities in 2014. However, it is still illegal for same sex couples to be married. There have been outspoken views against homosexuality, notably from some high clan members, and although Palauans have reportedly not felt fear of physical violence, only a few couples are open about their relationship, due to negative public views and stigmatization from clanship ties. This then creates challenges with access to proper healthcare.[125]

[121] United Nations Human Rights Council (OHCHR) (2021). *Universal Periodic Review – Palau.*

[122] United States Department of State (2021).

[123] Ibid.

[124] US State Department (2022). *Trafficking in Persons Report*, pp. 434-435. Tier 2 watchlist requires that special scrutiny be conducted in the following year.

[125] United States Department of State (2021).

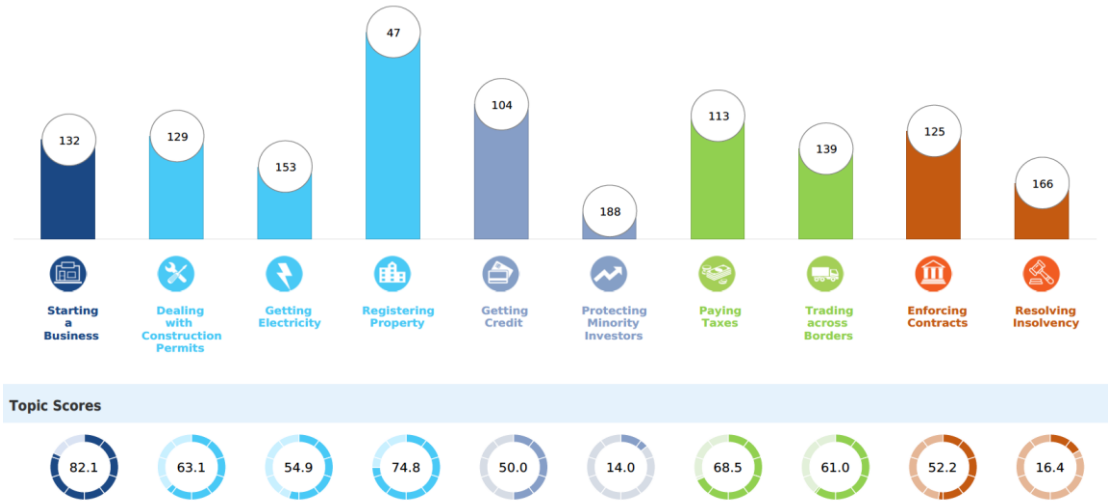
4. Prosperity

The size of Palau's economy is modest, at around $220 million in 2021, as measured by current US dollars gross national income (GNI).[126] Palau is in the "upper middle-income countries and territories" status, with its GNI per capita figure of $12 790 in 2021, thus remaining an eligible ODA recipient in the near term.[127] The post-COVID-19 pandemic estimate from the ADB is that gross domestic product (GDP) growth in Palau will be around a modest 3.8 per cent in 2023 and rise to 6.5 per cent in 2024 (see table 3 again).[128]

Palau's economic outlook remains challenging, subject to high uncertainty, and risks are weighed towards the downside. There is a need for Palau to develop a more robust and diversified economic profile, including a vibrant private sector, that makes the country less reliant on external assistance, and, thereby more sustainable and resilient to external shocks. However, this also needs to be pursued in tandem with environmental concerns and priorities and the need to mitigate the impacts of climate change.

In the most recent iteration of the (currently suspended) "Doing Business" survey by the World Bank, Palau ranked 145th (out of 190 economies) overall, suggesting that the enabling environment for conducting business is far from ideal.[129] The best sub-ranking, of 47th, was for registering property. The worst sub-rankings were: 188th for protecting minority investors, 166th for resolving insolvency, 153rd for getting electricity, 139th for trading across borders, and 132nd for starting a business. There is clearly room for improvement in creating a conducive enabling environment for the private sector to burgeon in Palau (see figure 12 below).

Figure 12. Palau's ranking in the Doing Business survey 2020



Source: World Bank Group.[130]

[126] World Bank (2023f). *GNI (current US$) – Palau*, see: https://data.worldbank.org/indicator/NY.GNP.MKTP.CD?locations=PW.

[127] Ibid.

[128] Asian Development Bank (ADB) (2023). *Asian Development Outlook (ADO) December 2023*, see: https://www.adb.org/outlook.

[129] World Bank (2019). *Doing Business 2020*. see: https://archive.doingbusiness.org/en/reports/global-reports/doing-business-2020.

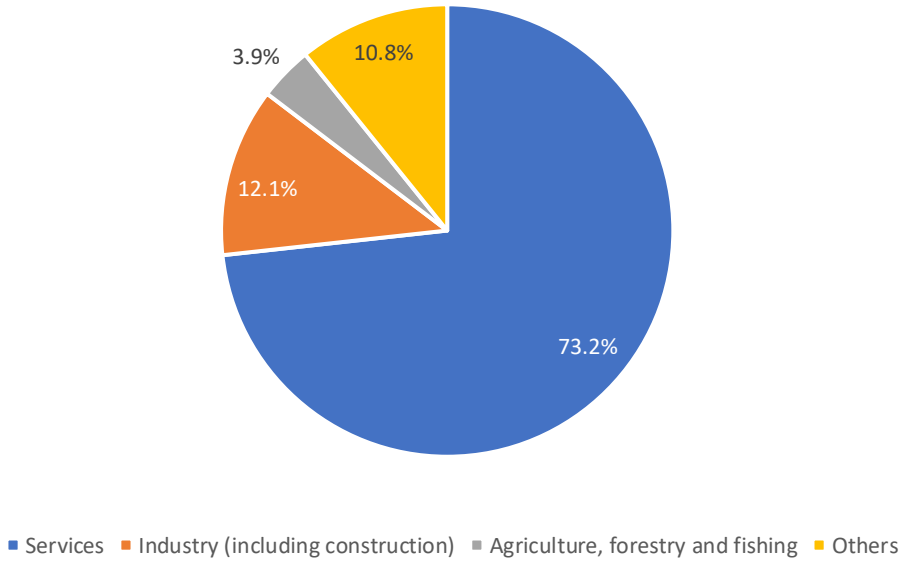
[130] Ibid.

4.1. Macro-economic trends

The COVID-19 pandemic brought about an unprecedented economic shock for Palau. The government promptly adopted a comprehensive policy response to the pandemic with measures that aimed at strengthening healthcare and mitigating the economic and social hardships of the pandemic.[131] However, the impact of the pandemic was more severe than the economic downturn in the other two FAS (i.e., FSM and Marshall Islands).

Palau's economy is driven mainly by tourism, with annual tourist receipts estimated to represent – pandemics permitting – about half of GDP. Government expenditure also plays a major part in Palau's economy. The overall services sector, which includes the tourism sector and government sectors, accounts for 73 per cent of the country's total output, while industry (mainly construction) accounts for just 12 per cent of GDP, and agriculture (including fisheries) a mere four per cent (see figure 13 below).

Figure 13. Sectoral contributions to the economy in 2021



Source: Developed based on The World Bank Group.[132]

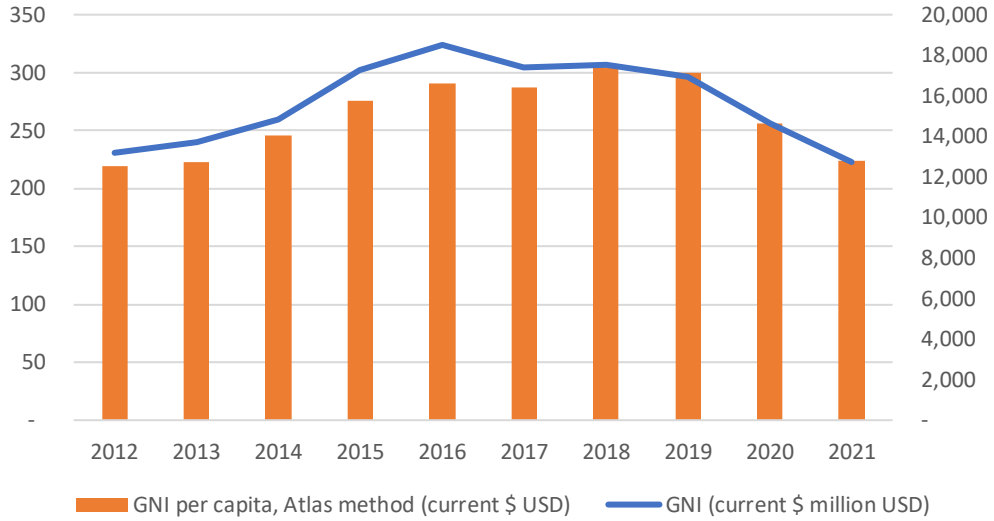
The pandemic caused Palau's tourism industry to collapse, and thereby severely impacting the nation's economy, which had already experienced a declining trend since 2018. It resulted in a roughly 13 per cent contraction of the country's GNI in 2020 and a further 13 per cent in 2021 (see figure 14

[131] The Government's response to the pandemic was multi-faceted, delivering a package of temporary relief measures to mitigate the hardship being felt by Palauans. A Coronavirus Relief One-Stop Shop (CROSS) programme provided unemployment assistance, temporary jobs and concessional business loans. It expanded lifeline utility subsidies to help cushion the most severe socio-economic impacts on affected businesses and workers during 2020-21, benefiting more than 2 500 employers and employees. For further details, see: Asian Development Bank (2022). *Palau: Health Expenditure and Livelihoods Support Program*, see: https://www.adb.org/sites/default/files/project-documents/54245/54245-001-pcr-en.pdf.

[132] World Bank (2023g). *Data_Palau*, see: https://data.worldbank.org/country/PW.

below). Per capita incomes also fell significantly, and jobs were lost in the economy's formal and informal sectors, increasing the state's poverty rate and basic needs.[133]

Figure 14. Economy and income between 2012 and 2021



Source: Developed based on The World Bank Group (2023).

During the pandemic, Palau was significantly impacted by the price volatility in various goods and services. The cost of food, electricity, gas and fuel all rose markedly, adversely impacting livelihoods, particularly for some of Palau's poorest citizens. Fuel prices increased by 53 per cent between January 2019 and June 2022, equivalent to nearly seven per cent of GDP.[134] Freight rates (e.g., the cost of placing a container on a ship) also became highly volatile during 2021-22, thereby adding considerably to the cost of imported items (see figure 15 below). Elevated price inflation (slightly over 10 per cent, and the highest in the Pacific in 2022)[135] has driven two recent trends in Palau's slowly recovering economy: (i) increased production and consumption of local products; and (ii) consumers opting for cheaper (and often less quality) foods and goods.[136]

[133] Graduated School USA (2023).

[134] Food and Agriculture Organization of the United Nations (FAO) and World Food Programme (WFP) (2022). *Pacific Island Countries: Impact of rising costs of food, feed, fuel, fertilizer and finance Bulletin, November 2022 | Issue #1*, see: https://www.fao.org/3/cc3304en/cc3304en.pdf.

[135] Ibid.

[136] Palau's private sector (tourism/service-focused) transferred its cost rise to consumers. At the same time, its Micronesian neighbours kept inflation relatively modest, providing subsidies to some utilities, e.g., fuel and electricity.

Figure 15. Global container freight rates

Source: Freightos.[137]

4.2. Trade and investment

Palau is a member of the Pacific Island Countries Trade Agreement (PICTA) but is not a member of the World Trade Organization (WTO), nor the World Intellectual Property Organization (WIPO). Palau has no bilateral investment protection agreements and is not a member of any free trade associations. Typical for a SIDS, Palau runs a substantial and persistent trade deficit every year, while it also runs a consistent current account deficit (see figure 16 below). Palau has put strategies in place to try and mitigate its high import dependency, notably by encouraging greater domestic value-added processing and building local supply chains.[138]

Figure 16. Palau's trade and current account deficits

Source: Developed based on The World Bank Group.[139]

[137] Visit: https://www.freightos.com/marketplace/.

[138] For instance, the Palau Small Business Development Center provides free counseling to small businesses in all areas of business management. For further details, see: https://www.palaugov.pw/executive-branch/ministries/public-infrastructure/small-business-development-center.

[139] World Bank (2023g).

Foreign investment in Palau is guided by the Foreign Investment Act, which employs a "negative list", restricting some sectors to Palauan citizens only. The negative list includes wholesale and retail sales of goods, all land and water transportation, travel and tour agencies and commercial fishing.[140] Some other sectors are semi-restricted, requiring a Palauan partner as a co-investor. Foreigners may not own land in Palau, but they can lease land and own buildings.[141]

While the government welcomes foreign investors, Palau's investment climate poses challenges. Some foreign investors have made allegations of corrupt practices when seeking government permits, doing business with local partners and participating in public procurement processes.[142] Furthermore, Palau's traditional land ownership system, with occasional overlapping claims, can complicate establishing a secure land title. In 2021, just 17 foreign investments were approved: down from 30 in 2018. Traditionally, the greatest FDI activity has focused on accommodation, hospitality, professional technical services and construction.[143]

Box 4. Palau's system of landholding

Land ownership in Palau is complicated, with different systems in operation, including customary, communal and private ownership. Historically, a traditional land ownership system applied with the land divided into public domain ("chutem bwai") and clan land. [144] Individual ownership has developed more recently. To date, customary landowners control more than 70 per cent of Palau's land; the government or private parties own the remaining 30 per cent.[145] However, boundaries of lands were often determined by tradition, and land records established prior to World War II were often destroyed, resulting in over-lapping claims of land ownership and a large number of land disputes. In 1996, a specialized land court, vested with civil jurisdiction over civil cases involving the adjudication of title to land or any interest in land, has been established.[146] However, land dispute can take several years to settle, creating uncertainties for investors and contributing to hamper the growth of the country's economy.[147]

Under the Palau Constitution, foreigners and foreign-owned corporations cannot own land in Palau but can lease land from a Palauan citizen.[148] The terms and conditions as well as the length of the leases play a key role in private sector development. According to the IMF, important progress has

[140] Republic of Palau, (2021), *Foreign Investment Act*, see: https://www.palaugov.pw/wp-content/uploads/2021/10/Foreign-Investment-Act.pdf.

[141] Ibid.

[142] World Bank (2019).

[143] Ibid.

[144] Pulea, M. (1994). *Environmental Legislation Review, Palau*, Documentation in support of the National Environmental Management Strategy for the Republic of Palau, see: https://www.sprep.org/att/IRC/eCOPIES/Countries/Palau/8.pdf.

[145] Holden, P. (2007). *Palau: Policies for Sustainable Growth, A Private Sector Assessment, ADB Strategy and Program Assessment*, see: https://www.adb.org/sites/default/files/institutional-document/32217/psa-pal.pdf.

