At the invitation of the Government of Palau, a peer review of Palau’s national development planning, budgeting, public financial and aid management systems and processes was undertaken in Palau from 15 to 23 May 2013. The Government of Palau invited representatives from two Forum Island Countries, Tonga (Ms Natalia Palu-Latu), the Republic of the Marshall Islands (Ms Maybelline Andon-Bing) and one development partner, AusAID (Mr ‘Alopi Latukefu) to make up their Peer Review Team. The Palau Peer Review Team was supported by personnel from the Pacific Islands Forum Secretariat.

The Peer Review would not have been possible without the efforts of a number of people and organisations to whom the Peer Review team would like to express their sincere gratitude:

- The Government of Palau for taking the initiative to undertake a peer review;
- HE the President of Palau, Hon. Ministers of Health and Community and Cultural Affairs, members of the Olbiil Era Kelulau (OEK)\(^1\), the Governor of Koror State, senior staff of the national Government of Palau, development partners, private sector and non-government organisations who shared freely their experiences and insights;
- Mr. Casmir Remengesau, Director of the Bureau of Budget and Planning, and Mr Jeffrey Anton, Director of the Bureau of Foreign Affairs and their staff for their hospitality, their help in preparing the schedule and for guiding and informing the team throughout; and
- The Governments of Tonga, the Republic of the Marshall Islands, and Australia, for agreeing to release us to serve on this Peer Review Team.

All financial figures are in US dollars.

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\(^1\) Olbiil Era Kelulau (OEK) is Palau’s National Congress, and translated “House of whispered decisions”.

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Contents

Acknowledgments iv
Acronyms v
Message from His Excellency, the President of Palau viii
Message from the Secretary General of the Pacific Islands Forum ix
Introduction 1
Background 4
Key Findings 6
  Planning 6
  Budgeting and Performance Management 12
  Aid Management 16
Recommendations 20
Next Steps 22
Annex 1: Cairns Compact: Palau Peer Review Terms of Reference 24
Annex 2: Palau Government, Peer Review & Support teams 28
In 2009, Pacific Islands Forum Leaders, through the Cairns Compact on Strengthening Development Coordination (Forum Compact), committed to improving the coordination and use of government and donor resources available in their countries, to better achieve the Millennium Development Goals (MDGs). The peer reviews of Forum islands countries’ systems and processes for planning, budgeting, and public financial and aid management, is a key Forum Compact initiative. The Republic of Palau is the tenth Forum Island Country to volunteer to the Peer Review process, which was undertaken in May 2012.

As an upper middle-income country, with one of the highest per capita incomes in the Pacific region, Palau is well on track to achieving most of its MDGs, by 2015.

While Palau’s development and economic indicators are good, it is conscious of a few challenges that it needs to address such as planning for annual reductions in expenditure, with the gradual phasing out by 2024 of the financial component of US Compact assistance. Therefore, this peer review has been a valuable exercise to assist Palau on its journey towards self-reliance, good governance and accountability, and improving the quality of life of its people.

Overall, the Report highlights Palau’s good performance on economic, social and environmental development. It offers 14 recommendations to bring together Palau’s existing systems and processes and to make more effective use of available resources. The challenge facing the Government of Palau is to consider how best to implement the recommendations and continue to reform its systems, with the assistance of development partners.

I wish to thank the Governments of the Republic of the Marshall Islands, Tonga and Australia for their continued support and commitment to improving development effectiveness in our region, by allowing senior officials from their governments to serve on the Palau Peer Review team.

Mr President, I assure you that this report comes with the Forum Secretariat’s firm commitment to the Government of the Republic of Palau to facilitate the support from the governments and development partners in the region to implement and monitor the progress of your Peer Review recommendations.

Tuiloma Neroni Slade
Secretary General
Pacific Islands Forum Secretariat
Introduction

1. The Forum Compact on Strengthening Development Coordination in the Pacific is a development compact agreed by Forum Leaders and endorsed by key development partners at the Pacific Islands Forum Leaders’ annual meeting in Cairns, August 2009. The Compact sets out collective actions by Forum Island Countries (FICs) and development partners to strengthen coordination and the use of development resources at the national and regional level. The actions taken are in line with international best practices as expressed in the Paris Declaration on Aid Effectiveness, the Accra Action Agenda, the Busan Partnership for Development Cooperation and the Pacific Principles on Aid Effectiveness.

2. Peer reviews are a key part of this package of development coordination initiatives. They review and focus action on ways that FICs, with support of development partners, use their domestic resources and the aid they receive to ensure a better life for their people and to make progress towards achieving national priorities including their country’s Millennium Development Goals. Peer reviews are based on the idea that if a FIC wants to make improvements in its development efforts, it might be better to seek advice from Pacific neighbours who may be facing and could have found solutions to the same challenges within similar contexts.

