

Communiqué *of the* **NATIONAL/STATE LEADERSHIP SYMPOSIUM**

I. Introduction

The President of the Republic, H. E. Tommy E. Remengesau Jr. convened the National/State Leadership Symposium on February 7, 2006 at the Ngaramayong Cultural Center. Leaders included representatives from the Executive, Legislative, and Judicial Branches of the National Government, representatives from the Executive and Legislative branches of state governments, traditional leaders led by High Chief Ibedul, Yutaka M. Gibbons and High Chief Reklai, Raphael B. Ngirmang, as well as representatives from the private sector and National boards and commissions. The purpose of the national/State Leadership Symposium was to prioritize the major needs of the Republic of Palau over the next decade and to take into account those priorities in preparation for our negotiations with the United States on the financial provisions of the Compact of Free Association (“COFA”), which will terminate in 2009.

Opening presentations were offered by:

- President Tommy E. Remengesau, Jr.;
- High Chief Ibedul, representing traditional leaders;
- Floor Leader Alan Seid, representing the Senate;
- Speaker Augustine Mesebeluu, representing the House of Delegates;
- Associate Justice Kathleen Salii, representing the Judicial Branch;
- Governor Tmewang Rengulbai, representing state governors; and
- Surangel Whipps Jr., representing the private sector.

The COFA was entered into with the United States in 1994 as a mechanism to “promote the economic advancement and self-sufficiency of the people of Palau.” (Compact Preamble). The leadership therefore focused on issues related to achieving these overriding Compact goals.

In order to facilitate the discussion of a broad scope of issues, the Symposium was broken into six focus groups during the first day of the Symposium. These groups were as follows:

- Focus Group 1 – COFA Review
- Focus Group 2 – Laws and Regulations
- Focus Group 3 – Infrastructure
- Focus Group 4 – Private Sector Development
- Focus Group 5 – Sustainable Government Operation
- Focus Group 6 – Human Resource Development

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Each focus group put forth reports in their respective areas establishing proposed action priorities. These reports were then conveyed to the entire National/State Leadership Symposium on February 9, 2006 for discussion and consensus. Emphasis was placed on issues on which consensus could be reached. This Communiqué sets forth these consensus priorities, by focus groups.

President Remengesau expressed his gratitude and appreciation to the diverse leadership for their participation in the Symposium and their willingness to work with one another to develop a broad plan of action for Palau's future.

II. Focus Group 1 -- COFA Review

Focus Group 1 was focused on the issue of the review and negotiation of the Compact of Free Association (COFA) between the Republic of Palau and the United States. The financial provisions of the COFA will expire in 2009. The focus group was facilitated by President Tommy E. Remengesau, Jr., former President Kuniwo Nakamura, and Vice President Camsek Chin. Former President Nakamura began the proceedings by reminding all members of the focus group that *"to remember the past is to commit oneself to the future."* With these words as a guiding principle, the leadership discussed what the focus of the group should be. It was quickly agreed that the focus group should not deal with substantive issues at the Symposium. Rather, it was agreed that the focus group deal only with the process of review and negotiation.

Having established the scope of the discussions, the leadership agreed that by the middle of February, the Olbiil Era Kelulau would transmit a bill to the President for his review that would establish a Compact Review Commission. The President agreed to work with the Olbiil Era Kelulau to gain passage of an appropriate law that recognizes Constitutional Separation of Power principles, as set forth in the Palau Constitution, and that recognizes that the ultimate responsibility to negotiate international treaties, including the new financial provisions of the Compact, lies with the Executive Branch. It was therefore agreed that the Commission would direct its efforts only on reviewing the current Compact as a foundation for future negotiations. This review would look at the performance of both the United States and the Republic of Palau in fulfilling the objectives of the Compact. Senator Koshiha indicated that the Senate had already passed a bill establishing the Review Commission and that the House should pass the bill very soon.

The President indicated that he believed that the review would take up to a year in order to undertake the necessary economic studies to determine the relative performances of the provisions of the first Compact. The leadership stressed that the review should produce the information necessary to separate itself from the prior Compact negotiations between the U.S. and the Federated States of Micronesia and the Republic of the Marshall Islands, which were strongly impacted by the lack of performance by the two countries.

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In order to ensure that the United States would not imply the performance of the FSM and the RMI under their initial compacts to the Republic of Palau, the leadership agreed that the United States should undertake a program audit of Palau's performance under the COFA, to date. President Remengesau indicated that the U.S. had been requested on two prior occasions that such an audit be undertaken. It was therefore agreed that the Olbiil Era Kelulau assist in this request process by enacting a Joint Resolution calling for a program audit by the U.S. The President further agreed to bring the issue up again at the next Annual Economic Consultation with the United States.

Recognizing that the negotiating process would be handled separately, the President agreed to establish a negotiating team, through Executive Order, by the end of this year. The leadership agreed that the issue of appropriating funding for the negotiation would then be dealt with through the joint efforts of the Executive and Legislative branches to pass an appropriation law. The President indicated that this effort to begin the review immediately would allow the Republic to bring the United States to the negotiation table sooner rather than later, hopefully early in 2007.

The leadership agreed that, while they would not discuss substantive issues during the Symposium, certain issues need immediate attention and should be separately negotiated with the United States. The leadership specifically mentioned the following issues:

- Termination of Pell Grants by the United States in 2007 despite the fact that the Compact extends until 2009;
- Application of Universal Services, through the Federal Communications Commission (FCC) to Palau, and membership in the National Exchange Carriers Commission;
- Availability of legal services to Palauan citizens residing in the United States;
- Review of Compact Road quality and conformance to standards set forth in the COFA and associated agreements;
- Transmission of U.S. videotape programming through Palau's cable system; and
- Eligibility of Palauan citizens to apply for merchant mariners licenses for seamen or crew on U.S. flagged ships and cruise liners.

III. Focus Group 2 – Law and Regulations

Focus Group 2 concentrated on the necessity to move forward on laws and regulations it deemed to be critical to the long-term sustainable economic development of Palau. Passage of these laws will not only strengthen Palau's private sector capacity by making more funds available, but it will also strengthen Palau's bargaining position with the United States in its efforts to demonstrate creation of a strong, modern, sustainable development framework.

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1. Banking Law Reform

The Leadership recognized the importance of establishing a modern banking framework through laws that protect savings of citizens, and laws that expand banking options to the private sector. Amendments to the Financial Institutions Act of 2001, amendments to the Money Laundering and Proceeds of Crime Act of 2001 and related legislation must be moved forward.

The Leaders recognized that The the passage of the Financial Institutions Act of 2001 remains a very important step in assuring protection of assets of Palauans and the integrity of domestic and international financial transactions. Since that time, numerous revisions have been suggested to enhance the safety and security of the funds of Palauan depositors and to bring the law into compliance with recognized standards for prudential banking supervision and regulation. The proposed bill, along with regulations under the current FIA, have been pending for years.