[146] For further details, see: Palau Supreme Court, http://www.palausupremecourt.net/organization-1.cshtml?PK=LC.

[147] United States Department of State, (2018), *2018 Investment Climate Statements: Palau*, see: https://www.state.gov/reports/2018-investment-climate-statements/palau/.

[148] World Bank (2023g).

been made to improve the structure of land lease contracts.[149] In particular, a 2008 referendum extended an extension of land lease agreements from 49 to 99 years. Moreover, Palau's Medium Term Development Strategy for 2009 – 2014 increased the transparency of land leases by requiring all land tenure agreements to be properly registered, to ensure their adherence to the laws and regulations of Palau.[150]

4.3. Fisheries

The fishing industry contributes considerably to Palau's economic and food security. Small-scale artisanal fishing, concentrating on commercial and subsistence fishing, dominates the industry. Palau has implemented initiatives like establishing marine protected areas and adopting community-based management systems to improve the industry's sustainability.

Palau has tried to develop aquaculture as part of its blue economy initiative, to consolidate its national policy on food security and boost exports. Through the Palau Pacific Adaptation to Climate Change (PACC) programme, and with support from the Secretariat of the Pacific Regional Environment Programme (SPREP), aquaculture (i.e., farming of marine life, rather than catching "wild" fish) is being developed as a relatively new business endeavour, with the potential also to reduce stress on local reef ecosystems. Constraints to growth in aquaculture include poaching, inadequate supply of seed clams and reluctance of farmers to assume loans for expansion due to uncertainties in the industry.[151]

Locally based, but foreign-owned, long-line fleets provide around 90 per cent of pelagic fish in Palau's market, which is often of low-quality. A few Palauans currently operate small-scale, recreational vessels using a variety of gear types and contribute the remaining 6–16 per cent of pelagic fish in the market. However, there is a high degree of unwillingness from Palauans to entre the fisheries sector, given its high operational costs and the relatively modest returns on investment.[152]

Several policy and investment priorities are clearly important to build and sustain a domestic pelagic fishery. First, infrastructure must be improved to connect the pelagic supply to potential consumers. Palau would need a central marketplace to sell and process pelagic fish. It also would need a cold chain that allows fishers to preserve quality and gives buyers a reliable year-round supply of pelagic.[153] Second, proactive measures are needed to build domestic demand for pelagic fish to sustain a growing industry. These measures would include: (i) limiting the sale of reef fish in restaurants and tourist operations; (ii) developing a local brand of pelagic; and (iii) supporting value-added processed seafood products (e.g., loins, dried, jerky). Third, Palau should consider measures to improve the economic

[149] International Monetary Fund (IMF) (2010). *Republic of Palau: 2010 Article IV Consultation—Staff Report*, see: https://www.imf.org/external/pubs/ft/scr/2010/cr10116.pdf.

[150] Government of Palau (2009). *Actions for Palau's Future: The Medium-Term Development Strategy 2009 to 2014*, see: https://www.adb.org/sites/default/files/linked-documents/cobp-pal-2016-2018-oth-01.pdf.

[151] National Environmental Protection Council (2019). *State of the Environment Report in Palau,* see: https://www.palaugov.pw/wp-content/uploads/2022/01/State-of-the-Environment-Report-Republic-of-Palau-2019.pdf.

[152] Palau International Coral Reef Center (PICRC) and Stanford Center for Ocean Solutions (2019). *Palau's national maritime sanctuary: Managing ocean change and supporting food security,* see: https://smea.uw.edu/wp-content/uploads/sites/11/2020/01/PICRC-COS-PNMS-Report-2019DEC-FINAL-PRINT-1.pdf.

[153] Pelagic fish live in the pelagic zone of ocean or lake waters, being neither close to the bottom nor near the shore, in contrast withdemersal fish that do live on or near the bottom, and reef fish that are associated with coral reefs.

returns for pelagic fishers. Policies that bolster the small day-boat fleet might usefully include a "start-up" package that offsets gear and operational costs and provides safety equipment and benefits services like government employees. Finally, the relaxation or repeal of the export ban for domestic fishers and value-added products would allow them to access international markets that offer higher returns without necessarily raising the domestic price.[154]

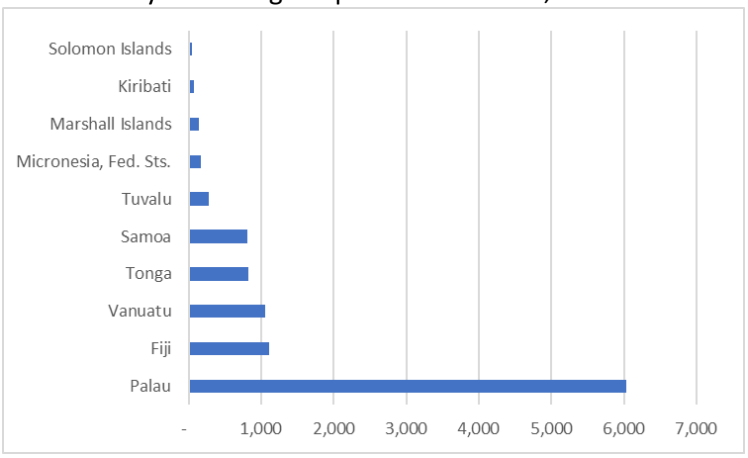
4.4. Tourism

The tourism sector has largely driven Palau's economy. The number of tourists visiting Palau doubled between 2008 and 2015, reaching a peak of almost 170 000 in the latter year, before declining to just under 90,000 in 2019, associated with fluctuating arrivals of Chinese tourists.[155] In 2020, this number further declined by over 50 per cent due to the COVID-19 pandemic, to just under 42 000, and bottomed out at 3 400 in 2021, before recovering slightly in 2022 to 9 250.[156] In 2018, before the pandemic, tourism receipts amounted to $170 million, equivalent to 60 per cent of GDP, and accounted for around 45 per cent of all paid employment in Palau.[157]

Figure 17 presents the trends of international tourist arrivals in Palau and other select PICTs before the COVID-19 pandemic. Palau attracted the largest number of tourists compared with its population size. Note that the PICTs in the South Pacific (i.e., Fiji, Vanuatu, Tonga, Samoa and Tuvalu) have tended to receive more tourists than their North Pacific counterparts (i.e., FSM, Marshall Islands and Kiribati). Palau is the most successful PICT, following the MIRAB and SITE development models (see section 2.2 again).

Figure 17. Pre-pandemic tourist arrivals in the PICTs

Three-year average of per 1 000 citizens, 2017-2019



Source: Developed based on The World Bank Group.[158]

[154] PICRC and Stanford Center for Ocean Solutions (2019).

[155] Pacific Private Sector Development Initiative (2021). *Palau: Pacific Tourism Sector Snapshot*, see: https://pacificpsdi.org/assets/Uploads/PSDI-TourismSnapshot-PAL.pdf.

[156] As a proxy indicator of the marked contraction in tourist numbers during the COVID pandemic, the number of flights declined from around 1 400 in 2019 and the preceding years, to just over 300 in 2020, and a mere 120 flights in 2021. Island Times (2022). *Palau's tourism 2022 shows recovery but still remains below pre-COVID*, see: https://islandtimes.org/palaus-tourism-2022-shows-recovery-but-still-remains-below-pre-covid.

[157] Vogt, I. (2019). *Tourism and Land in Palau*, see: https://www.pata.org/blog/tourism-and-land-in-palau. Palau re-opened its borders to tourism in May 2021, but resumption of flights and tourism has been slow, and, according to the ADB, it was at just 6-10 per cent of pre-pandemic levels in 2022.

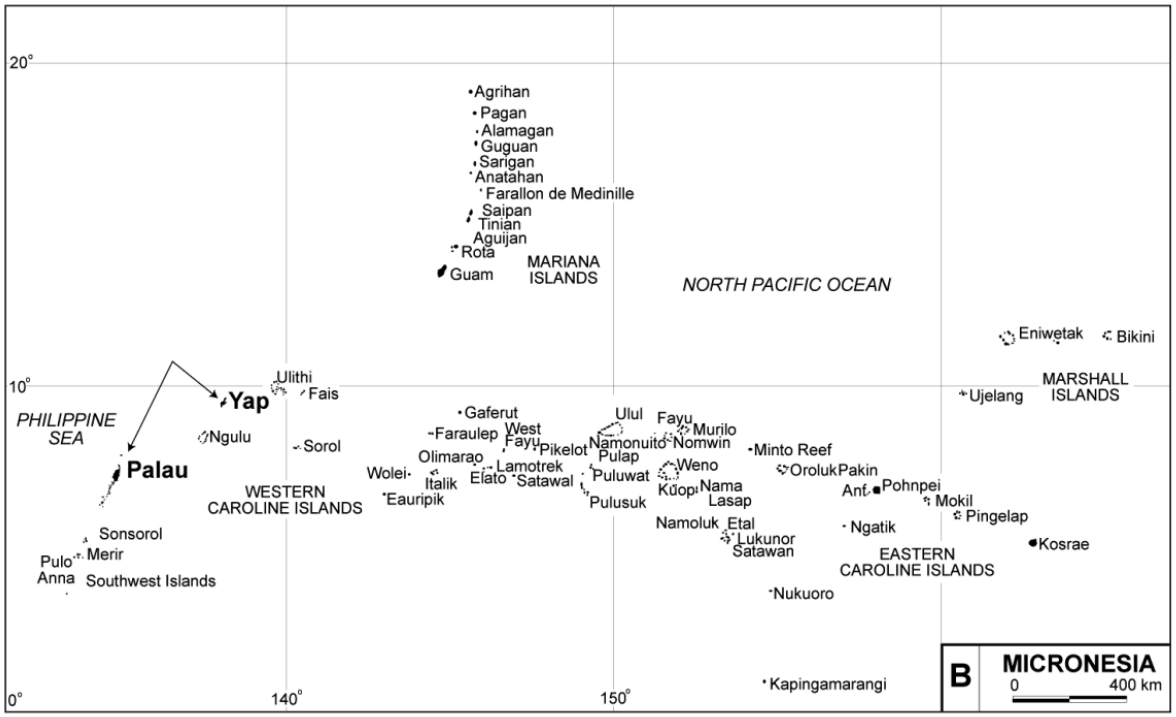
[158] World Bank (2023g).

In the years immediately prior to the pandemic, the Government of Palau began to focus on eco- and cultural tourism and higher-yield visitors, somewhat akin to the approach taken by countries like Bhutan.[159] Significant policy initiatives, such as limiting charter flights (down from 80 000 to 30 000 between 2015 and 2019), demonstrated the government's commitment to this strategy.[160] The national "Pathway to 2030" strategy advocates sustainable high-yield tourism, cautioning against repeating Palau's previous focus on mass-market tourism, which placed a much heavier burden on the local environment.[161] Key challenges must still be addressed if these policies are successfully implemented, including local labour bottlenecks, various infrastructure constraints and future environmental degradation. There is also merit in streamlining processes for foreign investment, improving the business environment and enhancing human capital to encourage private investment in the tourism sector.

Box 5. Palau's eco-tourism collaboration with Yap

Palau (specifically Koror State) and Yap, one of FSM's four member states, are connected through historical and political ties, and even familial relationships in their traditional systems, albeit with distinct cultures and traditions (see figure 18 below).[162] These ties present a good opportunity for inter-state collaboration for cultural and heritage-based eco-tourism.

Figure 18. Palau and Yap in Micronesia



[159] Vogt (2019).

[160] Palau National Government Services (2022). *Visitor Arrivals*, see: https://www.palaugov.pw/executive-branch/ministries/finance/budgetandplanning/immigration-tourism-statistics/.

[161] Republic of Palau (2019).

[162] Traditional leaderships in Koror, where Yapese Chiefs quarried stone money, have strong friendships – even familial relationships – with Yap.

Source: Fitzpatrick and Glumac.[163]

Palau and Yap have jointly explored attracting tourists to develop historical tours featuring stone money and its inter-islands trade. During the pre-modern era, people in Yap travelled to Palau to carve out thousands of giant circular-shaped coins, often called "stone money" (see figure 19 below). Stone money was made from limestone and transported from Palau to Yap by sailing boats, more than 400 kilometres away.[164] Tours of stone money trade from Palau to Yap could complement Palau's diving destinations while also fostering Yap's needed tourism industry.

Figure 19. Stone money on Yap

Source: Fitzpatrick and Glumac.[165]

At present, Palau and Yap are connected by a local airline, with tickets offered at a reasonable cost. However, it only operates weekly with limited capacity and routes.[166] While Palau provides a variety of accommodation, Yap can only offer a limited capacity with moderate to basic quality.[167] A

[163] Fitzpatrick, S. M. and Glumac, B. (2020). *Yapese Stone Money: Local Marble as a Potential Inspiration for Producing Limestone Exchange Valuables in Palau, Micronesia*, in book: Cultures of Stone: An Interdisciplinary Approach to the Materiality of Stone. Publisher: Sidestone Press.

[164] "Between *c*. AD 1400–1900, Yapese islanders in western Micronesia travelled to the Palauan archipelago to carve large circular or ovoid-shaped disks. Often referred to as "stone money", they were made from a speleothem flowstone variety of limestone that formed by calcite precipitation along cave walls. These disks were an engineering marvel, and their transport to Yap by watercraft, more than 400 km away, makes them the heaviest objects ever moved over open-ocean by traditional Pacific Islanders. Thousands of pieces were brought to Yap pre- and post-European contact, and were (and still are) highly prized as important exchange valuables and symbols of cultural tradition". Fitzpatrick and Glumac (2020), pp. 65-78.

[165] Ibid.

[166] For further details, see: https://www.visityap.com/.

[167] In this vein, Chinese investment has recently increased in Yap's tourism sector, one example being a planned and long-awaited major resort hotel development in Colonia, the capital of the Yap State. Morris, D. (2017). *A Remote Pacific Island Faces up to China*, The Diplomat, see: https://thediplomat.com/2017/06/a-remote-pacific-island-faces-up-to-china/).

submarine Internet cable connects Palau, Yap and development partners (i.e., Australia, Japan and the United States) although its connection is not always optimal which requires the second cable connection.[168]

The case of Palau and Yap highlights an opportunity for diversification within the tourism sector.[169] Upgrading supporting infrastructure (e.g., transport and Internet connectivity, as well as quality accommodation) and cooperation for cultural and heritage eco-tourism could provide a new economic opportunity for the islands.