3. The Peer Review Team’s terms of reference are in Annex 1. The team reviewed processes for formulating national development priorities, integrating these into budgets, implementing plans and monitoring and reporting on results; and just as importantly, they investigated how the country’s development partners act collectively and individually to support those national priorities, systems and processes.

4. Palau has an elaborate governance system, patterned on the American model in which the National Government is responsible for national public services while States have the authority to impose and collect state fees or levies for maintaining state services. A Council of Chiefs, drawn from traditional chiefs, advises the executive branch on matters concerning traditional customs and culture. There are 16 States, which form a second tier of government each with its own legislature and Governor. The National and State legislatures consist of two chambers, the House of Delegates and the Senate. Legislative power is vested in both the executive administration and congress. Therefore, the power of the legislature to approve budget expenditure and/or key policy measures can potentially lead to protracted negotiations between the executive and legislature branches, impacting on the timely implementation of programmes. Given these governance structures, the Peer Review Team recognises that any planned or proposed public sector reforms needs to be considered within this context.

5. The Review was undertaken four months into the term of the newly elected Government. Hence, it was timely as the government was considering its priorities and policies for the next 4 years. The current administration however is not new to government as it had previously governed Palau between 2001 and 2008 and had initiated implementation of a range of public reforms. While the current administration has a clear vision and determination for Palau’s development, it acknowledged that there were opportunities for further improvement and generously invited the Team to provide frank advice on matters within its Terms of Reference.

7. The Review Team met the President of Palau at the beginning of the mission and held discussions with the Hon Ministers of Health and Community and Cultural Affairs, and as well as members of the Olbil Erakelklau (DEK) and the Governor of Koror State. Extensive discussions were held with most heads of departments, including the Directors and their staff under the Office of the President, Ministries of Finance, State, Health, Education, Public Infrastructure, Industries and Commerce, and Natural Resources, Environment and Tourism, the Office of the Public Auditor, Palau Public Utility Corporation, Palau Visitors Authority, Palau Community College, representatives of the private sector (Chamber of Commerce, Small Business Development Centre) and non-governmental organisations (Palau Conservation Society, Palau International Coral Reef Centre, Micronesian Challenge Regional Office), and resident representatives of Development Partners (United States, Japan, ROC Taiwan, ADB, UNDP). Preliminary findings were presented to most of the stakeholders who were consulted at the exit meeting on 23 May 2013. A full list of those consulted is provided in Annex 2.

8. In forming its recommendations the Team was adamant that Palau already has a number of plans and studies relating to planning and budgeting but have largely yet to be fully implemented. In this regard the Team is mindful it does not offer additional recommendations that might further add to the existing complexity and capacity within Palau. The Team has therefore been careful to form recommendations which are closely aligned with what the government is already planning to undertake in an effort to streamline and simplify existing processes.

9. This report is structured in five parts: i) Introduction; ii) Background; iii) Findings on the three areas of Planning, Budgeting and Performance Management; and Aid Management; iv) Recommendations; and v) Next steps.
Background

10. Palau is an upper middle-income country and one of the better performing Pacific island countries especially in the areas of economic, social and environmental development. It has one of the highest per capita incomes in the Pacific region ($11,080) and is on track to achieving most of its Millennium Development Goals (MDGs) by 2015. School net enrolment, completion and literacy rates are high (near 100%), and gender parity in education has been achieved. Life expectancy is relatively high (69), while total fertility, infant mortality and maternal mortality rates are low. Palau boasts high forest cover, high protection of biodiversity, high access to water and sanitation facilities and low carbon emissions.

11. Following three years of negative economic growth (between 2007-2010) due largely to the global economic downturn, Palau bounced back with 6% GDP growth in 2011 and 2012, with IMF estimating projected growth of 3% in the medium term. Palau’s economy is heavily dependent on its tourism sector (50% of GDP). However, the economy is substantially supplemented by ODA (25% of GDP), primarily through the Compact of Free Association with the United States (the Compact), and Japan and the Republic of China-Taiwan.

12. The United States combined (Compact and federal grants) assistance to Palau between 1994 and 2009 totalled $852 million. Total US assistance to Palau in FY 2011 through 2024 is estimated at $427 million; half of what Palau has received in the prior 15 years, with discretionary federal programs accounting for about half of that amount. The Compact will provide decreasing assistance (excluding federal grants) through FY 2024 totalling $215 million, which includes direct economic assistance of $107.5 million for Palau government operations. This economic assistance combined with withdrawals from the Compact Trust Fund are used in the form of direct budget support and have for the past three fiscal years averaged about $19 million per year or 28% of the government budget. The US General Accounting Office (GAO) projects declining reliance on the Compact assistance from 28% of government revenue in FY 2011 to 2% in FY 2024. As the declining economic assistance under the Compact approaches its conclusion in 2024, Palau faces challenges in making every dollar of public expenditure count now in growing the economy so that current revenues are increased to offset any funding shortfall.