Taking these issues into account, the leadership is urged to take the following actions within the next four months:

- A. The FIA should be able to promulgate regulations using the APA procedures, and such regulations should become effective without specific additional action by the OEK. The law should be so amended.
- B. Enact the Cash Courier Disclosure Act, SB 7-21.
- C. With respect to the amount of capital required to start a bank, the leaders should consider permitting 100% locally owned banks to capitalize at a more modest amount than banks which are joint ventures with foreign partners. However, foreign bank branches doing business in Palau should be required to have substantial capital, at least \$75 million.
- D. Enact pending amendments to the Anti-Money Laundering Act to allow the FIC to regulate alternative remittance systems as soon as possible.
- E. Credit unions should be included in the FIA regime.

2. Land Use Guidelines

The leadership acknowledged that Koror, Ngaraard and few states currently have land use plans being implemented. Some states still lack sufficient input and expertise to complete comprehensive, long-term plans. Nonetheless, states want to take on more of this responsibility.

The National Government is urged to take immediate steps to:

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- A. Determine the status of all current national and state laws, and update them where necessary.
- B. Enforcement provisions should be clarified. Limited matters of national concern should be mandated by national law, such as school locations, environmental protection, solid waste management and watersheds.
- C. Each state should be responsible for establishment and implementation of its own land use guidelines, consistent with the national law and the national and state Master Plans.
- D. Agriculture, watershed and conservation should take priority in time over other land use regulation.
- E. Traditional values, with respect to utilization of resources, should be recognized in this process.
- F. Close cooperation between the States and the National Government is recommended in establishing and implementing land use guidelines.

The Leadership is urged, within 6 months, to establish a task force of national and state representatives to address these issues and monitor progress. Within two years, national and state land use plans should be in place.

3. Zoning Regulations at the State Level:

The Leadership recognized that, in the majority of the states, there are no zoning regulations. Land use regulations determine the most appropriate uses of particular landscapes based on soil types, etc. Zoning regulations are needed to ensure that within a particular site, the development is not detrimental to critical habitats such as watersheds, mangroves, etc. In addition, zoning may provide for a more uniform development structure - residential, industrial, etc.

State and National leaders are urged to consider the following recommendations to move forward within the next twelve months:

- A. Zoning must be primarily a responsibility of each State. Planning Commissions should facilitate the development of zoning and land use plans.
- B. Implementation of zoning restrictions on development should be coordinated with adoption and enforcement of modern, regional appropriate Building and Housing Codes, enacted on a national level, but be flexible for varying state needs. It is recommended that such Codes take into consideration the tropical climate and traditional architecture.

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- C. Inspections for building, zoning and housing code violations should be mandated and penalties for violations need to be relatively simple to enforce. Performance bonding should be required for licensed contractors so incomplete buildings won't be abandoned in the future.

4. Natural and Historical Resources Management & Conservation

The Leadership took into account the fact that the natural and cultural resources of Palau are the foundation for our livelihoods, economic development and quality of life. They therefore commended the National Government and the states for bringing Palau to the forefront of the world on various conservation issues. In fact, there are many management plans governing the sustainable use of Palau's natural resources. As for conservation, the group acknowledged that Palau currently has more than twenty designated conservation areas, both terrestrial and marine. Many of these, with the exception, Ngerkewid, have been established at the community/state level with the assistance of NGO's and government agencies. The management of natural resources and biodiversity at a State and community level is favored.

Taking the above facts into account, the Leadership urges the National Government to take the following steps:

- A. Support state patrols to enforce conservation laws and increase penalties for violations on the state level.
- B. Recognize that elements of the National Master Development Plan and other plans have been implemented, but on a case-by-case basis. There is a need to streamline and more effectively coordinate the implementation of these and other types of plans. National policy level groups such as OERC and NEPC should work closely with states, and share benefits with states.
- C. Taking the above into account, the leadership is further urged to act on the following issues:
 - 1. Develop, support and implement legislation that strengthens and enhances effective management of the nation's biodiversity and natural resources and recognizes the role of traditional leadership. Such legislation would include provisions for implementation of the Protected Areas Network Act, the adoption of the National Biodiversity Strategy and Action Plan, before COP8 to the CBD (March 2006), and legislation to specify how to assess reef damage.
 - 2. Review of all environmental programs and management plans to streamline implementation of environmental programs, investigate potential funding sources and enhance relationships between states and the national

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government. Participation of states should be emphasized, particularly at the high level of NEPC.

3. As for those issues concerning natural resource management that do not fall under the purview of the PAN or other legislation, clear management regimes must be developed to address those issues. These include critical issues such as those related to the control and prevention of invasive species, and the sustainable management of endangered species.
4. Conduct a national information needs assessment to address gaps in key information needed for effective legislation, decision-making and management. The Ministry of Resources and Development is encouraged to report annually on the status of the nation's natural resources, pursuant to national law.

5. Development of a Modern Foreign Investment Regime

The Leaders in the Focus Group noted that the Foreign Investment Act and regulations need to be modernized and revised to better meet the needs of the Republic. There needs to be an overhaul of the Foreign Investment Act, as there has not been a substantial change since January 1994, when a rider became effective. This rider established "reserved" businesses, which must be 100% owned by Palauan citizens. Prior to that time, all businesses were legal for foreign investment, with some businesses requiring Palauan partners. The main text of the current Foreign Investment Act became effective in 1990. This law was enacted without then-President Etpison's signature. The law remains virtually unchanged sixteen years later, except that some categories of businesses remain totally closed to non-Palauan investors. These are:

- Retail and wholesale sales;
- All land transportation services and car rentals;
- Tour guides, fishing guides, diving guides and other forms of water transportation services; and
- Travel and tour agencies.

The Leaders are encouraged to introduce a new foreign investment bill during or before the April 2006 legislative session. However, there must be recognition of the need to retain local ownership and prevent foreign domination of our economy. In this proposal, leaders should consider shifting the duties of the Foreign Investment Board to the Ministry of Commerce and Trade. It is recommended that through national legislation, the Ministry of Commerce & Trade should be given a set of simple rules establishing the requirements for approval of foreign-owned businesses, including which businesses, if any, should be reserved partially or wholly for Palauans. It is specifically urged that:

- A. The new law should be transparent and investor friendly, and not require burdensome disclosures from individuals not personally liable for the project.

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- B. Projects advocates must be able to demonstrate the financial feasibility of the project through bonds, letters of credit, cash deposits, or other objective criteria.