4.5. Financial sector

Palau's financial system is relatively diverse. Of the five commercial banks operating in the country, three (the Bank of Guam, the Bank of Hawaii and the BankPacific) are foreign-owned (and insured by the US Federal Deposit Insurance Corporation), while the remaining two -- the Asia Pacific Commercial Bank and the Palau Construction Bank -- are domestic banks. The country also has its own development bank, the National Development Bank of Palau (NDBP), and access to the services of the regional development bank, the Pacific Islands Development Bank. As of September 2021, total assets of the Palau banks were around $315 million, with liabilities of $418 million, of which $408 million were customer deposits. Around 92 per cent of total loans were consumer loans, and just eight per cent were commercial loans.[170] Inward remittances to resident Palauans are relatively modest, at around 1.2 per cent of GDP (see figure 20 below). The Social Security Administration Retirement Fund and the Civil Service Pension Fund manage pensions in Palau.[171] Financial sector reforms need to be accelerated in Palau, to support financial deepening, enhance small- and medium-sized enterprises' (SMEs) capacity to absorb credit and address the structural determinants of low credit creation.

[168]Submarine Cable Map, see: https://www.submarinecablemap.com; Island Times (2022). *Second submarine fibre optic cable laid in Palau*, see: https://islandsbusiness.com/news-break/second-submarine-fibre-optic-cable-laid-in-palau.

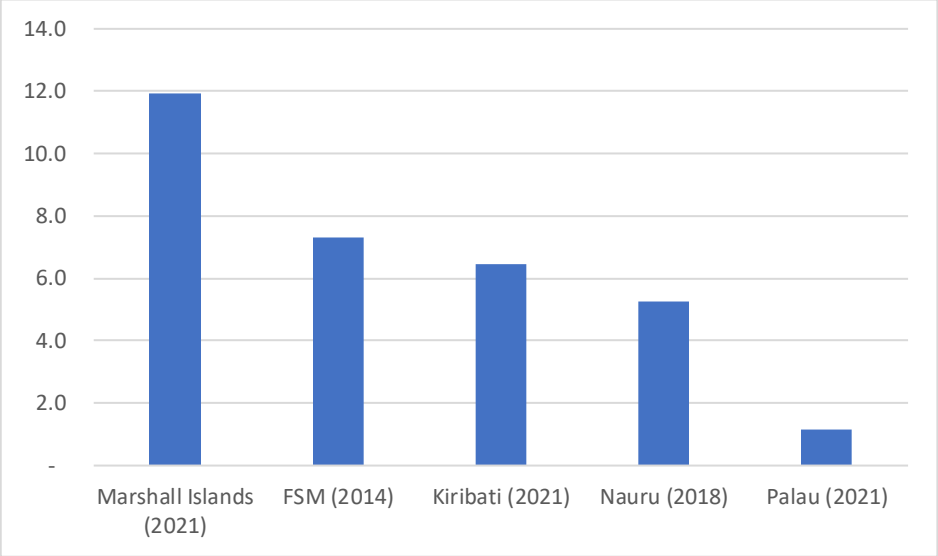
[169] International Monetary Fund (IMF) (2021). *Republic of Palau: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Palau*, see: https://www.imf.org/en/Publications/CR/Issues/2021/12/09/Republic-of-Palau-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-510871.

[170] Bureau of Budget and Planning, Ministry of Finance, Republic of Palau (2021). *Statistical Yearbook*, see: https://www.palaugov.pw/wp-content/uploads/2022/07/2021-Statistical-Yearbook.pdf.

[171] For further details, see: https://ropssa.pw/index.html.

Figure 20. Remittance inflow in Palau and other countries in Micronesia

Percentage of GDP



Source: Developed based on The World Bank.[172]

4.6. State-owned enterprises

There are few state-owned enterprises (SOEs) in Palau, beyond the relatively large PPUC, responsible for water, waste and electricity, the Palau National Communications Corporation (PNCC) in charge of all telecommunications (telephone, Internet and cable TV) services and Palau Pacific Airways. There are also a small number of semi-autonomies state agencies, such as the Palau Tourism Authority and the Palau National Marine Sanctuary. Those SOEs have tended to be criticized as inefficient, a drain on the government's funds and recommended to be privatized to improve productivity.[173]

4.7. Fiscal management

The Government of Palau heavily depends on grants to meet its revenue needs, and particularly financial assistance from the United States under the CoFA. The forthcoming expiration of the Compact in September 2024 had been a source of major concern for Palau, but the renewal negotiations were concluded, achieving favourable terms to Palau for the next 20 years, such as increased economic assistance (including new trust fund contributions), an inflation adjustment clause and the extension of US Postal Service services.[174] [175] In addition to US support through the CoFA, Palau also relies on financial and technical assistance from development partners. Japan and ADB are the single largest sources of funding assistance to Palau.

[172] World Bank (2023g).

[173] Asian Development Bank (ADB) (2017). *Private Sector Assessment for Palau. Policies for Sustainable Growth Revisited*, see: https://www.adb.org/sites/default/files/institutional-document/230131/palau-psa-2017.pdf.

[174] Congressional Research Service (2023). *The Compacts of Free Association,* see: https://crsreports.congress.gov/product/pdf/IF/IF12194.

[175] Under the CoFA, a trust fund was established to assist Palau in its efforts to advance the well-being of its citizens. The Palau Trust Fund was initially capitalized by the United States in 1995, costing $66 million. This fund, managed exclusively by the Palau Government, was designed to be a "sinking fund" that would last until 2045. As of September 2021, the fund was valued at $318 million. For further details, see: https://www.state.gov/wp-content/uploads/2019/02/18-919.2-Palau-Reg-Issues-Agm-a-Amd.pdf.

The pandemic's economic fallout and the fiscal response cost have led to relatively large fiscal deficits and a rapid increase in public debt.[176] In 2021 (i.e., during the COVID-19 pandemic), government revenues were equivalent to approximately 52 per cent of GDP, of which grants made up slightly more than half, and the rest came from taxes and other revenues. Total tax revenues were equivalent to 19.1 per cent of GDP and 31.4 per cent of total government expenditures. Government expenditures accounted for 60.7 per cent of GDP. Palau's external debt levels have increased in recent years, from below 40 per cent of GDP in 2018 to nearly 80 per cent in 2021, principally due to increased spending on pandemic relief measures.[177] As noted earlier, the pandemic and related containment measures severely impacted the economy, with the most obvious consequence curtailment of inbound tourist arrivals. As the economy recovers, it is expected that the debt-GDP ratio will decline to less than 60 per cent by 2025.[178]

In January 2023, the Government of Palau enforced a comprehensive tax reform to rebalance tax burdens among stakeholders – such as large enterprises, SMEs, employees and households – in an inclusive manner, while encouraging private sector investments to try and diversify the economy. The Palau Goods and Services Tax (PGST) of 10 per cent was introduced, acting like a value-added tax, and applies to most goods and services consumed in Palau, with some exemptions. Businesses must register for PGST and then collect the tax from buyers on behalf of the government. Revenues derived are to be used to fund public services and infrastructure projects. PGST is expected to contribute the equivalent of one per cent of GDP to Palau's tax revenues. The government reported PGST collection of $4.2 million in the first quarter of 2023 (the second fiscal quarter).[179]

A business profits tax (BPT) was also introduced, which applies to all firms registered under PGST. It was set at 12 per cent of net income (i.e., gross revenues less allowable deductions); the same rate applied to the highest tax band on salaries. The BPT replaces the old gross revenue tax (GRT), to be paid quarterly, and sees the tax burden focus on companies' profits, rather than their turnover/revenues. For businesses with annual gross income of less than $50 000, and not registered under the PGST, the GRT has also been discontinued, but they will be expected to pay a modest additional business licence fee. Simultaneously, the government included wage tax rate adjustments, tax refunds and social assistance to compensate low-income and vulnerable households in the new tax system.[180]

The new tax schedule was, somewhat predictably, met with a negative reception from consumers and smaller businesses. Larger enterprises have the capability to register with the tax office and set up

[176] Graduate School USA (2022). *2022 Economic Brief: Republic of Palau*, see: https://pitiviti.org/storage/dm/2022/07/palau-fy22-econbrief-digital-remediated-20220710043051112.pdf.

[177] Ibid.

[178] The Palau Government enacted a $20 million "Coronavirus Relief One-Stop Shop" (CROSS) programme intended to provide temporary relief to the private sector, after the pandemic struck the economy, but subsequently focused mostly on supporting non-resident workers in the country. This is because Palau residents became eligible for various benefits under the US "Coronavirus aide, relief and economic security" act. For further details, Asian Development Bank (ADB) (2021). *Inclusive COVID-19 Recovery in Palau*, see: https://www.adb.org/multimedia/partnership-report2021/stories/inclusive-covid-19-recovery-in-palau/.

[179] Panth, S., Schneider, T. and SySee, M. (2022). "Pacific Island Countries Have Untapped Tax Potential", *IMF Blog*, see: https://www.imf.org/en/Blogs/Articles/2022/10/20/pacific-island-countries-have-untapped-tax-potential; IMF (2022). "Funding the future: Tax revenue mobilization in the Pacific island countries", *Departmental Paper, DP/2022/015*, see: https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2022/09/09/Funding-the-Future-Tax-Revenue-Mobilization-in-the-Pacific-Island-Countries-522181.

[180] Ibid.

their enterprise management systems to reflect the changes to prices – advising consumers of the breakdown of the prices (i.e., 10 per cent PGST on the "net prices" of the products/services). On top of prolonged inflation, this additional tax has frustrated many people. In May 2023, the government announced that individuals who earn less than $15 000 per year (two-thirds of Palauan employees) could claim a tax refund for the six per cent of income tax.[181]

Palau's future graduation from the Organisation for Economic Co-operation and Development's (OECD) list of countries eligible for official development assistance could lead to lower concessional financing, including grants. Therefore, additional revenue mobilization and expenditure rationalization efforts are needed to help accommodate higher climate spending, improving the external position and providing an economic buffer against potentially lower grants and concessional financing.

4.8. Infrastructure and digitization

Increased global demand in infrastructure points to where improvements are being focused, financed and executed the most: sustainable and digital infrastructure.[182] It makes sense to improve upon infrastructure that will be most compatible with future needs, where feasible, such as minimizing carbon emissions, utilizing energy-saving technologies and renewables, possessing water-efficient features and connecting islands, such as Palau, through additional submarine Internet cables.

The electricity sector in Palau is primarily based on diesel generators, which are the main source of power for the country at present. As of 2021, Palau's electricity generation capacity was around 31 megawatts with which the private sector faces an issue in accessing electricity (see figure 21 below). The government has made efforts to increase the use of renewable energy sources in its electricity mix and has set a target to generate 45 per cent of its electricity from renewable sources by 2025.[183] Palau has invested in solar power to achieve this, with several solar projects currently in operation or under development. In addition, Palau has explored the potential for wind power, although the country's small size and lack of suitable wind resources limit the viability of this option. Palau has also implemented energy efficiency measures, such as using LED lighting and adopting energy-efficient appliances.[184]

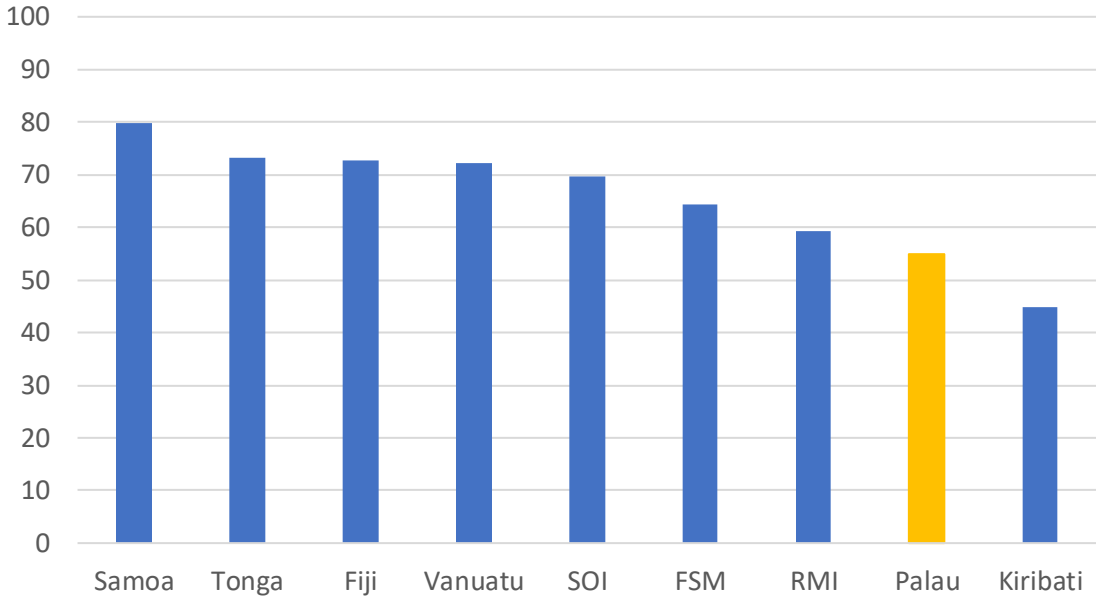
[181] Based on various sources and field interviews.

[182] United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) (2019). *Infrastructure financing for sustainable development in Asia and the Pacific*, Bangkok, see: https://www.unescap.org/publications/infrastructure-financing-sustainable-development-asia-and-pacific.

[183] See: https://www.adb.org/sites/default/files/linked-documents/54151-001-ssa.pdf.

[184] Ibid.

Figure 21. Businesses' access to electricity



Source: Developed based on The World Bank Group.[185]
Note: The highest at the 100 marks.

The main water source in Palau is groundwater, extracted from wells located throughout the islands. The water is treated at various treatment plants and then distributed to residential and commercial customers through a network of pipes and tanks, managed by PPUC. There are also several private companies that offer water-related services, such as water delivery, water treatment and water filtration systems, in Palau.[186]

In 2020, there were 132 mobile cellular subscriptions for every 100 people in Palau.[187] Internet subscribers grew from 3 000 in 2017 to 4 380 in 2021. However, a recent survey of fixed broadband speeds ranked Palau 182nd (out of 224 countries) in the 50 least connected countries globally.[188] The average price for 1GB of mobile data in Palau, in 2022, was estimated to be $1.67, above that of Australia, Fiji, Samoa and Tonga, but below that of most other Pacific countries.[189] Palau submarine cable infrastructure ensures its connectivity to Guam and onward connectivity to North America and the rest of the world. Indeed, since 2017, the submarine cable "The Palau Spur" is linking Palau and Guam, it has a capacity of 500 Gigabits per second (see figure 22 below). Following the completion of the Palau Spur, another large-capacity submarine optical cable, "Palau Cable 2" is in construction. This submarine cable will connect South-East Asia and the US mainland.

[185] The World Bank Group (2023g).

[186] South Pacific Applied Geosciences Commission (SOPAC) (2007). *Integrated Water Resources Management programme's Diagnostic Reports*, see: http://www.pacificwater.org/pages.cfm/country-information/republic-of-palau.html.