13. The Palau public service has a strong planning culture with an extensive corporate and institutional knowledge particularly at the senior directorate levels. These planning frameworks and managerial experiences need to be institutionalised and translated to concrete policy actions within government processes and systems to ensure continuity in implementation of national and sector priorities.

14. Palau is known within the Pacific and globally for its leadership on sustainable development and conservation. Initiatives such as the Micronesian Challenge, Palau-Protected Area Network, Palau International Coral Reef Centre and Palau Conservation Society are products of the vision and leadership of its leaders, combined with a strong traditional culture of safeguarding their pristine natural environment. This sustainable development focus is timely in the face of global economic downturn, limited natural resources, and dwindling Compact assistance. Palau’s strong leadership on sustainable development and conservation is a good development model that other countries in the region could learn from.

15. Palau continues to benefit from the strong partnerships with its traditional development partners, primarily the United States, Japan and the Republic of China-Taiwan. The bulk of the physical infrastructure in Palau has been established and maintained largely through the support of these development partners. As the Compact assistance phases out, it is imperative for Palau to strengthen, harmonise and streamline aid coordination with all other development partners to better achieve Palau’s national development goals and priorities.
16. Palau has an overall desire and commitment for planning evidenced by the existence of a wide array of national and sector planning documents and frameworks. This commitment to planning is shared within Government and across the legislature, community and the private sector. The challenge for Palau is to strengthen existing systems and processes and build the technical capacity to ensure these planning frameworks are institutionalised, sustained and implemented regardless of political leadership.

17. There have been a series of planning documents including the 25-year long-term National Master Development Plan 1996-2020 (NMMDP), the Medium Term Development Strategy (MTDS) 2009-2014 and most recently the Management Action Plan (MAP) 2011-2017 which are vary used by public servants and other stakeholders as the basis for planning. The NMMDP 2020 forms the basis for subsequent MTDS editions and sector medium term plans where these exist and contains a good deal of analysis and specific objectives relevant to 1996. However, the plan has not been updated or monitored, it is long (over 600 pages), and contains a level of detail that makes it almost inoperable. It provides limited guidance on priorities to reach Palau’s long-term goals and does not appear to guide policy dialogue with development partners, who have largely taken investment decisions based on their own interests and comparative advantage. Generally, no sectors in and outside government that the review consulted makes effective use of the NMMDP 2020.

18. Given the limitations of the NMMDP 2020 and in light of the diminishing Compact assistance to Palau in the next 10 years, it is opportune to consider updating the long-term plan to articulate Palau’s long-term development path and policy reform objectives. Attention needs to focus on sequencing implementation, developing a monitoring and evaluation framework with indicators and targets, indicative costing and with a timeframe to coincide with the ending of Compact assistance. Adequate time should be given for consultation to garner ownership of the plan and to ensure wide support for its implementation, irrespective of changes in the political leadership.

Planning

19. In addition to the NMMDP 2020, a series of 5-year medium-term development plans (MTDS) were produced in 1984 (Economic Development Plan), 1999 JCA “Study for the Promotion of Economic Development in the Republic of Palau”, including the most recent MTDS 2009-2014 developed with ADB assistance.

The current MTDS sets out goals, strategies and actions, and is supplemented by 24 detailed sector strategies that have provided helpful guidance to developing more specific sector plans within these exist. The current MTDS however has not been formally endorsed by the national Congress and has similar limitations as the NMMDP 2020 in terms of lacking information on baselines, indicators, targets, M&E framework, costing and financing. The Government intends to update the MTDS 2009-2014 as the national development plan and to seek wide endorsement. The Bureau of Budget and Planning has commenced work to update the MTDS 2009-2014 by 2021 which will feed into updating the MTDS. An updated MTDS should have clear and concise goals, strategies and outcomes, with an indicative budget aligned to it, as well as indicators and targets to guide implementation and monitoring.

20. Between 2001 and 2008, the Remengesau administration developed a series of 4-year Management Action Plans (MAP), which provided action-oriented plans for the Government. The most recent MAP 2013-2017 was produced based on a Transition Report prepared under the oversight of an Inter-Agency Coordinating Group (IACG) established by the new Remengesau administration in November 2012. The IACG represents a schedule of activities for each government bureau or sector agency to guide and sequence implementation over the next four years. While the MAP makes reference to the MTDS 2009-2014 and other established national development plans, the Review Team considers that the activities in the MAP could be better targeted and aligned to the national goals and strategies in the MTDS.