6. Retirement Benefits & Health Insurance

Considering that there are two retirement systems in place for government workers, Social Security and the Pension Plan, and that the Pension Plan is not available for private sector workers, and has a deficit of about \$30 million, leadership recommends and urges the following action, within the next twelve months:

- A. The Pension Plan should change to a “defined contribution” plan for new members, rather than “defined benefit.”
- B. Thereafter, private sector employees should be able to join the defined contribution plan, but first the mechanics and costs of such participation need to be analyzed.
- C. Palauans should receive funds for “prior services” from the United States. This matter should be negotiated further with the United States as part of Compact Discussions.
- D. In its negotiations with the United States, the Republic of Palau should ask the United States’ Congress to appropriate funds for Micronesians (including Palauans) who were employed by the Trust Territory Government and were parties to the class action suit on the issue of “equal pay” for equal work.
- E. Status of retirement contributions for Compact Road employees should be considered in Compact discussions.
- F. A task force, consisting of representatives from Social Security, the Pension Plan, the Olbiil Era Kelulau and the Executive Branch, should be created to study and propose legislation for establishment of health insurance and funding for a plan.

7. State tax initiatives and other revenue generation options

It was acknowledged that the states need to gradually become less dependent financially on the National Government. To do so, new sources of revenue must be explored, and with cooperation from the National Government, legislation should be enacted at the appropriate levels to implement such plans. The Leadership urged government officials to move forward, as follows:

- A. Traditional leaders, Governors the National Government leaders are encouraged to work together to identify potential sources of revenue for each State.

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- B. The Association of Governors is urged to work with the Legislative and Executive Branches of the National Government, to assure that plans to realize on such sources of income are consistent with currently enacted laws and regulations, and to facilitate passage of whatever new laws at the national level may be necessary.
- C. In implementing these recommendations, it is noted that the environmental impact should be considered thoroughly, and the suggestions for revenue generation should be those that do not require waivers of any laws or regulations geared at environmental preservation. Where necessary, the working group is encouraged to seek assistance from appropriate experts to identify state tax and fee options.
- D. It is also recommended that the Olbiil Era Kelulau consider enacting legislation authorizing states to borrow money at their own credit risk.

8. Tax Law Reform:

It is recognized that, depending on the government spending priorities ultimately selected, it will be necessary to increase various taxes, or institute new taxes or fees.

The leaders of the Legislative and Executive Branches are thus urged to continue to modernize and strengthen our tax laws within the next six months. In this process, input, consultation and participation should be solicited from the private sector.

9. National Telecommunications Regulations:

Taking into account the importance of planning and coordination regarding development and use of technology, the Leadership recommends the development and implementation (within the Ministry of Commerce & Trade) of a comprehensive National Telecommunications Regulation Policy. Leaders are urged to introduce legislation for this purpose within the next six months.

10. Master Plan Inventory:

Recognizing that the Palau National Master Development Plan is the foundation of development goals for Palau, it is recommended that a forum or symposium or other in-depth study be undertaken to inventory progress on the Plan and to identify portions of the Plan which may need revision or updating.

IV. Focus Group 3 – Infrastructure

Focus Group 3 directed its discussion towards future infrastructure needs, based on *Public Sector Investment Program (PSIP)*, *Palau National Master Development Plan* (“PNMDP”), the President’s *2005 State of the Republic Address*, and other input from State, National and non-government organizations. This report includes recommendations from all parties.

The leadership focused on major infrastructure needs, including maintenance, especially projects related to the economic development plan and the anticipated move of the population to Babeldaob due to the completion of the Compact Road and the National Capitol. Focus Group included detailed discussion notes during their meetings, and these notes are hereby incorporated by reference into this Communiqué.

1. Utilities

- A. Solid Waste Management Facility – Taking into account the work currently underway, with the assistance of JICA, to rehabilitate the current solid waste facility at M-dock, and noting past grant requests to Japan to establish a new solid waste system in Babeldaob, the Leadership recommended that a review be undertaken on the solid waste needs of the Republic, to include facility, equipment and recycling needs, and to identify an appropriate funding source. This review should include offshore dumping. Palau has a very unique and pristine environment. Its resources are all concentrated in one place, so environmental impacts from waste are compounded greatly. Continued assistance from the U.S., Japan, and other sources are extremely important to continue with education, implementation and modeling/analysis of the effects of waste.
- B. Wastewater Treatment – The leadership once again stressed the need to respond to the infrastructure needs of Babeldaob in anticipation of the completion of the Compact Road and the National Capitol. They therefore recommend a feasibility study, including environmental/health impact assessments of the following:
 1. A centralized wastewater system vs. a regional system;
 2. Ponding/wetland vs. mechanical treatment plants; and
 3. A sanitation improvement project (sanitary Core Unit Extension).

The leadership further agreed that continued assistance from U.S. Federal programs is critical to environmentally healthy wastewater treatment alternatives. The current sewer system was designed over 30 years ago and needs to be reviewed for environmentally and energy efficient infrastructure. Continued assistance is needed to rehabilitate the current infrastructure in Koror, specifically the wastewater collection system, including roughly 50 pump stations and sewer lines.

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- C. Water Supply – Recognizing that economic development will require a much greater volume of water than is presently supplied, the leadership recommends a feasibility study, including environmental/health impact assessments, for the following:
 - 1. Identification of additional water sources (e.g. watersheds);
 - 2. Expansion of the existing water reservoir; and
 - 3. Additional water storage tanks.

- D. Expansion of Electrical Power Plant – Recognizing that the Palau Public Utility Corporation has already assessed its future power generation needs, the Leadership recommends that work be undertaken to identify future renewable energy and funding sources.

2. Tourism Development

The Leadership agreed that Palau must improve the basic infrastructure for its tourism industry, especially as it relates to Palau's ocean resources. The leadership therefore recommended the development of a Marine Center Development project, as well as other critical tourism infrastructure projects.

- A. Marine Center Development – The project consists of a Marina Area Development including a pier, pedestrian deck, promenade, shops and restaurants, and a Tourism Facility Development with information center, amusement center, and public park, all to be integrated with the existing Palau International Coral Reef Center (PICRC). Additional activities to be held at the Marine Center will include environmental education for divers, visitors and residents of Palau. The leadership considers this project to be critical because there is currently no prominent core facility in Koror for tourist attraction. Tourism development is one of the key elements to promote economic activity in Palau. Combining a recreational and environmental awareness center in Koror will aid in protection of the marine environment (as divers and boat anchors damage coral), as well as provide a visitor and community center that will serve tourists and residents, and provide opportunity for local business development. (Public Sector Investment Program 2003-2007).

- B. Improvement of the Access Road to Ngardmau Waterfall, Babeldaob Island;

- C. The Ngarchelong Tourism Base Development Plant, Babeldaob Island; and

- D. The Kayangel Island Resort Development Plan

3. Telecommunication Infrastructure

The leadership recognized the need to promote less intrusive economic development (e.g. Cyber City, call centers, etc.).