[187] The World Bank Group (2023g).

[188] International Telecommunication Union (ITU) (2023). *The affordability of ICT services 2022*, see: https://www.itu.int/en/ITU-D/Statistics/Documents/publications/prices2022/ITU_Price_Brief_2022.pdf.

[189] Ibid.

Moreover, Palau's Ministry of Finance launched the nation's first digital residency law on cyber security in early 2022, allowing non-citizens to purchase an e-residency that gives them permission to start companies, sign documents and trade in cryptocurrencies.[190]

Figure 22. Palau Submarine Internet Cable Map

Source: Belau Submarine Cable Corporation.[191]

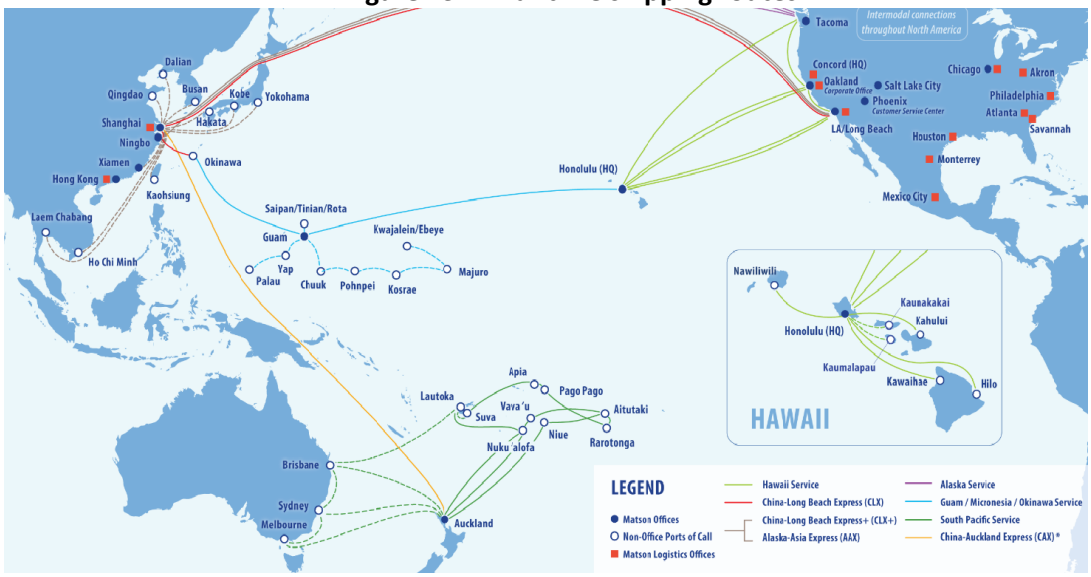
Palau's low level of maritime connectivity is also a major obstacle to its economic development since Palau consists of remote and dispersed islands, and maritime transport is the main option for moving cargo internationally and domestically. The limited size of Palau's local markets leaves little room for competition between maritime companies, resulting in high transport costs. Palau has been served by only one-liner service (Matson) since 2011; before that, two services were called in (see figure 23 below). This situation limits the potential of greater intra-regional trade, which represents less than a third of the value of the overall trade of the Pacific.[192]

[190] Island Times (2023). *Digital residency program regulation is out*, see: https://islandtimes.org/digital-residency-program-regulation-is-out/.

[191] Visit: https://belaucable.com/.

[192] United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and United Nations Conference on Trade and Development (UNCTAD), (2022), *Analysis of maritime connectivity in the Association of Southeast Asia Nations and small island developing States in the Pacific*, see: https://unctad.org/system/files/official-document/dtltlb2022d1_en.pdf.

Figure 23. Maritime shipping routes



Box 6. *Source*: Matson Shipping.[193]frastructure financing

The Palau government has set up the Palau National Infrastructure Investment Plan (NIIP) to outline priorities and plans for major infrastructure investment between 2021-2030. The plan covers numerous sectors, such as agriculture and forestry, energy, solid waste management, transport and telecommunications. Funding for infrastructure investments emanates from various sources, including fiscal revenues, commercial loans, grants and loans from development partners, climate funds, public-private partnerships, SOEs and private sector investments. The NDBP is also a source of financing for infrastructure projects. The most important country donors are the United States, Australia and Japan. Another key development partner is the ADB, which has offered support in various sectors, including energy, finance, ICT through cable networks, public sector management (e.g., disaster relief), urban infrastructure and services and water and sanitation. Other development partners for infrastructure projects include the World Bank and various United Nations agencies.

The implementation of the NIIP is a gradual process incorporated into the budget formulation and other public finance management areas, such as asset management, FDI, operations and maintenance. The NIIP has been monitored and evaluated annually as part of the national budget process. The Bureau of Public Works oversees monitoring and reporting on the implementation of NIIP, in collaboration with the Bureau of Budget and Planning, as a crucial aspect of the Government's yearly budget formulation. The priority projects are listed in table 4, below.

Table 4. Top 10 projects in the NIIP with the highest priority

S. No.	Proj #	Project Name	Sector	Project Scope	Estimated Capital Cost	Annual Maintenance Cost	Prioritization Score
1	Cen-4	Koror Babeldaob Island - Resilient Urban Development - Municipal services for housing subdivision	Central Govt	Roads, Water, Waste water and electricity services for new subdivision in Babledaob	$ 35,000,000	$ 175,000	83
2	TrS-4	Babeldaob Commercial Seaport	Sea Transport	New Commercial Sea Port	$ 120,000,000	$ 600,000	77
3	Cen-1	Capital Complex Annex Building	Central Govt	Construction of new buildings	$ 12,000,000	$ 60,000	65
4	Cen-5	Pedestrian Walkway in Koror	Central Govt	Construction of pedestrian walkways in city center - approx. 5 km length	$ 1,000,000	$ 10,000	65
5	Edu-1	Three New School Building in Babeldaob 200 students	Education	Construction of three new school building to consolidate seven existing schools	$ 11,000,000	$ 55,000	60
6	Tou-1	Ngeremlengui Waterfall	Tourism	Tourism attraction sites	$ 900,000	$ 4,500	57
7	Tou-2	Ngchesar Waterfall	Tourism	Tourism attraction sites	$ 900,000	$ 4,500	57
8	Tou-7	Palau National Convention Center	Tourism	1000 capacity convention center	$ 8,000,000	$ 40,000	57
9	Agr-1	New buildings to improve small farm production and productivity - Fruit fly lab and Post harvest processing facility	Agriculture & Forestry	Construction of new buildings	$ 300,000	$ 4,500	55
10	Cen-6	Capital Repairs to existing State Government owned Buildings	Central Govt	Repair building components found in poor condition	$ 5,000,000	$ 375,000	55

Source: Pacific Region Infrastructure Facility (PRIF) and Palau Ministry of Finance.[194]

[193] See: https://www.matson.com/corporate/about_us/index.html.

[194] Pacific Region Infrastructure Facility (PRIF) and Palau Ministry of Finance (2021). *The Palau National Infrastructure Investment Plan 2021-2030*, see: https://www.theprif.org/sites/default/files/documents/PRIF_PalauNIIP-2021_Web_0.pdf.

5. Planet

Strengthening resilience to climate change and other environmental issues is essential for Palau's sustainable development, through the timely implementation of its adaptation and mitigation strategies, governance and financing. This section of the national study addresses the key development issues in Palau under the planet pillar of the SDGs, spanning: (i) climate change; (ii) disaster risk reduction; and (iii) blue economy.

5.1. Climate change

Ninety per cent of Palau's land area is forest, lying on top of weathered volcanic rocks and uplifted limestone, from which karstic landscapes have formed. With plentiful rainfall and a humid tropical climate, the forest areas comprise upland, swamp, mangrove, atoll, casuarina, limestone, plantation and palm forests. Around a quarter of these are officially protected, while some other areas have been converted to grassland. Regarding biodiversity, Palau is home to a dozen endemic bird species, unique sealife (such as the Nautilus Belauensis) and diverse fauna, spanning frogs, bats (e.g., the "flying fox"), snakes, lizards and snails.[195]

Palau has some of the most pristine marine environments in the world, although the rapid expansion of tourism, before the pandemic, was increasing demands on the country's fragile environment. Climate change also poses an existential threat to the country, through coral bleaching, intense periods of rainfall or drought, rising sea levels and increased storm activity, raising the importance of Palau's climate change adaptation and mitigation. The government estimates the negative economic impact of climate change to be four to 20 per cent of GDP annually, including adverse effects on agricultural and fish products and a decline in tourism revenues.[196]

In 2019, Palau produced 14 metric tons of carbon dioxide emissions per person, much higher than other Micronesian countries and a 23 per cent growth since 2010 (see figure 24 below). In 2016, it was estimated that 86 per cent of those emissions came from liquid fuel consumption.[197] Power generation is the main source of Palau's greenhouse gas (GHGs) emissions footprint, which is dominated by diesel generators, with just four per cent of its energy coming from renewable sources.[198]

[195] For further details, see: https://www.oneearth.org/bioregions/palau-caroline-tropical-islands-oc8; and https://www.palauconservation.org/.

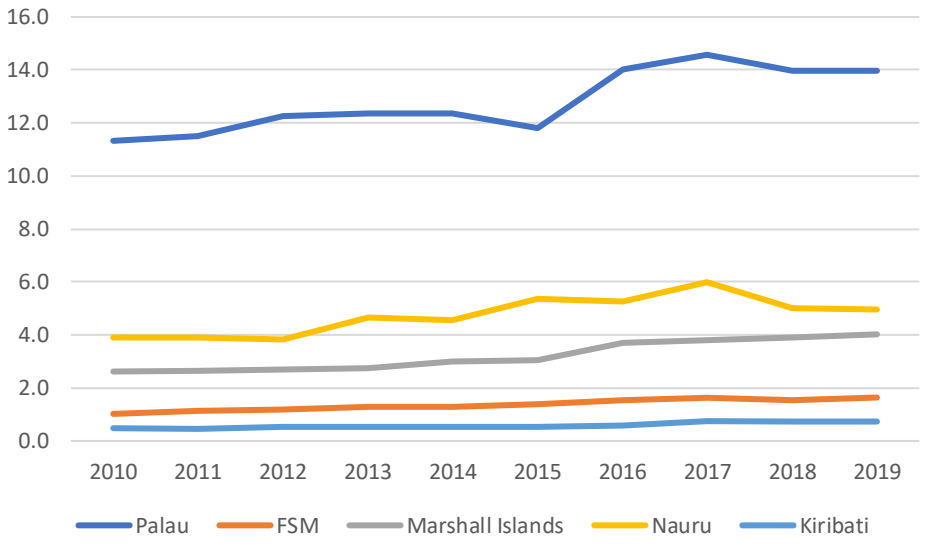
[196] Government of Palau (2015). *Palau Climate Change Policy. For Climate and Disaster Resilient Low Emissions Development*. Available at https://www.palaugov.pw/wp-content/uploads/2022/01/Palau-Climate-Change-Policy.pdf.

[197] See: https://knoema.com/atlas/Palau/topics/Environment/Emissions/CO2-emissions-from-liquid-fuel-consumption-percent.

[198] Palau currently operates five power stations, each with between two and nine diesel generators with a capacity from less than 0.03 megawatts to five megawatts. Four per cent of renewable power generation stems from 2.5 megawatts of solar photovoltaic (PV) systems.

Figure 24. GHG emissions per capita of Palau and other Micronesian countries

Metric tons



Source: World Bank Group.[199]

Palau's strategic approach to climate change has been made tangible through four policy actions:

i. Enactment of the Palau climate change policy, in 2015;[200]
ii. Ratification of the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement, in 2016, with three targets set for 2025: reducing energy sector emissions by 22 per cent; generating 45 per cent of energy from renewable sources; and increasing energy efficiency by 35 per cent;[201]
iii. Also in 2016, Palau announced its "responsible tourism policy framework", intended to align economic activity in the tourism sector with the country's climate change objectives, by prioritizing the protection of the environment and moving away from mass tourism and towards more niche markets; [202] and
iv. In 2022, Palau and the United States co-hosted, in Palau, the seventh annual "Our Ocean Conference." Discussion focused on two cross-cutting issues: (i) the ocean-climate nexus; and (ii) the importance of a healthy ocean to SIDS and all communities where the ocean serves as a primary source of sustenance. At the conference, Palau made voluntary commitments on climate change, sustainable fisheries, sustainable blue economies, marine protected areas, maritime security and marine pollution.[203]

[199] The World Bank Group (2023g).

[200] Republic of Palau (2015). *Palau Climate Change Policy. For Climate and Disaster Resilient Low Emissions Development*, see: https://www.palaugov.pw/wp-content/uploads/2022/01/Palau-Climate-Change-Policy.pdf.

[201] Republic of Palau (2015). *Intended Nationally Determined Contribution*, see: https://unfccc.int/sites/default/files/NDC/2022-06/Palau_INDC.Final%20Copy.pdf.

[202] Republic of Palau, Ministry of Natural Resources, Environment and Tourism (2016). *Palau Responsible Tourism Policy Framework. Ensuring a Pristine Paradise. Palau for Everyone, 2017-2021*, see: https://www.palaugov.pw/wp-content/uploads/2017/04/Final_Palau-Responsible-Tourism-Framework1.pdf.

[203] For further details, see: https://ourocean2022.pw/wp-content/uploads/2022/06/OOC_Commitments_pdf_v8.0.pdf.