21. In addition to the national plans, there are also various sector strategies and plans that are used variably to guide policy and implementation. The Education Master Plan 2006-2016 continues to be used as the strategic plan for the Ministry of Education while the health and tourism strategic plans have strong linkages to sector goals and strategies in the MTDS. Other sector master plans developed under the FEIM project for infrastructure, aquaculture and fisheries, and economic and fiscal policies are not as widely used to guide policy and implementation. With the constraints of a small economy and capacity challenges within the public service, the Review Team recognises the importance of having sector or strategic plans developed mainly for the key sectors. The development agenda for the remaining sectors can be sufficiently guided by the MTDS and the associated sector master plans supplemented by the MAP.

22. Ministries or agencies that have sector strategic plans in place and have acquired planning experience and capacity should begin to gradually develop annual plans (often referred to as corporate or operational plans) clearly linked to the sector and national development plans. Having annual plans provide the platform for ministries to better align their annual budgets toward achieving sector and national goals. This is already occurring in the education sector where the Ministry of Education develops an annual plan to guide the implementation of the Education Master Plan with each school developing its own school improvement plan, linked to achievement of the goals and targets in the annual and master plans. This planning and corporate experience can be replicated over time across other major sectors of Palau.

23. In discussions with various stakeholders, it was apparent that there was no single national development plan used by all government ministries, agencies and other stakeholders to guide their planning and prioritisation efforts. Some stakeholders made reference to the MAP whilst others use the MTDS, NMMDP or draw upon elements of these and other different planning documents. The uncertainty as to which overarching planning document to use can affect the achievement of national development outcomes and create inefficiencies and competing demands on limited resources. Having one overarching planning document will help guide overall planning, priority-setting, and resource-allocation. Once updated, the current MTDS could serve an important role to guide planning and overall development efforts in the medium term.

The Peer Review Team recommends:

- Recommendation 1: That the Palau Director of Budget and Planning with Palau Peer Review Team member from Australia (Right) Seciff Elbersbach, Chief of Staff, Government of The Republic of Palau

24. A useful national development planning process begins with the articulation of a national vision statement within the context of a national development master plan accompanied by medium-term development goals and targets. National development plans may span a long-term (10 years or more) timeframe to achieve overall impact of development efforts. A second layer of planning is at the sector-level where sector strategies and policies are designed to achieve development outcomes within the medium-term (5 years or less). The third tier of the planning process involves annual (corporate or operational) plans consisting of economic programs and activities that seek to achieve development outputs. Annual plans guide the annual budgeting process. A typical national development planning framework commonly used in the region and elsewhere is shown in Figure 1.

25. The Review Team is not advocating that Palau implements the complete hierarchy of national, sector, corporate and annual plans. In fact, experience suggests that small administrations need to be cautious in their planning ambitions. However, minimum requirements should be considered as part of the national planning process and standard processes and templates made available across government and sector agencies for whatever levels of planning are considered necessary, to avoid the current diversity of planning documents and formats.

26. Raising awareness of relevant stakeholders about the planning process could be better carried out designing and implementing a planning communication strategy. The communication strategy would outline the national development planning process, the endorsed national and sector plans that should guide policy, and key institutions and actors involved in the process.

The Peer Review Team recommends:

- Recommendation 4: That the Bureau of Budget and Planning develop and implement a planning communication strategy aimed at increasing understanding among government agencies and other key stakeholders of the national planning processes to achieve the national development objectives and successful implementation of sector plans, strategies and budgets.

27. As noted earlier, Palau is not short of plans. The challenge is to operationalise and implement them. Effective implementation requires a central agent with influence over the whole of Government to “own” the plan, advise on implementation and monitoring and scrutinise proposals for consistency with the plan. The development of national plans (NMMDP, MTDS) has primarily been coordinated through the Ministry of Finance Bureau of Budget and Planning (BFP) and often written by external consultants. The coordination of plan development and monitoring has been weak, in part, to...
the staff shortages in BBP. Health, education and tourism sectors have led the development of their own strategic plans with limited involvement of BBP. It is important for BBP to get involved in the process to ensure sector plans and policies are aligned to the national development goals and priorities, and that national outcomes are achieved during implementation.

28. The Bureau of Budget and Planning is responsible for budget, planning and statistics. An earlier staffing proposal for BBP called for 18 full-time positions, but only 7 positions are filled with 2 more to resume their roles soon. The acute shortage of staff severely hampers the bureau’s ability to function effectively and the Ministry of Finance faces a major challenge in recruiting and retaining qualified and experienced staff. The government needs to invest in and strengthen the Ministry of Finance BBP to ensure a more effective and coordinated approach to overall national planning and better alignment of national objectives and priorities.