A. Trans Oceanic Fiber Optic Cable

They therefore recommended a feasibility study on a Trans-Oceanic Fiber Optic Submarine Cable Transmission System. They recommended that assistance be sought from the U.S. to assist Palau with the installation of the fiber optic cable system. This will enable Palau to get improved and affordable connection to the World Wide Web (enables distance learning for Educators and Health professionals, e-conferencing). This is a revenue generating and cost saving measure.

B. Radio Towers – Marine Safety

The leadership also supported the need to improve marine safety through the improvement of its radio tower system.

4. Fishery

The leadership strongly recommended that Palau improve its capacity for small scale fisheries development. Recommended projects include the following:

A. Peleliu State Fishing Port Infrastructure and Related Facilities Improvements –

This project is a part of ongoing small-scale fishery/community dock that started in 1993 with a Japan Government Grant. The facility is being utilized for this purpose; however, additional dredging is required to deepen and widen the channel and provision of navigational aid marker to encourage nearshore and deepwater commercial fishing, and support development of tourism. The scope of work includes construction of slipway and related equipment, construction of a roll-on/off ramp to facilitate loading and unloading of supply logistics and installation of navigational markers to enhance navigational safety in the channel." (Public Sector Investment Program 2003-2007).

B. Angaur State Port Facilities Improvement –

This project is part of an ongoing Fishing Community Development Project for Angaur State. While small aircraft serves Angaur, the island's primary transportation link to Koror is by watercraft; small outboard motor boats and mid-sized fishing boats or cargo vessels. However, Angaur Harbor is one of the most dangerous and difficult harbor to navigate. During Storm Utor (July 2001), the facility received considerable damage and now requires major repair to enhance navigational safety. Additionally, a construction of a building adjacent to the existing facility is required to house fishing equipment and an office. Scope of work includes building construction, construction and reinforcement of the existing seawall, rock removal and dredging of the channel and the construction and repair of the

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fishing boat ramp and west seawall. (Public Sector Investment Program 2003-2007).

5. *Transportation*

The leadership highly prioritized the construction of connecting and secondary roads as well as the maintenance of all of Palau's roads, including the Compact Road.

- A. Compact Road Maintenance – The leadership expressed its concern that an appropriate maintenance program be put in place to ensure that the Compact Road will last its full usable life. The leadership recognized that the Army Corp of Engineers has developed a maintenance program that should be taken into full consideration. The leadership further stressed that expertise that have been gained by Palauans should be incorporated into any plan for road maintenance. Taking these factors into consideration, the leadership recommends that the Operations and Maintenance Plan be endorsed and implemented, once completed, as the mechanism for day-to-day operations and maintenance.
- B. Compact-State Connecting Roads, Secondary Roads – In order to further State sustainable development and promote commerce and trade, as well as interstate travel, secondary and connecting roads need to be in place or improved.

6. *Sea Transportation/Port Development*

As an island, Palau's sea transportation infrastructure needs to be kept up to date. In addition, new infrastructure must be supported. Testimony indicated that the current Malakal Commercial Port is insufficient to handle significant expansion. The leadership expressed concern that the correct decision be made today in order to ensure that economic development is enhanced through the proper identification of port options and subsequent expansion/construction. The Leadership therefore recommended that a feasibility study be undertaken to identify an island-wide port plan and to make recommendations as to potential funding sources. It was further discussed that the concept of a 'super-port' be incorporated into the feasibility study.

In addition, the Leadership is becoming increasingly aware of poaching and seizures of vessels licensed to fish in Palau, while fishing within the Exclusive Economic Zone (EEZ), especially around the Southwest Islands. Increased infrastructure resources with regards to marine surveillance telecommunications, vessels and capacity building efforts are essential to protect Palauan waters. Palau's proximity to Indonesia poses a threat to national and homeland security by terrorist acts.

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7. Air Transportation

The leadership recognized that, as an island nation, air transportation is critical for Palau's continued development. The leadership therefore recommended the rehabilitation of the Peleliu and Angaur airports to augment the National Airport in case of emergency. They also recommend the continuation of Federal Aviation Administration (FAA) Airport Improvement Projects (AIP), grants for airport facilities design and construction (current AIP grants program 2004 – 2007). They stressed the need to collectively work with Freely Associated States (FAS) to lobby for continuation of this U.S. federal grant program. Due to the increased demand on the current airport, the leadership also recommended the extension of the airport runway.

8. Agriculture

The leadership recognized the need to expand Palau's agricultural sector, to respond to domestic needs and the needs of the tourism industry. The Leadership therefore recommended the following:

- A. Central Farmers Market and Cultural Performance Arts Center Expansion - The Project supplements the ongoing Cultural Performance Arts Center project aimed also at providing a central location for Palau's farmers to bring their products so that they can be sold to the general public, grocery stores, restaurants, live aboard dive boats, etc. This will allow all farmers to have access to a market place to sell their goods rather than search for and deliver to customers. The project will include, as an add on construction, an open style building to house stalls as well as certain equipment to address refrigeration, kitchen, water, fuel supply and waste disposal to the planned facility site or at a separate and more ideal site. (Public Sector Investment Program 2003-2007).
- B. Improvement of Plant Nursery in Aimeliik, Babeldaob Island - "The Project is aimed at improving the facilities and function of the Nursery at the Bureau of Agriculture Station in Nekken, Aimeliik, Babeldaob Island. The operation of the Nursery will be made more functional in supplying various seedlings, providing convenient services to farmers and conducting experiments. The project will benefit food production of vegetables and fruits, promote the forest industry through timber tree seedlings and contribute to the production and export of flowers and ornamental plants. Income is possible by the sale of seedlings. Funding will be used for construction and equipment" (Public Sector Investment Program 2003-2007).

9. Economic Development at the State Level

The leadership recognized that state revenue sources are currently insufficient to finance needed infrastructure development at the state level. The leadership therefore supported enhanced state economic stimulus projects. Due to the uniqueness of each State's

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development needs, funding is required at the to develop projects and programs identified in State development plans and initiatives. The goal of the National Government is to assist each State to establish the strong foundation of reliable basic infrastructure so that private development may confidently take root. These items include State roads, water and wastewater systems, electric power, telecommunications, docks and channels. While significant progress has been made in these areas, much still remains to be addressed." (Public Sector Investment Program 2003-2007).

10. Education/School Facilities

The Leadership reviewed testimony that indicates that current school facilities are in dire need of upgrading. Most of the Republic's schools were constructed forty years ago when building standards were very lax or non-existent. Since construction, the population has shifted and new landowners have begun to ask for their lands back. Statistically, there are 19 campuses with over 130 buildings with a floor space of around 290,000 square feet. The leadership recommended that an assessment be made regarding the appropriate course to take in upgrading Palau's schools, looking at the options of repair of current facilities and the construction of new facilities.

11. Public Safety - Maritime Boundary/Marine Safety Enforcement

Because public safety infrastructure needs will increase with the anticipated impacts from the Compact Road and the Capitol Relocation (increased population and increased development), the leadership stressed the need to expand public safety infrastructure throughout the island, including the construction of a new Prison facility and police substations in Babeldaob.