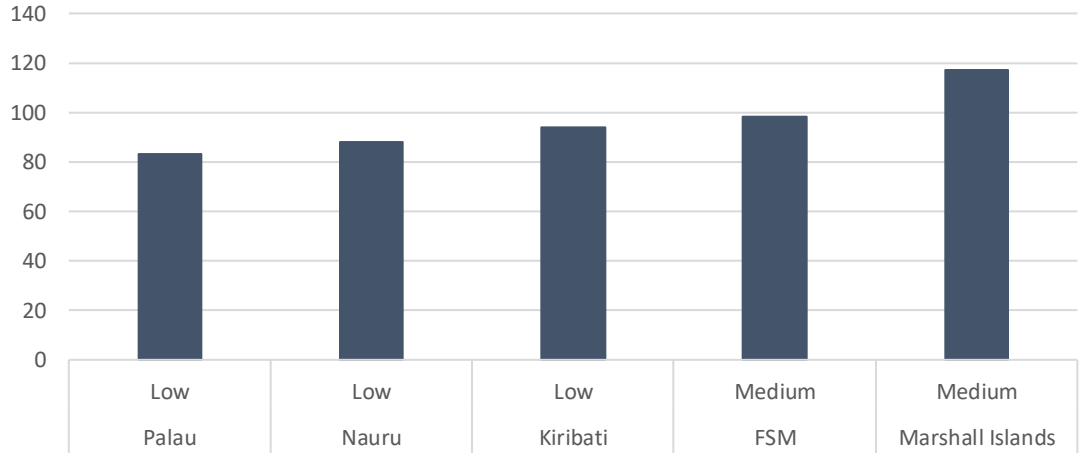
In 2022, the International Renewable Energy Agency (IRENA), commissioned by the Government of Palau, proposed a range of renewable energy policy scenarios, intended to help in reducing Palau's reliance on imports of liquid fuel for generators and also lessen its fuel import bill. These scenarios entailed various combinations of solar photovoltaics (PVs), wind turbines and battery storage systems.[204] The estimated initial investment cost of achieving 92 per cent renewable energy by 2050 would be $126 million, with various options for 100 per cent renewables costing between $179 million and $266 million, depending on the precise combination of renewables used. However, the IRENA report cautions that "without the appropriate policies and regulations in place, the outcome of the scenarios analysed in this study is unlikely to be achieved. Therefore, a key recommendation for the government, if it is to achieve its proposed target of a 100 per cent share for renewables by 2050, is to accelerate deployment of solar PV and battery storage systems through a combination of Palau Public Utilities Corporation (PPUC) investments and power purchase agreements".[205]

However, access to adequate funding has constrained Palau's ability to introduce the desired climate change adaptation measures. In this vein, achieving adequate climate change adaptation, mitigation and resilience requires innovative approaches and funding mechanisms. Emerging ideas may include, among others, blue carbon credits, vertical farming and floating cities/towns with solar generator farms.

5.2. Disaster risk reduction

Palau is assessed as a low-risk country regarding natural disasters and humanitarian crises (see figure 25 below). However, the state is vulnerable to various natural hazards, including typhoons, tropical storms, earthquakes and long-term sea-level rise.[206] The degree of disaster risk is expected to rise along with the intensification of climate change-related impacts.

Figure 25. Disaster risk rankings in Micronesia



Source: *INFORM Risk Index*.[207]
Notes: The ranking is out of 191 countries.

[204] International Renewable Energy Agency (IRENA) (2022). *Republic of Palau: Renewable Energy Roadmap 2022-2050*, see: https://www.irena.org/publications/2022/Jun/Republic-of-Palau-Renewable-Energy-Roadmap#:~:text=The%20government%20of%20Palau%20has,renewable%20energy%20sources%20by%202050.

[205] Ibid., p. 9.

[206] United Nations Office for Disaster Risk Reduction (UNDRR) (2022). *Disaster Risk Reduction in the Republic of Palau*, see: https://www.undrr.org/publication/disaster-risk-reduction-republic-palau-status-report-2022.

[207] Visit: https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Map-Explorer.

The Palau government has taken several steps to address disaster risk reduction (DRR), developing a National Disaster Risk Reduction and Management Framework.[208] This framework, developed and amended in 2010 and 2016, respectively, provides a comprehensive approach to DRR management, encompassing all phases of the disaster management cycle, from prevention and preparedness to response and recovery. The Government has also established a National Emergency Management Office (NEMO) to coordinate disaster response and management efforts and promote DRR initiatives.[209] NEMO works closely with other government agencies, the United Nations entities and other international organizations to develop and implement DRR programmes and projects.

In addition, Palau has undertaken efforts to bolster resilience to natural disasters in its infrastructure and utilities provision. The Palau National Infrastructure Investment Plan (NIIP) (2021-2030) outlines the policies, priorities and plans for major infrastructure investments to strengthen resiliency against natural disasters.[210] For example, the government has implemented building codes that require structures to be designed to withstand strong winds and earthquakes and has also invested in the construction of seawalls and other coastal protection measures to mitigate the impacts of sea-level rise. Despite these efforts, however, Palau remains vulnerable to natural hazards, and ongoing investment in DRR management is essential to ensure the safety and well-being of its citizens.

In this context, the United Nations' "Loss and Damage Fund" is a financial mechanism designed to help developing countries, like Palau, better manage the adverse impacts of climate change. The fund was established in 2013 by UNFCCC at the 19th Conference of Parties (COP 19) in Poland and operates under the Warsaw International Mechanism for Loss and Damage.[211]

5.3 Blue economy

The "blue economy" is an emerging development concept that aims to achieve socio-economic progress simultaneously with environmental protection and sustainable resource extraction.[212] Although the blue economy concept has yet to be fully concretized, it is widely accepted as "the sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of the ocean ecosystem".[213] Fisheries, maritime transport, climate change adaptation, renewable energy, circular economy/waste management and eco-tourism are typically regarded as the key components and activities of the blue economy. In recent years, the Government of Palau has promoted the blue economy by implementing various proactive policies and programmes.

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[208] Center for Excellence in Disaster Management and Humanitarian Assistance (2023). *Palau Disaster Management Reference Handbook, January 2023*. Hawaii. Available at: https://reliefweb.int/report/palau/palau-disaster-management-reference-handbook-january-2023#:~:text=Rather%2C%20the%20Palau%20National%20Disaster,of%20any%20hazard%20to%20Palau.

[209] Ibid.

[210] PRIF and Palau Ministry of Finance (2021).

[211] For further details, see: https://unfccc.int/topics/adaptation-and-resilience/workstreams/approaches-to-address-loss-and-damage-associated-with-climate-change-impacts-in-developing-countries?psafe_param=1&gclid=CjwKCAjw3ueiBhBmEiwA4BhspDZ50jGSvrfrbwtxA88L0SlbWpMlLFw1DNi2lZ1_LBZmoHxx16jwTxoCBOIQAvD_BwE and https://www.unep.org/news-and-stories/story/what-you-need-know-about-cop27-loss-and-damage-fund.

[212] Mridula, *et al.* (2022).

[213] For further details on the definitions of the blue economy, see: https://www.un.org/regularprocess/sites/www.un.org.regularprocess/files/rok_part_2.pdf.

Palau's coral and volcanic islands are surrounded by an exclusive economic zone (EEZ) of over 600 000 square kilometres.[214] Climate change has resulted in the migration of significant biomass of tuna and other fishes to areas outside Palau's EEZ.[215] The country has led a few blue economy initiatives to manage fishery resources sustainably, mainly through: (i) the Pacific Islands Forum Fisheries Agency (FFA); (ii) the Parties to the Nauru Agreement (PNA); (iii) Vessel Day Scheme (VDS); and (iv) the Palau National Marine Sanctuary (PNMS).

FFA, whose members include 14 PICTs plus Australia, New Zealand and Papua New Guinea, works to strengthen national capacity and regional solidarity to foster their tuna assets, $3 billion within the member states' EEZs. FFA provides technical assistance and other support to its members, while setting a regional forum in collaboration with other regional fishery agencies, such as the Western and Central Pacific Fisheries Commission (WCPFC).[216] PNA – whose nine members comprise Palau, FSM, Kiribati, Marshall Islands, Nauru, Papua New Guinea, Solomon Islands, Tuvalu and Tokelau – controls the world's largest tuna fishery. PNA has introduced various conservation measures, such as high seas closures, controls on fish aggregating devices, protection for whale sharks and the full coverage of purse seine fishing vessels with observers.[217] The VDS limits the number of vessels and their operating days in the waters of PNA and allows fishing vessel owners to purchase and trade days of legal fishing at sea in waters covered by PNA. The primary purpose of the VDS is to constrain catches of target tuna species and increase the rate of return from fishing activities through access fees paid by distant water fishing nations, such as China, Japan and the Republic of Korea.[218] Palau earns around US$7 million annually from PNA-related licence fees, equivalent to around nine per cent of total government revenues.[219]

In 2015, Palau legislated for the PNMS Act, covering 80 per cent of Palau's EEZ, and which entered force in January 2020. The PNMS is one of the largest and most ambitious ocean conservation initiatives to protect Palau's marine resources and tuna stocks (see figure 26 below). The PNMS creates: (i) a no-take marine sanctuary covering 83 per cent of Palau's EEZ, in which no fishing or any extraction of natural resources is allowed; and (ii) a domestic fishing zone covering nearly 20 per cent of Palau's EEZ in which traditional and domestic fishing activities are allowed to provide fish solely for Palau's food security and the domestic market.[220]

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[214] Blue Nature Alliance (2020). *Palau National Marine Sanctuary*, see: https://www.bluenaturealliance.org/palau-national-marine-sanctuary and Vaughan, A. (2015). *Palau approves huge Pacific marine sanctuary*, see: https://www.theguardian.com/environment/2015/oct/22/palau-approves-huge-pacific-marine-sanctuary.

[215] Bell, J. D., *et al.* (2021). "Pathways to sustaining tuna-dependent Pacific Island economies during climate change", *Nature Sustainability*, 4, 900–910.

[216] For more details about the Pacific Islands Forum Fisheries Agencies see: https://www.ffa.int/.

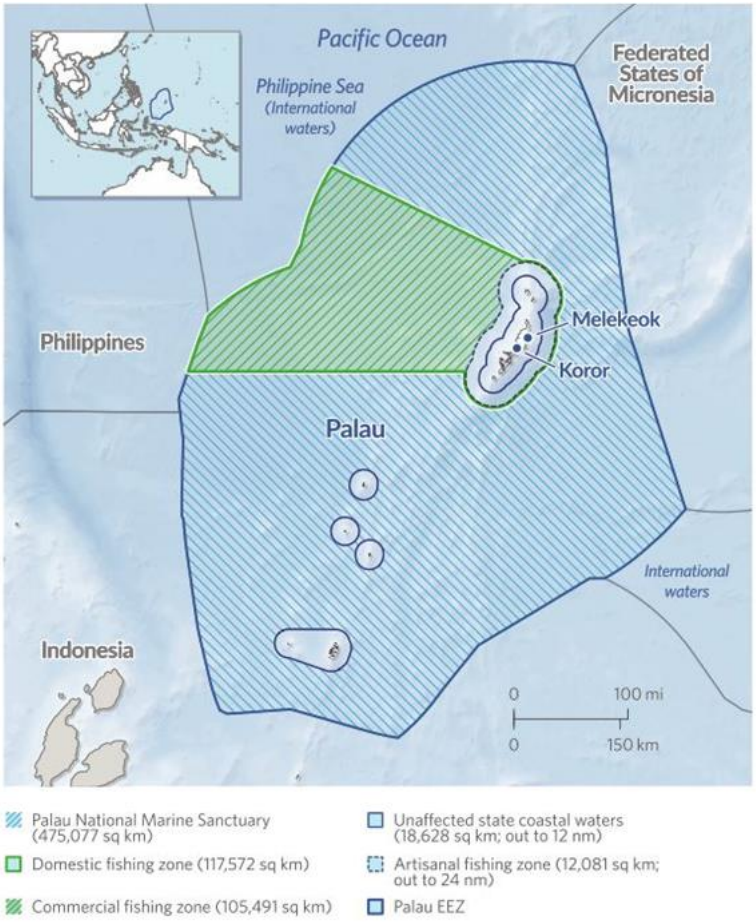
[217] For more details about the Parties to the Nauru Agreement, see: https://www.pnatuna.com/content/about-pna. Purse seine fishing entails a vertical net "curtain" that surrounds the school of fish, the bottom of which is then drawn together to enclose the fish, rather like tightening the cords of a drawstring purse.

[218] Ibid.

[219] Ibid.

[220] Cirilla, A. (2020). *Palau National Marine Sanctuary Goes Into Effect*, see: https://www.pewtrusts.org/en/research-and-analysis/articles/2020/01/01/palau-national-marine-sanctuary-goes-into-effect. The PNMS has not been without controversy. For example, see: Carreon, B. (2020). *Palau's marine sanctuary backfires, leading to increased consumption of reef fish,* see: https://www.theguardian.com/world/2020/feb/27/palaus-marine-sanctuary-backfires-leading-to-increased-consumption-of-reef-fish.

Figure 26. Palau National Marine Sanctuary



Source: The Pew Charitable Trusts.[221]

Initial evidence suggests that the banning of international fishing fleets from the zone has resulted in an improvement in fish stocks. In addition to reducing pressure on fish stocks, the PNMS is expected to reduce the mortality of seabirds, turtles, sharks and billfishes that are currently caught as "by-catch" by industrial vessels. However, this measure, intended to protect fish stocks from commercial fishing, has sadly put more pressure on reef fish.[222]

More recently, and somewhat controversially, the Government of Palau has considered re-opening over two thirds of the PNMS to fishing and international shipping.[223] The Government has cited economic challenges posed by the COVID-19 pandemic and the necessity to bolster economic recovery efforts and food security, as reasons for rolling back the policy. Alleged inadequate stakeholder consultation and opposition from the Council of Chiefs have increased controversy around the latest plan. Critics suggest that its design does not adequately provide sustainable financial options, and

[221] Heaton, T. (2022). "Palauans Are Protesting A Plan To Roll Back Their National Marine Sanctuary", *Honolulu Civil Beat,* 24 April, see: https://www.civilbeat.org/2022/04/palauans-are-protesting-a-plan-to-roll-back-their-national-marine-sanctuary/.

[222] Lewis, S. A., *et al.* (2020). "Conservation policies informed by food system feedbacks can avoid unintended consequences", *Nature Food*, 1(12), 783–786.

[223] Pacifika Environews (2022). *Palau's famed marine sanctuary is intact for now*, see: https://pasifika.news/2022/12/palaus-famed-marine-sanctuary-is-intact-for-now.

therefore a shift to a "regional fisheries management" model is needed, along with reforms of permitted longline fishing practices and a reduction in the sanctuary's aggregate size to around 50 per cent of Palau's waters. At present, the primary financing mechanism for the PNMS is the "Pristine Paradise Environmental Fee", a $100 levy that all visitors to Palau must pay, but from which revenues have significantly lessened, due to the pandemic.[224] All visitors to Palau must also sign the "Palau pledge" to act in an environmentally sustainably manner during their time in the country.[225] Presently, three international NGOs, The Nature Conservancy, Nia Tero and Conservation International, have provided an annual grant aid of $2.6 million as temporary relief to Palau's administration in exchange for the existing ban remaining in place.[226]

[224] Ibid.

[225] United Nations Conference on Trade and Development (UNCTAD) (2021). *Development and Globalization: Facts and Figures. Palau*, see: https://dgff2021.unctad.org/palau.