29. As BBP plays a critical role in coordinating overall planning and budget, the Government will need to ensure the BBP vacancies are filled in a timely manner. As in the case of Tonga, Palau may seek donor TA (EU TA to NAO) funding arrangements to recruit local staff to its aid management division. Tonga is now able to accomplish (AOGC) and retain knowledge with EU aid protocols and procedures that was not possible under the previous TA arrangements.

30. Of the seven current BBP staff, three work in statistics and Four share the workload for budget and planning. While the Review Team has not sighted the BBP structure proposed in 2008 with a total staff complement of 18, it might be helpful to revisit that structure and ensure it is updated and revised. While strengthening statistics capacity is essential to facilitate evidence-based policy and performance reporting, the planning and budgeting functions of BBP are equally important. There is scope for improvement in the monitoring and evaluation of national plan implementation. While monitoring and evaluation of all sector and sector plans are the responsibility of the sector agencies, responsibility for monitoring and evaluation of national development plan implementation is typically located within a central agency which in the case of Palau the Bureau of Budget and Planning under the Ministry of Finance. Therefore, the planning capacity of BBP needs to be strengthened to ensure it is able to effectively undertake its monitoring and evaluation role.

31. Most of the national and sector plans in Palau have been developed principally by outside consultants. Consultancy support for the preparation of a plan can be valuable but only in support of strong leadership and building capacity during the delivery of the consultancy. A simple plan that is entirely home grown is more likely to be implemented. The strategy development capacity of BBP needs to be strengthened over time. This could be achieved through designating counterpart staff to work with consultants during the plan development stage. Establishing a technical working group comprising BBP and other relevant agency staff to guide, review and comment on the draft reports prepared by consultants is another means of retaining skills.

32. Furthermore, the consultants’ reports often become the ‘policy’ document for government – there seems to be no formal mechanism for reviewing the reports and making appropriate changes to it before it is formally considered for adoption by the government. The Review Team has not seen any formal policy documents, yet the government officials the Review Team has talked to often made references to the consultants’ reports as if they were the official government guiding policy documents. ADB has produced numerous working papers under its FEIM project, including the Medium-Term Fiscal Strategy (MTFS), and government officials reference those reports as if they were approved government policy. Institutional capacity and systems for decision-making needs to be strengthened and institutionalised so that consultancy-produced reports, plans and studies are properly examined and necessary changes made to suit the context of Palau prior to implementation. Again, the role of BBP is vital in ensuring that any consultancy-produced reports, particularly those relating to national or sector plans are channelled through the government decision-making systems for proper review and formal decisions taken on them.

33. A strengthened BBP will also enable establishment of and support to a regularised process for dialogue between the Executive and Congress aligned to the annual planning and budget process, and between the Executive and the public service administration on implementation of feasible and realistic development outcomes.

34. Experience across the region indicates the usefulness of having an institutionalised high level development coordinating committee as an integral part of the government’s development planning process, which meets regularly to review and track development progress and advise Government (Cabinet) on national development issues. These committees often consist of heads of ministries, agencies and in some cases, representatives of the private sector and civil society. The chairperson and secretariat to this committee is situated within a central government ministry, either the office of the president or ministry of finance. Regardless of where the committee sits, the planning and budget bureau plays a significant role in providing technical and policy support to the committee. The committee has institutionalised operational procedures to focus its work, including set meeting times and agenda items, and working paper templates and minutes. The Cabinet is informed of the committee’s deliberations and recommendations through tabling in Cabinet of the committee’s records of proceedings and also through reflection of the committee’s views in the Cabinet working paper template. Samoa, Tonga and Vanuatu have well established and functioning national development coordinating committees, and even the smaller island countries of Tuvalu and Nauru have established similar coordinating mechanisms.

35. While Palau does not have such a mechanism in place, the scope and terms of reference of the Inter-Agency Coordinating Group (IACG) recently installed by the current government administration could be expanded and institutionalised to take on this overall development planning and coordinating function. The IACG sits under the Office of the President and has 12 members consisting of a representative each from the 8 ministries, a representative from the Governors’ Association, Chamber of Commerce, Office of the President, and Bureau of Budget and Planning with the latter acting also as the Secretariat. The IACG is to meet every quarter to review progress of the MAP implementation and to report to the President. Thus, the IACG already has the composition and
structure of a development coordinating mechanism. Its terms of reference could be expanded to cover the broader review of national development plan implementation and provide a mechanism for improved coordination. The benefit of having such a coordinating committee is that all relevant agencies are engaged in the development dialogue and it reduces the chances of other relevant factors not necessarily known to the concerned sponsoring sector agency not being accounted for in the development and implementation of a policy initiative. It also fosters collaboration, increased awareness and support from among sector agencies that can result in improved coordination, efficiency and effectiveness of policy implementation. The Forum Secretariat could be requested to share with Palau the experiences, structures and templates for national development committees operating in other Forum island countries.