12. National Hospital Expansion

In order to determine Palau's health indicators (leading causes of suffering and death) and the population's health concerns, the Ministry of Health (MOH) conducted an extensive Community Health Survey in 2003. The MOH then conducted the Non-Communicable Disease Workshop (October 2004), which resulted in the "Draft Non-Communicable Disease Strategic Plan for Palau". These efforts, combined with the MOH Visioning Retreat (June 2005), the 1st Public Health Symposium (November 2005), and a planned Belau National Hospital Symposium (2006) are the forerunners for the Ministry of Health National Strategic Plan (2007), which will guide MOH services and policies for the next 5 to 10 years. The identified health priorities - the health indicators, needs and concerns of Palau's residents - will then determine the kind of health services to be provided.

The leadership supported the outcomes of the Strategic plan and its recommended infrastructure needs. The leadership further supported health infrastructure needs that have already been identified and recognized that to support the health workforce to provide health services to meet the new health priorities being identified by the MOH,

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appropriate facilities must be developed to deliver these services and meet health workforce needs. Needed facilities include:

- Central (Koror) Community Health Center;
- Training Community Health Center (servicing Airai and Aimeliik);
- Babeldaob Hospital and Public Health Center;
- Conduct a risk assessment of Belau National Hospital to tsunami (in light of the recent tsunami in the Indian Ocean), typhoon, and other natural disasters to develop a BNH relocation plan if the study is adverse. Note that if the causeway has problems and cannot be traversed, this can have fatal implications; and
- Maintenance and upkeep of the structures and equipment of Belau National Hospital and the CHC system.

The leadership further recommended that Nurse Stations should be made available in the Southwest Islands.

V. Focus Group 4 – Private Sector Development

Focus Group 4 concentrated on issues relevant to the sustainable development of the Private Sector of Palau's economy.

The Leadership recognized that Palau shares many of the same constraints to economic growth and development with other small island developing states. These constraints include –

- Small domestic market;
- Remoteness from major markets;
- Narrow resource base;
- Heavy dependence on trade and foreign assistance; and
- Vulnerability to external shocks and natural disasters

However, largely due to consistent stream of foreign aid and abundant natural resources to support subsistence living, Palau has achieved a relatively high standard of living. Social indicators as well as GDP per capita compare favorably with developing countries of similar income and size.

Because of the large concessional aid flows, Palau's economic development has been led by the public sector, with the private sector playing a limited role. The significant aid flows have supported high levels of public expenditures and a large public sector and although these have led to positive gains in welfare, economic growth has been limited.

The poor growth performance can be attributed not only to the natural constraints associated with a small island developing economy, but also to limited success in

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encouraging productive private sector investments and low returns on public sector spending.

Recognizing that the private sector must expand in order to provide adequate growth in government revenues to replace declining U.S. program grants and the cessation of annual operating grants assistance under the Compact in 2009, the Palau National Master Development Plan recommended a strategy of shifting economic activity from the public to the private sector aimed at increasing the productivity of public expenditures and the efficiency of resource use in general.

While notable progress has been made in shifting economic activity from the public sector to the private sector, including the increased use of user fees, outsourcing and corporatization of governmental services, these efforts have not produced sufficient growth in government revenues to replace the scheduled step-down in Compact annual direct funding assistance.

Considering the under-performance of the Compact Trust Fund investment to date and the impending cessation of Compact annual direct funding assistance, the Leadership finds it imperative that the National Government rededicate and prioritize its efforts to foster an environment conducive to strong private sector growth and expanded governmental revenues. In this regard, and consistent with the recommendations of the NMDP, the Leadership strongly recommends that the national and state government leadership mobilize national and state resources to achieve the following development strategies:

1. Sustainable Tourism Development

The leadership recognizes that the Tourism Industry offers the greatest potential to support sustainable economic growth and development but further recognizes the vulnerability of Palau's unique natural environment and the adverse impacts of mass tourism, consistent with the NMDP strategy to—

Maximize the contribution of the tourism sector to the Palauan economy by developing a private sector framework conducive to tourism growth, promoting and monitoring tourism developments, and ensuring the necessary controls and charging systems are established to protect the natural environment and cultural interests

As well as the PATA Task Force report “*Palau Your Future in Tourism*” in March 1993 and the report “*Sustainable Development Policies and Action Plan*” in May 1997 that resulted from roundtable discussions involving representatives of government, the travel industry and NGO's, the Leadership recommends that the following policy directions be taken:

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- Maximizing the Value of Tourist Dollars -- Tourism can be a very valuable industry for Palau, but only if an increasing portion of each tourist dollar spent stays inside the country and in turn generates additional income opportunities rather than most of it leaving the country. If the tourist accommodations and services, the food and souvenirs consumed and bought are mostly foreign owned, provided or imported, then only a very small portion of the tourist dollar spent actually stays and benefits Palau. Tours that are set up outside Palau and that rely solely on foreign accommodations, restaurants, and tour companies do not create sufficient revenue to offset their impact on the environment and culture. It is imperative that Palau develop ways to ensure that tourist dollars remain in country.
- Diversification of the Tourism Portfolio -- Diversification of tourism products, as well as the types of tourists visiting Palau, will help spread the wealth through many different private businesses, will minimize the negative impact from any one type of tourism and will reduce the vulnerability of the tourist economy to an external or internal shock. Palau should seek to attract visitors from many different parts of the world so that we are not overly affected by a downturn in any one economy or by external shocks such as SARS. Further, Palau should expand its tourist products to activities other than diving, and to areas north and south of the commercial hub of Koror.
- Focus on the High End of the Tourist Spectrum: Palau should strive to attract and retain high-end tourists. These tourists are more likely to seek an authentic cultural experience as well as to pursue activities that have less of an impact on the environment or culture. Moreover, these tourists are less vulnerable to economic conditions, and therefore the market for high-end tourism is less volatile. Finally, these tourists have more expendable cash and can inject more wealth, per person, into the Palauan economy.