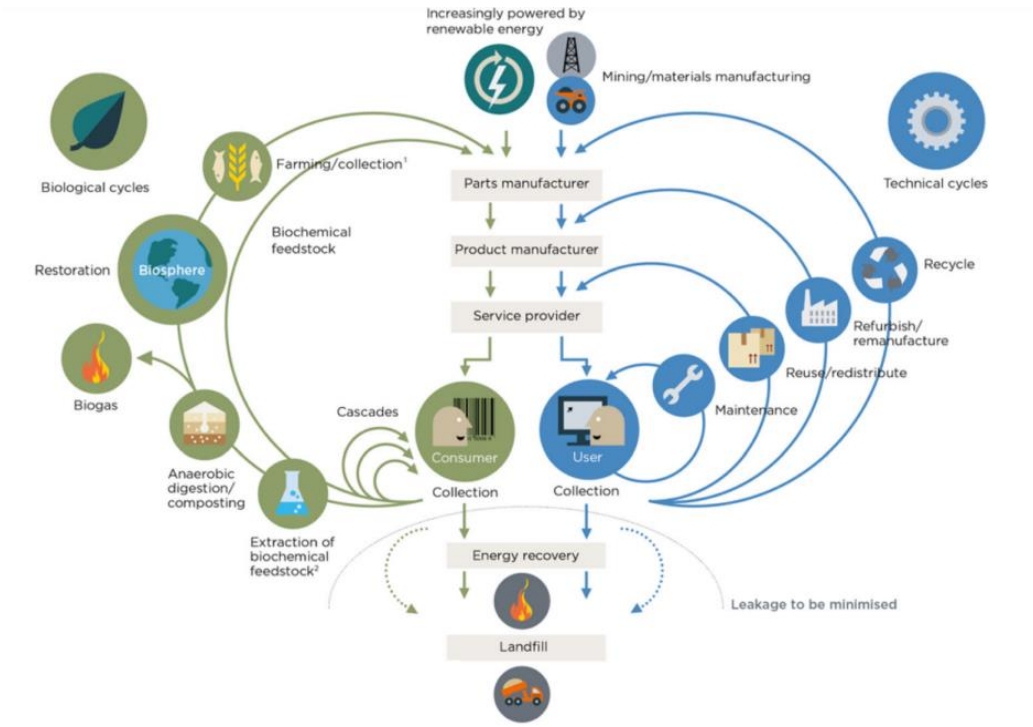
[226] Reklai, L. (2022). "Palau's famed marine sanctuary is intact for now", *Island Times Palau, 27 December*, see: https://islandtimes.org/palaus-famed-marine-sanctuary-is-intact-for-now/.

Box 7. Circular economy

Waste is generated from household, commercial, agricultural, domestic, municipal and industrial activities. The environmental implications of this waste are witnessed globally in terms of air, land and water pollution, including ocean plastic pollution. Waste management, a crucial part of the blue economy, is particularly challenging for PICTs, including Palau, due to their high per-capita infrastructure costs, remoteness, narrow resource bases and high dependence on fossil fuels and tourism.

Current waste management is associated mainly with a linear economy, involving linear production and supply processes. Moving away from the linear economy (sometimes also referred to as an "extract-produce-use-discard" model), the circular economy promotes re-use, re-manufacturing and recycling, partly in order to reduce waste volumes. The circular economy approach seeks to achieve global, national and local sustainability, including those of the PICTs.[227] There is a need to adopt the circular economy in PICTs, so as to reduce waste and contribute to implementation of the SDGs. Figure 27 illustrates a typical circular economy model.

Figure 27. Circular economy model



Source: Halog and Anieke (2021).[228]

Box 8. Deep-sea mining

[227] Fuldauer, L., Ives, M. C., Adshead, D. Thacker, S. and Hall, J. W. (2019). "Participatory planning of the future of waste management in small island developing states to deliver on the Sustainable Development Goals", *Journal of Cleaner Production*, 223, 147-162; and Wiebe, K. S., Harsdorff, M., Montt, G., Simas, M. S. and Wood, R. (2019). "Global Circular Economy Scenario in a Multiregional Input–Output Framework", *Environmental Science and Technology*.

228

In 2018, Palau became one of the first countries in the world to ban commercial deep-sea mining within its territorial waters, citing the need to protect its ocean environment.[229] Deep-sea mining involves the extraction of minerals and resources from the ocean floor, which can include everything from precious metals to rare earth elements and serve as an additional source of public revenues (such as from mining rights and royalty payments) and private sector investment.

However, there are significant concerns about the environmental impact of deep-sea mining, particularly given the fragile and poorly understood nature of many deep-sea ecosystems. Some experts warn that deep-sea mining could have serious and long-lasting consequences for marine biodiversity and the health of ocean ecosystems.[230] It is increasingly clear that any future decision to move forward with this practice must carefully consider potential adverse environmental impacts and a firm commitment to sustainable practices that minimize any harm to the ocean and its ecosystems.

[229] World Rainforest Movement (2019). "Contesting a "Blue" Pacific: Ocean and Coastal Territories under Siege", *WRM Bulletin 246*, see: https://www.wrm.org.uy/bulletin-articles/contesting-a-blue-pacific-ocean-and-coastal-territories-under-siege.

[230] Durden, J. M., *et al.* (2018). "Environmental Impact Assessment process for deep-sea mining in 'the Area'", *Marine Policy*, 87, 194-202.

6. Peace and Partnerships

This section elaborates on two final SDG pillars: peace and partnership. The first pillar focuses on the growing geopolitical concerns in the Pacific, comprising Palau, while the second pillar addresses international cooperation and the United Nations' role in it.

6.1. Geopolitics

Palau became an independent nation in October 1994 and has been a member of the Pacific Islands Forum since 1995. Australia, Japan, the Taiwan Province of China and the United States all have embassies in Palau. Palau has embassy representations in the United States, the Philippines, Japan, the Taiwan Province of China, the European Union and the United Nations in New York. Palau had also established formal diplomatic relations with nearly 100 countries by end-2022. As the US State Department notes, the "US-Palau relationship is strong: Palauans serve in the US military at a higher rate than any US state or territory, many Palauans live and work in the [United States], and a growing percentage of its people are dual nationals".[231]

The US administration has been trying to reinforce its strategic importance among the islands of concern, including Palau. Palau is seen to be of considerable geopolitical relevance, especially for the US government. Indeed, that degree of relevance has arguably grown in recent years, as increasing attention is paid to Palau's location along the second island chain (see figure 6 again) – situated between Guam and the Philippines, and its large EEZ – in that context. In 2020, the United States and Palau signed a new defence agreement that grants the US military access to Palau's territory, including its airfields and ports.

Palau has also sought to diversify its external relations and partnerships, thereby reducing its dependence on one country. As noted earlier, it has developed strong ties with the Taiwan Province of China, which has provided economic and security assistance to Palau. In addition, Palau has been actively engaging with Australia, Japan and New Zealand, which are traditional allies of the United States. Overall, Palau's strategic location and natural resources have made it an important player in the geostrategic competition in the Pacific. In the future, Palau will need to find a means of successfully navigating that dynamic to ensure its desire for peace, notwithstanding the rights and obligations enshrined in the CoFA with the United States.

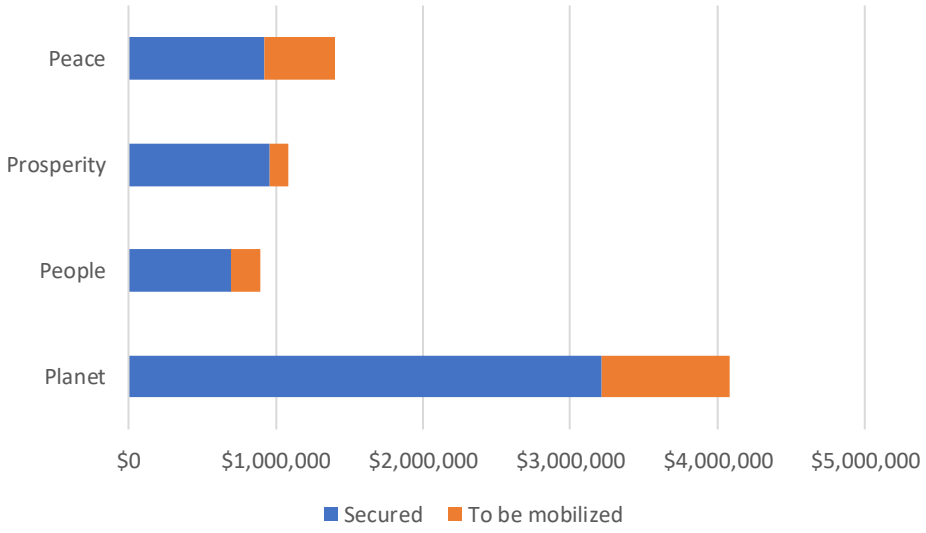
[231] United States Department of State, Bureau of East Asian and Pacific Affairs (2022). *U.S. Relations With Palau, Bilateral Relations Fact Sheet*, see: https://www.state.gov/u-s-relations-with-palau.

6.2. International cooperation

Palau has worked with various external stakeholders, including bilateral donors, international organizations, international financial institutions (IFIs), civil society organizations (CSOs) and the private sector, in pursuit of its sustainable development on multiple fronts. Such cooperation must be further fostered, in which the United Nations system, which has been involved in Palau's development since post-World War II, has played a leading role.

The United Nations Multi-Country Office for Micronesia, headed by the Resident Coordinator, coordinates the United Nations' system-wide development initiatives in Palau. It is based in Kolonia, Pohnpei, FSM, which also serves four other North Pacific states: FSM, Marshall Islands, Nauru and Kiribati. Currently, in Palau, 20 United Nations entities and agencies have implemented programmes and projects: ESCAP, FAO, International Atomic Energy Agency (IAEA), International Labour Organisation (ILO), International Organization for Migration (IOM), OHCHR, Joint United Nations Programme on HIV and AIDS (UNAIDS), UNCTAD, UNDP, United Nations Environment Programme (UNEP), United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations Population Fund (UNFPA), United Nations High Commissioner for Refugees (UNHCR), UNICEF, United Nations Industrial Development Organization (UNIDO), United Nations Office on Drugs and Crime (UNODC), United Nations Entity for Gender Equality and the Empowerment of Women (UNWOMEN), WFP, WHO and World Meteorological Organization (WMO).[232] In 2023, their aggregate project funds accounted for approximately $7.5 million (see figure 28 below).

Figure 28. United Nations' funding in Palau in 2023
United States dollars



Source: United Nations Multi-Country Office Micronesia.[233]

Palau is one of the 14 PICTs that make up the United Nations Pacific Sustainable Development Cooperation Framework (PSDCF) 2023-27, which aims to accelerate ongoing and future investments for the SDGs in the states to be funded by domestic resources, debt, bilateral or multilateral development assistance, including on bilateral donors and IFIs' grants and concessional loans, as well as national and international private financing and actioned at the country level by country plans. The

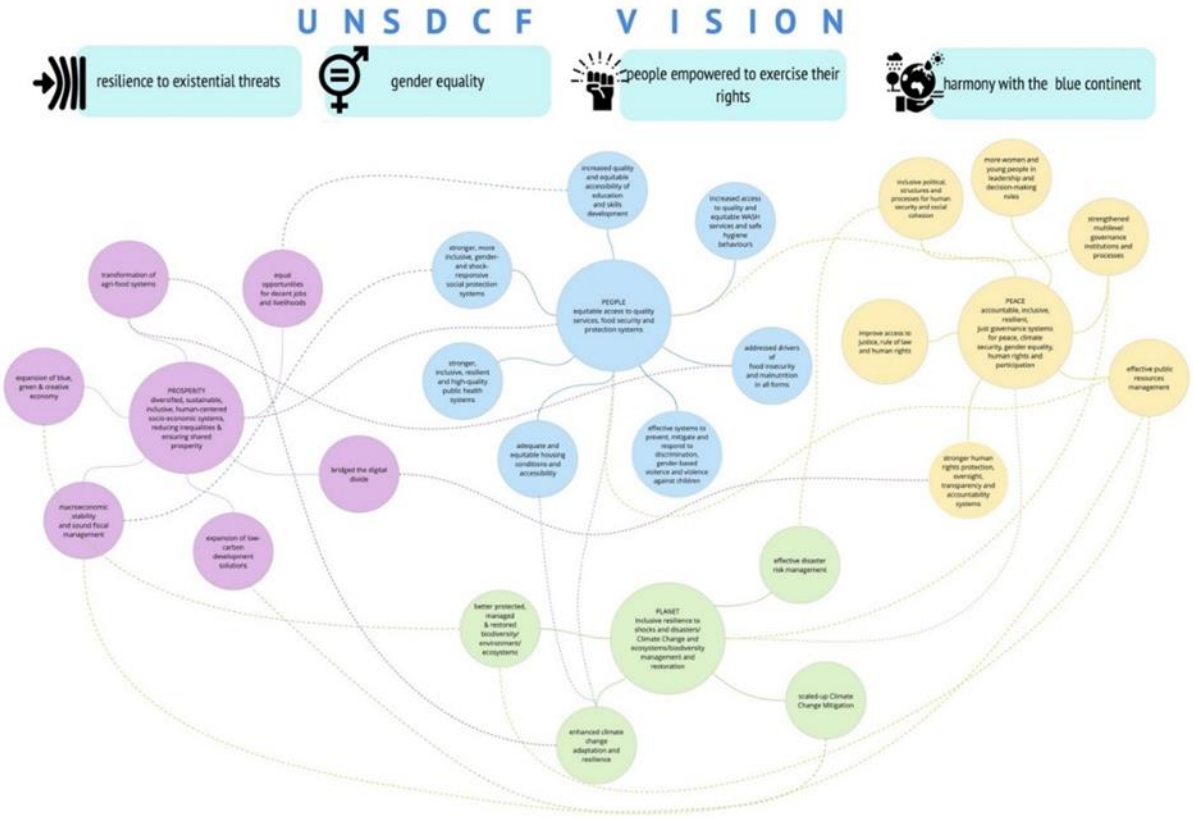
[232] As of May 2023.

[233] United Nations Multi-Country Office Micronesia (2023). *The Republic of Palau: United Nations Country Implementation Plan (CIP), January 2023 – December 2024.*

PSDCF has been implemented in line with the national development plans and the regional strategies, particularly PIF's most recent 2050 Strategy for the Blue Pacific Continent.[234] The PSDCF also mainstreams multisectoral resilience, gender equality, human rights and blue economy into its entire framework, from its vision and theory of change, through outcomes and indicators, to tracking and reporting on progress.

The PSDCF is articulated around the 2030 Agenda's main pillars: planet, people, prosperity and peace. The partnership pillar is principally a means of implementing programmes to be developed under each thematic area. Figure 29 below presents an overview of the PSDCF framework.

Figure 29. PSDCF framework



Source: United Nations.[235]

The Government endorsed the PSDCF's Country Implementation Plan (CIP) for Palau on 25 May 2023. The CIP defines the United Nations' actions and deliverables on the ground to help achieve the PSDCF's outcomes, firmly anchored to country-level needs and structures. The Joint (United Nations–government) Steering Committee oversees implementation of the CIP.[236]

[234] The United Nations in the Pacific (2022).