The Peer Review Team recommends:

• Recommendation 6: That the Government consider expanding the Inter-Agency Coordinating Group’s mandate to provide a mechanism for improved coordination of policy monitoring and implementation, and to advise government on national development priorities and track progress against the National Development Plan.

Achieving national priorities will require not only growth in the private sector but also private sector involvement in national planning, policy setting and implementation. Given the dominance of tourism in the Palau economy and the critical role the private sector plays in maintaining a vibrant tourism service industry, it is important that the private sector is fully engaged in relevant policy dialogue and implementation of program initiatives relevant to the private sector. In discussions with the Palau Chamber of Commerce, the Review Team was impressed by the enthusiasm and commitment of the chamber towards realizing its vision to making the private sector the real engine of growth for the economy of Palau.

Realising this vision cannot be attained without the support of the government and other stakeholders. Tackling issues such as putting in place an enabling investment environment, business regulatory framework and legislation, taxation, entrepreneurship management skills and training, and access to finance, land and labour cannot be resolved by the government alone without the input and support of the private sector and other relevant stakeholders.

37. There exists an informal dialogue process between the government and the chamber, but there has been no formal meetings held in recent times. Consistent with its overarching vision of promoting private sector development through the tourism sector, the current government administration is keen to engage with the private sector on policy dialogue. However, there needs to be a formal and systematic dialogue mechanism established whereby the government and the private sector can discuss policy matters aimed at promoting public-private partnerships. There are models available in the region of where there are established and functioning coordination mechanisms for policy dialogue between the government and the private sector. In Tonga, the Government has established a National Growth Committee to provide advice and proposals on growing the productive and economic sectors. This has seen the inclusion of the private sector in the development of the agriculture sector plan, and the private sector is also represented in other sector growth committees such as tourism and fisheries. The Government is also utilizing the National Growth Committee mechanism to consult more widely the private sector on a regular basis.

The Peer Review Team recommends:

Recommendation 7: That the Government establish a formalized dialogue with the private sector to encourage public-private partnerships and promote private sector involvement in national planning, policy setting and implementation.

Palau Mindszenty High School Students, Koror

Swimming in Jellyfish Lake, Palau
Budgeting and Performance Management

38. The economic development and financial management policies for Palau are contained in various planning documents, including the NMPD, MTDS and its associated economic policies and goals, and the Medium Term Fiscal Strategy (MTFS) developed in 2008 under the FSMI project. Key elements of the public policy reform program in those planning documents include comprehensive tax and public sector reforms. Such reforms are considered to be one of the main technical areas of reform in the long term interest of Palau, especially given the phasing out of Compact assistance through FY 2024. However, there has been little progress on progressing those reform initiatives. On a positive note, the new government’s intentions for progressing public sector reforms is clear in the current MAP in which it advocates for a “right-sizing” of the public service through restructuring, attrition, retirement, and privatization. This is encouraging but the challenge is to translate these policy intentions into concrete actions. There are international and regional institutions specializing in public sector reforms that Palau might seek technical assistance to develop and implement a public sector reform program, including the Pacific Islands Centre for Public Administration (PICPAA) located at USP. Extensive experience of other PICs such as Samoa, Vanuatu, Cook Islands and Solomon Islands in public sector reforms could also be beneficial for Palau.

39. In terms of taxation reform, experience elsewhere in the region suggests that it might be beneficial to firstly, conduct a comprehensive assessment of the range and extent of revenue sources available to Palau as a prelude to designing the implementation details of taxation reform. There could potentially be other revenue consolidation or revenue adjustments that could be undertaken as part of an overall comprehensive revenue reform program, a component of which is taxation reform. It should be recognised that undertaking taxation reform is not a simple exercise nor can it be done overnight – a number of countries in the region who have implemented comprehensive taxation reform have taken multiple years to rollout and fully implement the reform, and some are still facing challenges with the new systems. The challenge for Palau is to ensure the proposed reforms are practical and realistic, achievable within the capacity constraints prevailing in Palau, properly sequenced and tailored to Palau’s situation. There are specialised international bodies of IMF, such as the IMF/PTAC and AD, that could be requested to provide technical support to Palau in undertaking such sequencing exercises and developing and implementing a reform program tailored to suit the local context. Again, other PICs such as Samoa, Vanuatu, Cook Islands and Tonga have undertaken comprehensive taxation reforms and could share lessons learned with Palau.

The Peer Review Team recommends:

• Recommendation 8: That Palau is encouraged to implement planned public policy reforms with the support of relevant international development institutions and learning from similar country experiences in the region.