With these policy directions in mind, the Leadership urges that immediate steps be taken to accomplish the following:

- A. Implement relevant standards to ensure the quality and safety of accommodations (PVA “*Abai Rating*”), tour companies, diving operations, transportation, etc.
- B. Streamline the government permitting process and collection of fees to simplify the process for tour companies and tourists including undertaking an independent review of current EQPB and HPO regulations to determine their impacts on development initiatives.
- C. Promote diversity by developing unique attractions throughout Palau within the constraints of infrastructure and national priorities including:

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1. The review of current regulations and policies to effectively monitor yachts and maximize benefits including a streamlined permitting process (National and State), enforcement authority at the state level and strengthened coordination with PVA and tour companies;
 2. The development and promotion of tourism attractions in each state, i.e. “*Ngesechel a Charchar*” and unique biodiversity, in coordination with other relevant agencies including the PVA, the EQPB and the HPO in the site promotion and permitting process. (Issue for Focus Group 1 – increase federal funding for historical preservation);
 3. The establishment of a competitive “Tourism Attraction Fund” to assist the states in developing tourism sites through PVA that would be sourced from COFA funds (Issue for Focus Group 1); and
 4. The pursuit of Agriculture and Aquaculture tourism in order to expand tourism-related activities.
- D. Provide greater incentives for local participation in all aspects of the tourist industry including
1. Providing tax breaks, or by mandating the employment of Palauans in certain key positions.
 2. Implementing a uniform minimum wage and foreign labor fees.
- E. Implement a comprehensive import substitution program to support and expand the production and availability of tourism related products including souvenirs, food and beverage (“Made in Palau” concept).
- F. Establish regular scheduled flights from international hubs to facilitate flight connections for our major tourism markets by
1. Taking the necessary steps to improve connecting flights from the European markets through major hubs such as Singapore and Hong Kong; and
 2. Requiring scheduled flights from JAL, Asiana, etc. after a requisite period of time, e.g., 6 months.
- G. Discourage Package Tours that eliminate or limit choice by tourists.
- H. Develop relevant physical infrastructure in order to meet and expand Palau’s tourism industry by:
1. Developing capacity to undertake proper maintenance and capital infrastructure improvements to the airport facilities, i.e., expanding runway in order to accommodate larger aircraft, passenger processing/servicing and airport management. (Consider ‘Joint-Use’ agreement under COFA);
 2. Considering improvement to the existing seaport and/or new seaport to accommodate large vessels including cruise ships and military ships.

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(Consider 'Joint-Use' agreement under COFA; possible issue for Focus Group 1); and

3. Implementing a cohesive and coordinated approach to undertake maintenance and capital improvement infrastructure requirements– sewer, water, power, telecommunications, etc. including the development of impact and usage fees.
- I. Implement regular studies/surveys to monitor the types of tourists Palau is attracting so that we can evaluate our progress.
 - J. Strengthen public awareness campaigns for tourism related economic activities concerning the preservation of Palau's natural and cultural heritage.

2. *Agriculture Production Expansion*

The Leadership emphasized that although agriculture growth and development has been modest and has actually declined significantly compared with other sectors and despite certain constraints, there is substantial potential for future expansion. Recognizing that agriculture is important to the preservation of the Palauan culture and contributes to economic activity and welfare, in line with the NMDP strategy to –

Maintain subsistence production, but diversify and significantly increase the level of agricultural production, both for import replacement and export, taking account of conservation practices

As well as the recommendations of the National Task Force on Agriculture Development, and the JICA Study for Promotion of Economic Development in the Republic of Palau in October 2000, the Leadership urges that immediate steps be taken to accomplish the following:

- A. Institute a comprehensive and coordinated program for the Promotion of an agricultural processing industry (value-added) that prioritizes the development of tourism-related products including research, training, financing and marketing.
- B. Implement the Palau Fruit Fly Eradication Program, as well as the eradication of other invasive species, to stop the high levels of damages and losses to a wide range of fruits and vegetables in order to facilitate expanded supply and promote opportunities for import substitution and export markets.
- C. Improve quarantine capacity – including fumigation capability – to help reduce the risk of fruit flies and other pests that destroy crops. (Issue for Focus Group 1)
- D. Undertake coordinated improvements of Plant Nursery in order to contribute to the rehabilitation of degraded lands and watershed protection as well as expanding the scope for import substitution including milling logs for construction materials and furniture manufacturing including:

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1. The development of a more effective monitoring program of plant nursery and seedling programs; and
 2. The implementation of a fee system and the establishment of a separate “revolving” fund for the program as an incentive to encourage successful planting.
- E. Strengthen and coordinate education and extension services in order to support expanded agriculture production, such as farm management, financing and marketing, including development of a coordinated and continuing public awareness program on the availability of technical and monetary assistance from the USDA and other international organizations, as well as assistance in preparing applications and business plans – SBDC/PCC. (Issue for Focus Group 1 – Continued eligibility for US Federal Programs)
- F. Provide incentives for local participation in all aspects of the agriculture production industry, including tax breaks, concessionary financing and marketing support including:
1. The review of current incentives for agriculture business development, focusing on the need for expansion, including concessionary or low-interest financing terms from the NDBP or direct subsidization support from the National Government derived from select taxes, e.g., fresh produce imports; and
 2. The development of a consolidated financing package that incorporates agriculture development projects in cooperation with the NDBP and BOA.
- G. Rehabilitate degraded lands and watershed protection.
- H. Streamline the permitting process.
- I. Extend full scholarship opportunities for agricultural education.
- J. Strengthen agriculture, livestock and poultry data collection in order to identify and update supply and demand for various agricultural products and assist in determining viable products for commercial production.
- K. Review and pursue the establishment of a privately run central farmers market where local producers can sell their products.

3. Aquaculture Development

Understanding that Palau’s marine resources are limited and that aquaculture presents a viable alternative to marine products to support the tourism industry and meet local

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consumption demands, and that aquaculture can also be an important new income industry that can also reduce over-harvesting of the reefs, and consistent with the NMDP strategy to –

Achieve greater returns on a sustainable basis and increased local involvement from Palau's offshore and inshore marine resources, while maintaining adequate extraction levels for subsistence, and the protection of the natural marine environment for tourism and cultural purposes

The Leadership urges that immediate steps be taken to accomplish the following:

- A. Expand the successful clam-seeding program to include other aquaculture products, including strengthened and coordinated training and extension services, in order to support sustainable production, including farm management, financing and marketing.
- B. Mobilize resources toward the implementation of aquaculture pilot projects that take them from beginning to end to gain knowledge and to develop markets.
- C. Provide subsidies to aqua-culturists to support them until their aquaculture products come to term.
- D. Undertake expansion of the PMDC to include relocation and improvements to nursery/hatchery facilities to support reseeded farms as well as the restocking of natural habitat areas.
- E. Develop a consolidated financing package that incorporates aquaculture development projects in cooperation with the NDBP and BMR.
- F. Provide full scholarships for higher education or source technical training for aquaculture.
- G. Institute a coordinated campaign to advertise and promote local aquaculture products to businesses and tourists in Palau.