[235] Ibid.

[236] United Nations Multi-Country Office Micronesia (2023).

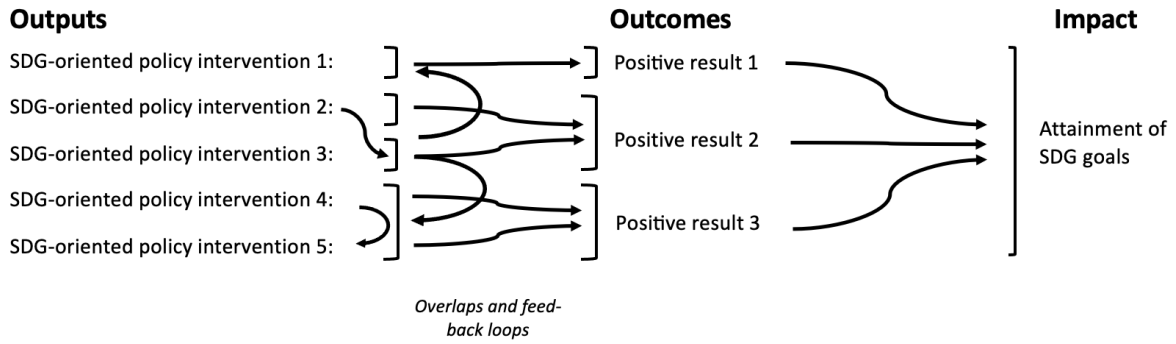
7. Key Gaps and Challenges in Attaining the 2030 Agenda

This final section of the study seeks to identify some key gaps and challenges posed for Palau in attaining its SDGs, emanating from the observations cited in the previous sections of this country analysis. This is not an exhaustive checklist, nor does it seek to go into great depth. Rather, it seeks to delineate and prioritize some of Palau's most pressing challenges that could be the basis for further policy advocacy for Palau.

7.1. Towards a post-pandemic Palau (PPP) sustainable development strategy

Clearly, there are considerable overlaps and inter-linkages between the 17 SDG goals and the challenges posed in attaining them. Thus, while it is useful to clearly define each of these, for clarity and a strategic allocation of resources, the actual pursuit of these goals necessitates taking a holistic approach, and, conversely, avoiding the temptation to adopt a "silo approach" (see figure 30 below). Gains made in one area field may have a positive (or negative) knock-on effect in another area, while a lack of progress in one area could pose a negative drag on another. For example, NCD and health issues in Palau are partly related to diet and high dependency on imported foods. Not only is there a need for a lifestyle change, but there is also a need to seek economic solutions that lessen Palau's dependence on imported products. But any import substitution programme must overcome the stark reality that most imported produce is typically cheaper than any real or potential home-grown equivalents. And there is a need for education and advocacy work as well. Thus, addressing health issues in Palau also necessitates interventions on the economic and socio-cultural fronts.

Figure 30. The silo approach



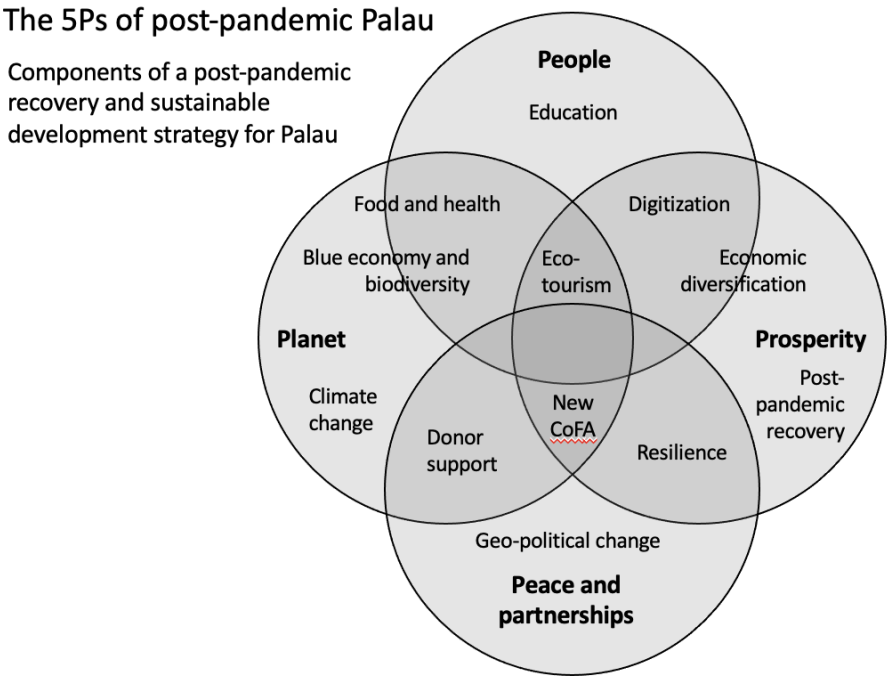
Source: the authors.

There is also a need to prioritize and pursue a strategy most likely to bring about the greatest desirable impact, relative to the finite resources and institutional capacity available. In a context of competing demands for finite funding and resources, effective prioritization becomes critical in trying to achieve the greatest net positive impact. But those calculations, articulated in various development strategies and other policy documents, are not static and are prone to changes triggered by events and other exogenous factors. The recent COVID-19 pandemic is a good example, with a "different Palau" coming out of the pandemic, back into a world different from the one before the pandemic struck in early 2020.

This study would argue that the post-pandemic period allows Palau to re-set some of its development priorities and re-position itself in a regional and global context different than before 2020-2023. While the various recommendations provided below are valid avenues to pursue in and of themselves, in combination, they can be part of a new development narrative for Palau, leveraging its greatest strengths and current opportunities, while seeking to address some of its key weaknesses: a post-

pandemic Palau (PPP) sustainable development strategy, if you will. Figure 31 illustrates the PPP strategy, categorized into the 5Ps framework.

Figure 31. The 5Ps of post-pandemic Palau



Source: the authors.

7.2. People (1): Mitigating food security shocks to enhance health conditions

The recent and substantial rise in imported food prices, while unwelcome, does present an opportunity to strengthen food system pathways and rejuvenate traditional agri-food systems that can both alleviate nutritional deficiencies and counteract the strong prevalence of NCDs in Palau. In the near term, the priority will need to be on mitigation of food security shocks, by boosting production and market-oriented initiatives, ensuring that: (i) both food producers and consumers have equitable access to improving their food security and livelihoods; (ii) increases in productivity are not achieved at the expense of the environment; and (iii) food import substitutions are taken, where possible, as the first option, considering healthcare-related cost implications.

More specifically, the Palau Government may wish to consider "crowding in" investments in:

(i) Sustainable nutritious and healthier food production and livelihoods enhancement, whilst preserving natural resources and increasing renewable sources of energy;
(ii) Where possible, substitutions of heavily reliant imports, such as chicken and flour-based products;
(iii) Innovations to both improve productivity and reduce exposure to chemical and fertilizer supply shocks and to safeguard food production without the need for excessive use of inputs, water and energy;
(iv) Capacity building in both import and domestic food supply chains in collaboration with the private sector, such as producers, suppliers, wholesalers, retailers and logistic services providers;
(v) Within the health sector, renovation and upgrading of healthcare service providers, including the expansion of the Belau National Hospital, located in Koror; and

(vi) Social protection measures that assure the most marginalized populations are properly supported.[237]

In the medium to long term, to support resilient agri-food systems, Palau needs to pursue agro-ecosystem diversity, address gender disparities in agriculture and rural communities, sustain agri-food system transition and strengthen necessary food price/supply monitoring tools that are critical to allow raising the alarm of pending food shocks or crises, to be combined with anticipatory actions and preventative measures that strengthen food systems in advance. There is much that Palau can do to expand its agricultural sector, on an environmentally sustainable basis, including focused efforts and interventions around contract farming, atoll fishing and aquaculture, agritech, and participating more actively in a range of innovations intended to bring about a carbon neutral agriculture, forestry and fisheries sector. There is also a need to invest in the necessary supporting "soft" and "hard" infrastructure of domestic markets for the sale and consumption of local produce, as well as the potential for greater export overseas market penetration in niche products and the adept use of various standards and certifications. Land ownership reform necessary to free up more land for onshore agriculture and other food-related activities also merits greater efforts.

In addition to the potential for improved food import substitution in Palau, if the right policies and economic incentives are pursued, there may also be the potential for greater production of niche agro products for export. A wide range of agricultural produce suggests various export diversification opportunities, including (but not limited to):[238]

(i) Fish, crustaceans, molluscs and aquatic invertebrates;
(ii) Dairy products, eggs, honey and edible animal products;
(iii) Live trees, plants, bulbs, roots and cut flowers;
(iv) Edible vegetables and certain roots and tubers;
(v) Edible fruit, nuts, citrus peel and melons; and
(vi) Cocoa and coca preparations.

7.3. People (2): Transforming to quality higher education

There is merit in pursuing the establishment of a fully-fledged, four-year vocational and further education college (e.g., liberal arts) in Palau, along with improvements in the secondary education system, all intended to improve the pool of skills and expertise available in the island country. Courses and curricula that align with Palau's economic, social and environmental needs and priorities would be expected to reap dividends in the years ahead. For example, developing the skills needed to reduce the "brain drain" of young Palauans to the United States, for studies, military service and skilled

[237] FAO and WFP (2020) also recommend that development partners should come under a coordinated and convergent manner to: (i) allocate immediate funding to address the impacts of the food, feed, fuel, fertilizer and finance (5F) crisis in the short term to address food security and nutrition and the livelihoods need of the poorest; (ii) ensure multi-year funding that would allow humanitarian/development agencies and governments to strengthen food systems transformation pathways and ensure sustainable and inclusive economic growth; (iii) support strengthening of early warning systems, regarding economic shocks and setting up anticipatory action and forecast-based financing schemes to be aligned with resilience and longer-term DRR planning in the region; and (iv) support both humanitarian/development agencies and governments to expand the coverage of the existing social protection systems, strengthening them and allowing shock-responsive social protection to be set up.

[238] United Nations Conference on Trade and Development (UNCTAD) (2022). *Catalogue of Diversification Opportunities 2022*. Geneva, 1849-1860.

employment, and to be less dependent on overseas workers to meet demand in areas like the tourism and hospitality sector.

As the recent pandemic illustrated, when many non-resident workers understandably returned to their countries of origin, Palau was left with a labour shortage, demonstrating a need for greater resilience. Some of the issues that need to be addressed include (but are not limited to):

(i) The shortage of suitably qualified teachers and other learning resources in schools; (different format than before);
(ii) Limited access to further and higher education, necessitating that most students must travel overseas to further their education, from which some do not return;
(iii) Curricula that tend to focus on traditional academic subjects and less on vocational and technical education; and
(iv) Modest infrastructure in terms of physical and virtual learning platforms.

7.4. Prosperity (1): Re-booting the economy with resilient, diversified and sustainable tourism

Palau's economic policies should focus on supporting the post-pandemic recovery, rebuilding fiscal resilience and supporting sustainable growth. Should Palau seek to do so, the post-pandemic recovery period provides an opportunity to re-boot its economy to be more resilient, diversified and sustainable in its leading sector – tourism. The promotion of greater private sector investment activity, whether from domestic or foreign sources, could do much to innovate, invigorate and inspire new elements of a future Palau tourism industry, better harnessing and preserving local skills, cultural resources and the revival of traditional methods, such as around cuisine. While the private sector alone might be relied upon to pursue some investment activity, others may require public funding, such as infrastructure and utilities for tourism destinations. But advances in public-private partnership arrangements and blended finance models could also open promising new avenues for Palau to explore, and better leverage private sector funds with those of the public purse and development partners.

The "blue ocean tourism" discourse has recently gained more attention as a driver of climate change adaptation and mitigation.[239] Blue ocean tourism is considered an emerging strategy to promote income generation and job creation, largely by strengthening a small island's tourism industry and responding to declining environmental conditions. Massive environmental challenges can be seen today and will continue to increase, and the oceans and life underwater are not spared from these developments. While contributing only a tiny fraction to worldwide GHG emissions, Palau is among the most affected by climate change.[240] On the other hand, it is also true that the tourism sector and its related activities pose considerable environmental stress; for instance, due to its high energy consumption, the sector significantly contributes to global CO_2 emissions.[241] Hence, integrating

[239] Wolf, F., *et al.* (2021). "Influences of Climate Change on Tourism Development in Small Pacific Island States", *Sustainability*, 13(8); Connell, J. (2020). "Blue Ocean Tourism in Asia and the Pacific: Trends and Directions before the Coronavirus Crisis", *ADBI Working Paper Series, No. 1204*, see: https://www.adb.org/publications/blue-ocean-tourism-asia-pacific-trends-directions-before-coronavirus-crisis.

[240] Althor, G., Watson, J. E. M. and Fuller, R. A. (2016). "Global mismatch between greenhouse gas emissions and the burden of climate change", *Scientific Reports*, 6, 20281.

[241] Connell (2020).

sustainability into tourism development policies is a fundamental step toward developing a profitable and long-lasting tourism industry in Palau.[242]

There is clearly a need to be strategic in this approach and to avoid some of the erroneous approaches to economic growth, at the expense of the environment, taken in the past. For example, the shift to high volume (but low value) tourism inflows after roughly 2010 took its toll on Palau's water supplies and sanitation, beaches and coral reefs, and even heritage sites, as the infrastructure struggled to keep pace. Getting the average "spend per visitor" up is almost certainly a better metric to pursue than raising the sheer number of inbound visitors, as is attaining less volatile inflow numbers through the earlier decision to limit charter flights and large cruise ship visits so that a sustainable provision of service can be offered that also safeguards Palau's greatest asset – its natural beauty and pristine environment. The design and implementation of a national, comprehensive "blue ocean tourism development plan" for Palau might be a good place to start.

To recover from the impacts of the COVID-19 pandemic, however, Palau must focus on renewed growth in the tourism sector. Such direction requires several immediate policy interventions, including:

(i) Promotional activities in the tourist markets;
(ii) Increase of air routes and flights;
(iii) Renovation and upgradation in accommodation and hospitality facilities, and
(iv) Favourable policies for foreign labour in the tourism sector.

7.5. Prosperity (2): Developing a more resilient economy based on robust infrastructure, private sector activities and digitalization

In addition to advances in the policies, laws and regulations governing the enabling environment for business and investment (i.e., "soft infrastructure"), improved "hard infrastructure" can attract and allow businesses and investors to pursue projects that will help make Palau's economy more vibrant, robust, resilient and diversified. The recent pandemic highlighted the extent to which Palau is exposed to various exogenous factors and forces that can deleteriously impact the country, its economy and its people (e.g., heavy dependency on essential goods imports and inbound tourists and post-pandemic inflation). Some of those risks can be mitigated by developing a more resilient economy based on a more robust infrastructural platform of service provision and the development of greater private sector activity.