40. Palau has produced with the support of its development partners (particularly ADB and IMF/PTAC) a number of useful budgeting plans, including the MTFS and Medium Term Budget Framework (MTBF). These budget frameworks provide the basic and essential building blocks for putting in place an effective budgeting framework. Elements of the MTFS have been incorporated into the current budget process, including the Funds Availability Analysis (FAA), which is a tool for establishing more realistic and robust revenue projections. Government ministries are already familiar with Performance Based Budget (PBB) from earlier experience, and that has made it easier for its reinstatement to the budget process. The Bureau of Budget and Planning (BBP) advised the Team that the other key elements of the MTFS, covering comprehensive taxation reform, improvement in efficiency of the public service, significant reduction in the level of current expenditure, and debt management strategy will be phased in over the next two years so that by 2015 the MTFS will be fully implemented. The successful implementation of these budgeting strategies hinges to a large extent on the capacity of BBP to coordinate implementation and provide capacity development and guidance to relevant ministries and sector agencies. While the Review Team has not sighted the MTBF or PBB guiding documents, it is concerned that fully operationalising the MTFS, and as well as the MTBF and PBB for that matter, may not be achieved within the said period because of the capacity constraints for the BBP and Office of Statistics that remain unrelieved. It is imperative therefore that, as noted above, strengthening the capacity of the BBP be accorded priority attention so Palau could take advantage of the benefits of pursuing these budget reform initiatives aimed at enhancing the accountability and transparency in the use and management of public funds.

The Peer Review Team recommends:

• Recommendation 9: That Palau ensures long term budgeting strategies should account for public policy reforms and provide the medium term resourcing framework to guide annual budgeting.

41. The budget process seems to cover most of the stakeholders concerned in the Palau Compact compact review Team. The budget process is supported by the implementation of an overall budget and financial strategy including the NMDP, MTDS and its associated economic policies. The economic development and financial management framework for Palau has been developed over a number of years. However, there has been little progress on progressing these reform initiatives. On a positive note, the new government’s intentions for progressing public sector reforms is clear in the current MAP in which it advocates for a “right-sizing” of the public service through restructuring, attrition, retirement, and privatization. This is encouraging but the challenge is to translate these policy intentions into concrete actions. There are international and regional institutions specializing in public sector reforms that Palau might seek technical assistance to develop and implement a public sector reform program, including the Pacific Islands Centre for Public Administration (PICPAA) located at USP. Extensive experience of other PICs such as Samoa, Vanuatu, Cook Islands and Solomon Islands in public sector reforms could also be beneficial for Palau.

42. The budget is an important tool that enables the government to align public sector investments with national priorities and development outcomes. Experience elsewhere in the Pacific region indicates that including such broad macro-economic performance information alongside the government’s policy intentions and priorities it aims to achieve over the budget year, is quite helpful in informing and shaping the budget debate in the legislature and, by extension, the public’s knowledge of the national budget and public policy is increased. It is common practice across the region that the macro-economic information is introduced in the budget document as a prelude to the budget details. The appropriation bill, usually one or two pages, outlines only the total amount of funds and its breakdown by function that requires appropriation. The bill is accompanied by the full budget documentation which typically includes the macro-economic and performance information and as well as the government’s priorities and policy intentions along with the budget details.

43. The introduction of the Funds Availability Analysis (FAA) to the FY 2013 budget is a significant improvement in the overall budget process and Palau should be commended for this milestone. It is not clear whether it is required to have at least a balanced budget. The FAA is therefore important as it is used to determine the total budget ceiling which, once approved by Congress, guides the preparation of the ministries and sector agencies’ budget. The FAA tool can be further improved to enhance its rigour by accounting for the broader macro-economic performance and financial sustainability of the economy. This would include making adjustments for projected economic growth, inflation, foreign currency adjustments (where applicable), impacts of the global economy and world prices of food and fuel, etc. Building in these macro-economic aggregations and assumptions in the FAA framework can be done gradually as the capacity of BPP improves, as it is important to ensure this capacity for budget forecasting management is locally-owned.

44. Additionally, the budget documentation will benefit by including fiscal and macro-economic and performance information. The current budget is limited to line budgeting with very brief narrative. As a result, it is difficult to discern the broader policy context and debate on line item budgets rather than engaging in a debate on broader and strategic policy issues and how the proposed budget could contribute to achieving national policy outcomes. Experience elsewhere in the Pacific region indicates that including such broad macro-economic performance information alongside the government’s policy intentions and priorities it aims to achieve over the budget year, is quite helpful in informing and shaping the budget debate in the legislature and, by extension, the public’s knowledge of the national budget and public policy is increased. It is common practice across the region that the macro-economic information is introduced in the budget document as a prelude to the budget details. The appropriation bill, usually one or two pages, outlines only the total amount of funds and its breakdown by function that requires appropriation. The bill is accompanied by the full budget documentation which typically includes the macro-economic and performance information and as well as the government’s priorities and policy intentions along with the budget details.