4. Fishery Industry Diversification

Concerned that Palau has not realized as much as it could from the Fisheries Industry and recognizing that the industry as well as other marine resources can be major contributors to a viable economy, in accordance with the NMDP strategy to –

Achieve greater returns on a sustainable basis and increased local involvement from Palau's offshore and inshore marine resources, while maintaining adequate extraction levels for subsistence, and the protection of the natural marine environment for tourism and cultural purposes

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as well as the recommendations of the Palau National Tuna Fisheries Management Plan, 1999, the Leadership urges that immediate steps be taken to accomplish the following:

- A. Undertake independent reviews of existing multilateral and bilateral fishing agreements to determine if the benefits accruing to Palau are reasonable and consistent, in terms of access charges and policies concerning local participation and income generation, including a review of the implementation progress of the Tuna Fisheries Management Plan, 1999, with the aim of determining if any progress has been made in realizing a greater return from the offshore fishing industry.
- B. Review and implement increased fines and penalties for illegal fishing and non-compliance with vessel monitoring system requirements.
- C. Develop and implement a sustainable catch and release Sports Fishing Program in partnership with the states including the repairs and deployment of expanded fishing aggregate devices.
- D. Consider commissioning a feasibility study to determine the potential for game fishing and the pursuit of an internationally sanctioned sport fishing tourney.
- E. Institute a comprehensive and coordinated program for the processing of fish into new products, such as fishcakes, smoked fish, etc., (value-added) that prioritizes tourism-related product development, including research, training, financing and marketing, including the expansion of existing fishing ports toward fish processing and other value-added industries.

5. Service Based Export Development

Acknowledging the success of some small island developing states in becoming knowledge and service-based economies aimed at diversifying their economies in order to minimize adverse impacts of outside events, and given Palau's strong diplomatic ties, geographic location, relative costs of doing business, economic and political stability, and in view of the NMDP strategy to –

Provide an overall environment conducive to private sector development through provision of supporting infrastructure, competitive economic and regulatory policies, adequate consumer and worker protection, and facilitative policies towards promoting development and employment

The Leadership urges that immediate steps be taken to accomplish the following:

- A. Commission an independent feasibility study to determine the desirability and viability of establishing an Offshore Banking industry in the Republic and other

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- financial services, including, but not limited to fund management, trust services and insurance.
- B. Undertake an independent feasibility study to determine the desirability and viability of establishing an Information Technology Industry in the Republic, including, but not limited to, disaster recovery services (backup office operations), call centers, software development and programming operations.
 - C. Consider securing a fiber optic line spur to Palau to facilitate development of industries reliant on information technology (Issue for Focus Group 1)

6. Other Potential Sectors

The Leadership noted that, in addition to the identified priorities, there may exist other sectors that have the potential to contribute to sustainable economic growth opportunities. The Leadership is also mindful of the potential adverse impacts of these sectors and recommends that in pursuing their development, appropriate studies and effective regulatory regimes are established first in order to mitigate adverse impacts.

- A. Natural resource utilization.
- B. Gaming.
- C. Airspace monitoring.
- D. Shipping and corporation registry.

7. Related Issues

Recognizing that sustainable private sector development is dependent on an enabling environment that is conducive to enhanced growth opportunities, the leadership urges immediate steps be taken to accomplish the following:

- A. Establishing an effective regulatory framework to encourage strong private sector growth through the enactment of:
 - 1. A Uniform Commercial Code (UCC);
 - 2. Building Code, e.g., Aesthetic requirements for visitor-related accommodations;
 - 3. Land use guidelines and zoning;
 - 4. Uniform labor laws, i.e., Occupational safety, workmen's compensation, etc.);
 - 5. Insurance, i.e., Life, health, properties and mandatory third party auto liability;
 - 6. Impact fees;
 - 7. Land ownership resolution; and
 - 8. Land appraisal (Commercial and private)

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- B. Instituting a cohesive and coordinated framework for providing support infrastructures.
 - 1. Water;
 - 2. Sewer;
 - 3. Power; and
 - 4. Roads (including access to properties)

- C. Holding a National/State Leadership Symposium on a regular basis to help monitor progress (or lack of) and to continue to help develop consensus on national priorities.

VI. Focus Group 5 – Sustainable Government Operation

Focus Group 5 concentrated on the issue of sustainable government operations. This discussion focused on necessary revenue generation measures and the management of expenditures to contain government costs.

1. Revenues

The leadership recognizes that the sustainable increase in revenue generation is vital for any government to be able to maintain and improve the level of services to the people. In Palau, in the last five years, local revenues averaged about a six percent increase per year. In 2005, domestic revenues and grants contributed approximately 61 percent of the total revenue available to Palau. At the end of Fiscal Year 2005, domestic revenue was about 27 percent of Palau's National Gross Domestic Product (GDP). Recommendations from the International Monetary Fund (IMF) and the Asian Development Bank (ADB) suggest that Palau needs to increase its local revenue base to at least 35% of its GDP by 2008 in order for the country to become self-sustaining. These institutions also recommend that Palau, as a sovereign country, immediately begin to develop strategic mechanisms to overcome its reliance on foreign assistance and to replace such assistance with new sources of revenue.

Taking these facts into account, the Leadership highly recommends that the Executive and Legislative Branches, as well as state governments, explore new sources of revenue to expand the revenue bases of the national and state governments.

The Leadership further recommends that appropriate legislation on tax reforms be considered to realize fair taxation and to strengthen tax enforcement and revenue collection efforts. Other legislative actions recommended by the leadership to improve economic activities include the Foreign Investment Act, the Fair Labor Standards Act, exploration and safe exploitation of Palau's natural resources, such as oil, consumer price

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monitoring, product quality control, corporate laws, fair business practices and other laws that promote community reinvestment schemes.

Finally, the Leadership recommends that new grant opportunities be actively pursued for further growth and development, while existing grant programs continue to fund essential programs and services.

The leadership recommends that these proposals be immediately set into place in order to structure a realistic revenue-generating framework for Fiscal Year 2007, and to continue the revenue-generating framework through and beyond the end of 2009.

2. Expenditures

During the past ten years, the National Government has expanded by establishing a number of government programs to carry out various functions to support economic growth. Most of these programs have been developed as a result of new funding sources from local revenues and foreign assistance. Although these new programs are perceived to have benefited our economic growth, the Leadership believes that we must also realize that they need to be self-sustainable. Failure to do so can result in a major fallback in government services and perhaps it will place the government in a difficult position to manage its fiscal policy once these funding sources cease. Furthermore, state governments are also initiating their own programs that may potentially duplicate National Government functions, which is further confirmed through recent reports by the International Monetary Fund and the Asian Development Bank.

Currently the government has a “*Cost Reduction Plan*” in place, which strongly recommends that all agencies practice measures for effective cost control and the reduction of expenditures.

History tends to suggest that the government must subsidize as many services as possible to ensure the welfare of the people. However, the leadership senses that this belief is hindering the efforts of politicians in their formulation of fiscal policies and the appropriation of funds. The leadership further believes that we must face the reality of the government’s situation and become more proactive in making decisions that can bring forth a better future for government operations. In this regard, the Leadership believes that we must identify those areas that can be outsourced or privatized so that these areas may be removed from government management in order to realize savings to the government.