Private sector investment should be pursued in some infrastructure and utility provision areas. For example, the need for improved processing of solid waste and recycling capacity might contain a private sector component, as might solar and offshore (wind and tidal) electricity generation. In contrast, investment in disaster preparedness (e.g., monitoring and early warning systems) will likely need funding exclusively from public and development partner sources. The infrastructural investments made in support of Palau's tourism sector also need to be expanded to support other fields of economic activity, so that a more diversified and resilient economy can be developed. That, in turn, can help attract and retain Palau citizens to remain, with jobs and other sources of income that advance the quality of livelihoods in the country.

[242] Bhattacharya, P. and Dash, A. K. (2021). *Determinants of blue economy in Asia-Pacific island countries: A study of tourism and fisheries sectors*, see: https://www.semanticscholar.org/paper/Determinants-of-blue-economy-in-Asia-Pacific-island-Bhattacharya-Dash/f5d17c9e81c77d53629765d7a132f52147623652.

The increasing adaptation of digitalization, in business and across the global economy, also means that the kinds of infrastructure in demand are also evolving into new fields, such as Internet connectivity (both the cost of its service provision and the quality of bandwidth). This is one area where private capital and technical support are active, and Palau should be able to leverage increasing private sector interest for its benefit. Crucially, the kinds of improvements being made in providing a range of business and consumer services, as a function of advances in ICT, have the potential to lessen some of the constraints that have traditionally put Palau and other PICTs at a distinct disadvantage. For example, advances in ICT are creating business models where economies of scale are much less important and where operating costs and transaction costs are lowered, so services previously deemed unviable for a small economy like Palau's are for the first time commercially viable prospects. If advances in digitalization can mitigate at least some of the economies of scale that have traditionally served to constrain economic development in Palau and other SIDS and virtually lessen their geographic remoteness, that would be a very significant "win".

7.6. Planet (1): Protecting Palau's pristine and unique environment by developing sustainable infrastructure and utility provision

While the impacts of climate change pose an existential threat to PICTs like Palau, it also has the potential to be a vehicle by which the country can raise technical assistance and funding support to develop sustainable approaches to infrastructure and utility provision, as well as other interventions intended to protect the country's pristine and unique environment. Activities that could attract international private sector funding and other support include (but are not limited to): solar energy; onshore and offshore windfarms; energy generation from tidal forces; reducing emissions from deforestation and forest degradation (REDD+) and improved forest management; reforestation and sustainable agriculture; biomass and methane from landfills; fuel switching (e.g., shifting land and coastal traffic to EV); waste diversion and recycling; weatherization; etc. For example, the Philippines has already made strides in this direction, notably around wind and solar power generation, afforestation and reforestation, and biomass. And in New Caledonia, the government has been able to use the carbon offset markets to help fund wind farms, which have been Gold Standard Certified.[243] Other "gold standard" projects include: biomass and liquid biofuel use for rural electrification in Madagascar; reforestation of grasslands in East Timor; solar and wind generation parks in Aruba; and energy efficiency gains in the production value chain in the Comoros.

7.7. Planet (2): Preserving Palau's biodiversity by adopting the blue economy strategies

The recent global increase in attention towards preserving biodiversity also allows Palau to attract and leverage external support, given its considerable marine diversity and territorial waters home to a diverse array of rare and endemic species not found elsewhere in the Pacific and beyond. The PNMS is a platform on which the country can further build its approach to the "blue economy" and pursue more sustainable use of ocean resources for economic growth and development, while preserving the health of marine ecosystems. Funding support for promoting more sustainable fishing practices, eco-tourism, sustainable aquaculture and mariculture, such as seaweed cultivation and other marine products, should be explored and potentially pursued if found to be viable. These activities could also help to diversify Palau's economic profile and create new income-generating opportunities for local communities, while not adversely impacting the environment or increasing its carbon footprint and GHG emissions. By pitching itself as a leading and active proponent of the blue economy, Palau can

[243] For further details, see: https://www.goldstandard.org/projects/prony-and-kafeate-windfarms-new-caledonia.

leverage considerable funding, technical and other support of benefit to the country's sustainable development.

7.8. Planet (3): Attracting diversified funds and technical assistance for climate change actions

While Palau cannot pursue a climate change strategy of adaptation and mitigation alone, it can seek to leverage international funding sources and participate in regional initiatives that will be of considerable assistance in this regard. The fact that Palau and other SIDS in the Pacific confront some of the greatest risks derived from climate change – to their land and sea environments, biodiversity and unique ecologies – also means that impact investors and other sources of funding (both private and public) have an appetite to support initiatives that seek to offset the damage being done. Leveraging this concern could bring about considerable funding and technical support, including the use of blended finance. For example, and probably working in conjunction with other SIDS and development finance institutions, it is recommended that the Government of Palau explore the potential for issuing a sovereign "blue bond", a thematic or sustainability bond, to raise funding to support activities in support of the blue economy.[244]

Potential contributions from thematic bonds,[245] climate risk disclosure and reporting, debt-for-climate swaps[246] and enabling policy frameworks that can enhance the flow of finance to climate mitigation and adaptation projects could benefit Palau. The rapidly growing market for thematic bonds, such as green, blue, social, sustainability and climate bonds, and carbon credits/offsetting, provide an opportunity to raise additional financing dedicated to climate action and the SDGs. The rise of environmental, social and governance (ESG) practice and impact investing may also offer some new funding opportunities and new investment activities, such as aquaculture. In this context, the direction of travel in financial markets and investment management is broadly in Palau's favour. And while Palau alone may struggle to achieve the economies of scale necessary to make such initiatives adequately

[244] A blue bond is a relatively new form of a thematic/sustainability bond, a debt instrument issued to support investments in healthy oceans and blue economies. Like conventional bonds, investors lend money to a bond issuer, who agrees to repay the interest yearly for the bond term plus the capital on a specific day. In a blue bond, earnings are generated from investments in sustainable blue economy projects. Furthermore, issuing a blue bond enables investors to fulfil their corporate social responsibilities and generate benefits for the ocean and humankind. Also see: Asian Development Bank (ADB) (2021). *Sovereign Blue Bonds, Quick Start Guide*, see: https://www.adb.org/sites/default/files/publication/731026/adb-sovereign-blue-bonds-start-guide.pdf.

[245] Thematic bonds are debt securities issued by governments and private sector entities on the condition that the funds obtained are used to finance projects with a clear social and environmental impact. Thematic bonds are akin to common fixed-income bonds, offering predictable returns for investors through a fixed coupon in exchange for medium to long-term funding. Different types of bonds are available under the banner of thematic bonds, including (but not limited to): green bonds, social bonds, sustainability bonds and SDG bonds. Within these broad categories, there are sub-categories. For example, green bonds include climate bonds linked to climate mitigation (e.g., projects in solar and wind technologies that reduce GHG emissions) and climate adaptation (e.g., infrastructure projects to protect against rising sea levels and other aspects of climate proofing). Also see: United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) (2021). *Introduction to Issuing Thematic Bonds*. Bangkok.

[246] A debt-for-climate swap is a voluntary agreement between a debtor country and its creditors, in which the former's debt stock is reduced in exchange for a verifiable commitment to invest in climate mitigation or adaptation projects. In addition to providing debt relief, debt-for-climate swaps can provide a dedicated funding source to the debtor's Nationally Determined Contributions (NDCs) and an opportunity for a developed country creditor to fulfil its climate finance obligations under the United Nations Framework Convention on Climate Change (UNFCCC).

viable, it could work in concert with other PICTs to pursue activities of shared mutual benefit, with the assistance of development partners.

Box 9. A "blue bond" issued by Seychelles[247]

In October 2018, the Republic of Seychelles launched the world's first sovereign blue bond to support sustainable marine and fisheries projects, with assistance from the World Bank. The bond, which raised $15 million from international investors, was part of an initiative that combined public and private investment "to mobilize resources in achieving a transition to sustainable fisheries and safeguarding our oceans while we sustainably develop our blue economy," said Vincent Meriton, Vice-President of the Republic of Seychelles.

Proceeds from the bond include support for expanding marine protected areas, improved governance of priority fisheries and developing Seychelles' blue economy. Grants and loans are provided through the Blue Grants Fund and Blue Investment Fund, managed respectively by Seychelles' Conservation and Climate Adaptation Trust and the Development Bank of Seychelles.

Like Palau, Seychelles is an archipelagic nation comprising 115 granite and coral islands. It has a land area of 455 square kilometres spread across an EEZ of approximately 1.4 million square kilometres. And also like Palau, as one of the world's biodiversity hotspots, Seychelles is balancing the need to both develop economically and protect its natural endowment. Marine resources are critical to the country's economic growth. After tourism, the fisheries sector is the country's most important industry, contributing significantly to annual GDP and employing 17 per cent of the population. (Fish products make up around 95 per cent of the total value of domestic exports.)

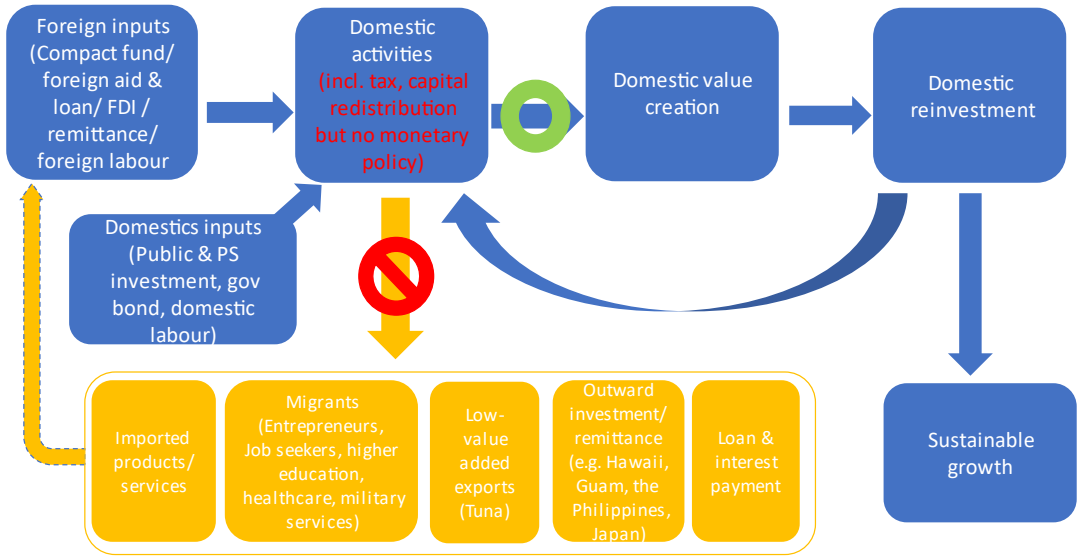
The Seychelles blue bond was partially guaranteed by a $5 million guarantee from the World Bank and further supported by a $5 million concessional loan from the Global Environment Facility to partially cover interest payments for the bond. Proceeds from the bond also contribute to the World Bank's South West Indian Ocean Fisheries Governance and Shared Growth Programme, which supports countries in the region to sustainably manage their fisheries and increase economic benefits from their fisheries sectors.

[247] This box case is based on the World Bank (2018). "Seychelles launches World's First Sovereign Blue Bond", *Press Release, 29 October*, see: https://www.worldbank.org/en/news/press-release/2018/10/29/seychelles-launches-worlds-first-sovereign-blue-bond.

7.9. Peace and partnerships: Strengthening Palau's socio-economic fundamentals using a holistic approach with national, regional and global partners: The "BlueEARTH" development model

Finally, navigating a way through increasing geostrategic competition in the Pacific, Palau has faced various challenges and conundrums, as profiled in this study, and spanning: tourism, education, healthcare, food, labour, migration, infrastructure, trade and investment, finance, the private sector, climate change, natural disaster, blue economy, biodiversity, gender and youth, etc. To a lesser or greater extent, all of these issues stem in part from one crucial dilemma, that is: Palau has come to depend significantly on foreign external inputs and knowledge, while at the same time steadily diminishing its valuable domestic assets (whether they be capital, human, tangible or intangible in form) to others, and particularly the United States. This vicious cycle has been the result of historical sovereign development and geopolitical and socio-economic settings around Palau. Figure 32, below, depicts the problem in Palau in the form of a simplified value chain.

Figure 32. Simplified Palau's value creation



Source: the authors.

In partnership with stakeholders, including other SIDS in the Pacific and Micronesia, bilateral donors, multilateral development agencies, IFIs and others (e.g., CSOs and the private sector), Palau should develop and implement a holistic development framework intended to comprehensively break out of the vicious cycle and strengthen its socio-economic fundamentals. Such a strategy would aim to develop and maintain the domestic value creation systems within Palau's borders, while encouraging international cooperation with other countries and entities. It should seek to bring about greater economic resilience, as well as attain a more environmentally sustainable growth trajectory.

In this context, we propose a new development model for consideration by Palau and other PICTs, and potentially adaptable to other SIDS globally, called "BlueEARTH." The term BlueEARTH denotes a [Blue] economy, [E]ducation, [A]id, [R]emittances, [T]ourism and [H]ealth. The model builds on some of the key concepts and components of previous SIDS development models, such as MIRAB, TOURAB, SHIFT and PROFIT (see section 2.2.) but expands to cover other crucial issues and challenges that Palau and other PICTs are currently contending with, as depicted in this study (see table 5 below). The aim

of BlueEARTH is to break the vicious cycle of the past, and serve as a vehicle to create a more virtuous cycle.

Table 5. The "BlueEARTH" development model

Model	Key elements	Income sources	Enablers
BlueEARTH	[Blue] economy [E]ducation [A]id [R]emittance [T]ourism [H]ealth	Fisheries, foreign development assistance, international remittances and blue ocean tourism	Improved education and healthcare, a more dynamic private sector, greater international cooperation, better bureaucracy and advances derived from increased digitalization

Source: the authors.

The model's merit is in identifying multiple revenue sources for Palau, namely: fisheries, foreign development assistance, international remittances and blue ocean tourism. The model also identifies the key enablers: improved education and healthcare, a more dynamic private sector, greater international cooperation, better bureaucracy and advances derived from increased digitalization. New elements contained in this model include education and healthcare as key policy issues that Palau must tackle, as they have significantly attributed to people's migrations out of the country. This framework can provide the basis for national and international development cooperation for Palau among various stakeholders and development partners, as elaborated in this study. And by mainstreaming environmental sustainability in the pursuit of a robust domestic blue economy, it offers the prospect of genuine sustainability.