



Republic of Palau
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Republic of Palau Demonstrates Accountability Under Compact of Free Association

Country advances towards self-reliance and economic self-sufficiency

(Washington, D.C. – June 12, 2008) Testimony to Congress today demonstrated excellent progress by the Republic of Palau in the ongoing implementation the Compact of Free Association (Compact) with the United States. Through the Compact, now in its 14th year, Palau has made notable progress towards achieving self-reliance and economic self-sufficiency. The U.S. General Accountability Office (GAO) recently released its report examining the provisions of the Compact and economic prospects for Palau. It gave Palau generally high marks in its progress and transparency.

According to the GAO report, “Despite limited capacity...Palau made progress in providing financial accountability and met most of the compact’s and related agreements’ accountability requirements...” Palau concurs with much of the GAO’s findings and welcomed the report’s recommendation for the U.S. Department of the Interior’s Office of Insular Affairs to continue to assist Palau in building financial management capacity.

“Palau is committed to continued fiscal reform and structural adjustment to achieve the ultimate goal of economic self-sufficiency,” testified Billy G. Kuartei, the chief of staff to the president of the Republic of Palau and Compact chief negotiator, before the U.S. House of Representatives’ Committee on Natural Resources’ Subcommittee on Insular Affairs.

Economic performance in Palau has been increasingly positive over the past 14 years, with real GDP growth from 2004-2007 averaging in excess of 5.5 percent per year. In addition, the total level of assistance from the United States represents a diminishing share in proportion to the size of Palau's economy, falling to 16 percent of GDP from 36 percent of GDP.

"While Palau has made significant progress in reducing overall reliance on U.S. assistance, these funding sources remain a significant and critical funding source to Palau, particularly for health and education programs," testified Kuardei. "Despite our notable progress, we still have much work to accomplish before we attain our objective of self-sufficiency."

Representatives from the U.S. Department of State, U.S. Department of the Interior and the U.S. Government Accountability Office testified on the constructive relationship and advancement made by Palau through the Compact.

"Through U.S. assistance, Palau has become more self-reliant, increased its revenue base, expanded infrastructure and private sector jobs, and provided high-quality education and health care to Palauans," stated Mr. Glyn Davies, principal deputy assistant secretary of state for the U.S. Department of State. "Both the United States and Palau can be proud of what has been accomplished and we look forward to a continued and ever strengthening relationship."

Mr. Thomas Bussanich, acting director of the U.S. Department of the Interior's Office of Insular Affairs, testified that the agency views the Compact as a success story. "Palau has been a leader among all U.S.-affiliated insular areas in the area of accountability and financial management, making steady improvements in its ability to reliably report on the use of the (Compact) funds," said Bussanich.

Del. Donna M. Christensen (D-Virgin Islands), chairwoman of the Subcommittee on Insular Affairs, acknowledged the progress made by Palau and encouraged the federal agencies to renew the Compact to "ensure the success we all take credit for is not unraveled."

The Compact between Palau and the U.S. provides for economic and defense-related assistance. Five U.S. agencies – the Departments of Education, Health and Human Services,

Interior, Defense and Transportation – contributed the majority of the assistance to Palau. Some support provided under the Compact is set to expire on September 30, 2009. Negotiations are underway to extend expiring Compact economic assistance.

“We know that we would not have achieved our progress towards self-sufficiency without the financial assistance of the United States and access to critical federal programs and services,” said Kuartei.

About the Republic of Palau

The Republic of Palau is a democratic, independent nation with a constitutional government in free association with the United States. It is located in the North Pacific and part of the Western Caroline Islands, and has a population of about 20,000. The Compact of Free Association was entered into with the United States on October 1, 1994, also marking Palau's independence.

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