The Leadership stresses that to effectively manage expenditures and to contain government costs, government structures must be streamlined to eliminate duplication of functions to establish clear functional directions for the National and State government agencies, and to ensure continuity and growth in service delivery. Within this context, the outsourcing and privatization of certain services in the government are essential to

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sustainable government operation and will result in the efficient delivery of services while reducing the cost to government.

The Leadership believes that the organizational framework of the National Government and state governments should be built around the need for effective and sustained delivery of vital services, while taking into account the level of resources available and while supporting economic growth. Outsourcing of services that can be absorbed by private entities will reduce the cost of government operations. By the same token, it will help to expand private sector economic activities that can result in optimal services and increased revenue to the government.

The Leadership recommends that both the national and state government leadership put their collective efforts together to reform government sectors by establishing functional frameworks to streamline government functions. In order to accomplish this, the National and State governments will need to take into account the utilization of their resources, the sustainability of growth, capacity building and elimination of unnecessary levels of bureaucracy in order to realize efficient and effective delivery of services.

The Leadership therefore recommends that the entire structure of national and state governments be reviewed to identify duplicate functions in the area of service delivery and make decisions to streamline and distinguish functions at the different levels of the government.

It is further recommended that government leaders begin to consider the possibilities of outsourcing and privatizing appropriate government services such as maintenance, construction, utilities, the school meal program, etc. Outsourcing should be implemented by the end of 2009.

The leadership also recommends that legislation be enacted, or other measures be promulgated, to ensure that there will not be a monopoly on the outsourced or privatized services.

VII. Focus Group 6 – Human Resource Development

Focus Group 6 concentrated on three major issues: education and training, labor market institutions and regulations, and health care. The Group was provided with focus topics, position papers, and recommendations relevant to the discussions prior to the meetings. The input provided by the public during the Focus Group 6 sessions has been combined with the previous positions and recommendations resulting in the recommendations below.

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1. Education and Training

The leadership recognized that the education system in Palau is not meeting all of the human resource needs of the community. Segments of the current workforce are under-prepared or under trained, and are concentrated in certain employment fields, such as administrative work. Some are unemployed or unemployable, in part due to lack of adequate education in relevant fields. Indeed, there are great needs for skilled Palauans in the technical, vocational and professional fields. The leadership's concerns with the education system include:

- The need for greater monetary and institutional support from the government;
- The quality of instruction provided;
- The appropriateness of the curriculum;
- Inadequate career counseling;
- Insufficient evaluation of both students and teachers; and
- The involvement of family and society in fostering and supporting quality education.

The leadership, in order to respond to these deficiencies, recommends the following:

A. Implementation by Executive Branch

1. Designate education as the primary national priority.
2. Increase government spending in education.
3. Institute incentives for teachers such as increased salaries to improve quality of instruction.
4. Invest in expanding and upgrading existing educational institutions.

B. Implementation by the OEK

1. Repeal mandatory retirement for teachers.
2. Appropriate full scholarships for educational fields and those of the utmost importance to the nation such as medicine.
3. Make the Palau National Scholarship Fund flexible enough to support applicants to schools that do not follow the U.S. enrollment cycle.

C. Implementation by the MOE/PCC

1. Hire more skilled teachers and provide additional training to all teachers.
2. Reduce class sizes and the numbers of classes taught by each teacher.
3. Provide additional career counseling in all schools.
4. Refine evaluation systems for both teachers and students.
5. Improve courses in mathematics, science, and other vocational fields to channel students to relevant employment.

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6. Align vocational and educational training programs with the national priorities labor needs.
7. Expand PCC into a four-year college to address more of Palau's labor market needs.
8. Implement programs that guide students into the teaching field.
9. Assist parents to maximize their children's educational potential.

2. Labor Market, Institutions, and Regulations.

The leadership recognizes that various types of workers in Palau are not treated equally. Both non-resident and government workers are governed by statutory and regulatory schemes but there is limited legislation relating to private sector resident workers and no uniform minimum wage for resident and non-resident workers.

Further, there is inadequate coordination among government agencies in determining employment opportunities and directing potential workers to those opportunities. There is also limited interest among potential employees in working in the private sector due to the lack of job security and entrepreneurial training. At the same time, there are insufficient skilled workers for technical and vocational jobs in the private sector. The leadership, in order to respond to these deficiencies recommends the following:

A. Recommendations

1. Implementation by the Executive Branch
 - a) Foster local entrepreneurs through incentives.
2. Implementation by the OEK
 - a) Enact uniform minimum wage law.
 - b) Enact additional laws for private sector businesses and resident workers.
 - c) Enact child labor laws.
 - d) Enact workmen's compensation law for resident workers.
 - e) Appropriate labor fees for education.
3. Implementation by the Executive Branch
 - a) Establish entrepreneurial training for graduates interested in private sector employment.
 - b) Reorganize the job placement center to provide assistance to job seekers and coordinate publication of labor information.
 - c) Coordinate information sharing among educational institutions, government agencies, private sector businesses, and labor service providers such as WIA.

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- d) Take account of human resources recommendations in the National Youth Policy.
- e) Establish comprehensive economic and labor profile for the nation.

3. Health Care

The leadership recognizes that non-communicable diseases (“NCDs”) have been identified as the leading causes of suffering and death in Palau. NCDs such as cancer, heart disease, hypertension, diabetes, stroke, and injuries are often related to risky life style practices. NCDs, which are all preventable, are caused by obesity, smoking and chewing tobacco, alcohol (substance abuse), and lack of exercise. Further, the leadership understands that instead of being used for NCD prevention, most health funds are spent on disease treatment, which would be unnecessary were there proper prevention of NCDs.

To address these newly identified health priorities, a health workforce and appropriate facilities must be readied and in place. Thus, a new health workforce must be nurtured and trained and the current workforce must be re-trained and upgraded. Finally, in order to facilitate priority health services and support, an appropriately trained health workforce, and health facilities and equipment need to be developed and maintained to make this so. In order to address these issues, the Leadership recommends the following:

A. Recommendations

1. Implementation by Executive Branch

- a) Recognize non-communicable disease as the number one national health priority.
- b) Recognize the absolute importance of promoting healthy lifestyles to include health promotion and disease prevention.
- c) Establish a national health insurance scheme.

2. Implementation by the OEK

- a) Increase funding for health promotion and disease prevention programs as national priorities.

3. Implementation by the MOH

- a) Develop appropriate programs to address non-communicable diseases at all levels.
- b) Strengthen the educational pipeline to develop a new health workforce.
- c) Develop bridging programs to retrain and upgrade the current health workforce.

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- d) Develop and maintain appropriate facilities and equipment to support the workforce in providing priority health services.
- e) Promote health careers as desirable and attainable career choice.

4. Additional Recommendations

In addition to the preceding recommendations, the Leadership recommended the following additional recommendations.

- A. Review and improve the civil service rules and regulations.
- B. Improve enforcement of existing laws.

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