45. Using the budget as a tool for accountability is important. As shown in Figure 1 the budget is the key instrument by which ministries and sector agencies are able to operationalise their annual plans and sector strategies which, in turn, should ultimately lead to attainment of development and policy outcomes. Palau has a myriad of national and sector plans, but there is no clear linkages in the budget as to how the proposed expenditures contribute toward achieving those policy outcomes. Discussions with the Review Team indicate that there is wide knowledge and awareness among ministries of the Performance Based Budget (PBB) system, which used to be the basis for budget management in prior years and which would be reactivated from FY 2013 onward. The Team has sighted the budgets for FY 2007 the final year in which PBB was last enforced and the budget for FY 2013, and there is no marked differences in the budget format to those in the intervening years FY 2009 to FY 2012. Thus, it is not clear to the Review Team as to what extent PBB as practised in Palau has contributed toward achieving accountability for results.
Performance Indicators (KPIs). Compiling and consolidating all this information into a single budget document provides the basis to enable government to have the ability to link reporting on activities to assessment of outcomes. The Forum Secretariat could be requested to supply budget strategy and templates from the region that might help Palau to improve its overall budget credibility and transparency.

47. The monitoring and reporting system is not standardised. Some ministries report major highlights while others report other activities. These reports are activity-based rather than outcome-focused, and only a few agencies produce them. There is a need to develop a mandatory system of simple accountability for all ministries and sector agencies linked to annual plans (and where these do not exist, to the sector or medium term plans) which take account of all the resources they expect to receive, including from development partners. The accountabilities would be for progress, which could be measured during the year, but the Bureau of Budget and Planning would need to ensure there were demonstrable links to the outcomes of the national development plans and MFTs. There would need to be central guidance provided by BBP on annual planning, formulation of accountabilities and reporting. In this regard and as noted above, the centralised monitoring and evaluation function of BBP would need to be strengthened. Vanuatu’s experiences with maintaining an effective monitoring and evaluation system could be helpful models that Palau could draw upon (see Box 1).

48. For Palau, in the medium term the aim would be to integrate performance reporting and analysis into the budgeting process. The first step is to revive and build a simple and standardised information collection and reporting system on the resources and results across all government ministries and statutory bodies. These reports should be submitted to Cabinet and Congress annually. Annual reports would include information on outcome indicators on policy objectives that should enable policy-makers and members of the legislature to make informed decisions. In Vanuatu’s case the annual development report is tabled in parliament before the presentation of the appropriation bill during the budget debate session. This process provides an avenue for parliamentarians to assess the sector’s performance over the previous year before making any decisions for the forward year on budget issues and new policy initiatives.

49. Members of the Olbiil Era Kelulau (OEK) have shown real commitment to public access to information through public hearings before various congressional standing committees, which are broadcast on radio, local television and covered in the local daily newspaper. However, despite the existence of the government website, very little current information is routinely available to the general public on such basic issues as the budget, the economic and fiscal position, progress on health and education outcomes, and the proceedings of the OEK. Other Pacific countries have made extensive use of the internet to inform parliament, the public and their citizens overseas. An information policy which defined important pieces of information and provided for their dissemination, regularly updated and uploaded on to the government website, may produce better access to information.

Box 1: Vanuatu and Samoa M&E Policies

Vanuatu

This policy recognises that there are already organisations which monitor development outcomes and impacts. The Reserve Bank monitors monetary and external sector development and makes recommendations to government by evaluating trends. The National Statistics Office produces data that allows the monitoring of economic and social trends. The Ministry of Finance monitors budget outcomes and uses that information to better manage the budget. Many aid projects had monitoring indicators built in during the design stage of the project. Based on the role assigned to the M&E unit, the scope for monitoring and evaluation covers both development plans and government policies. The government’s plans and policies not only cover the Priority Action Agenda (PAA, Vanuatu’s national development plan) and Planning Long Acting Short (PLAS, an abbreviated operational matrix for PAA), but also decisions by the Council of Ministers (COM, Cabinet). The annual budget funds programs and projects to implement government’s plans and policies, including COM decisions. The Annual Development Report (ADR) is a series of annual reporting documents. It provides an annual assessment on the progress made on implementing national development priorities within government’s seven broad policy objectives. This Report informs Cabinet and Parliament on progress, challenges and development outcomes.

Samoa

The Economic Planning and Policy Division of the Ministry of Finance is responsible for the monitoring of the national development strategy through the M&E framework and reports to Cabinet on this on a quarterly basis. This process is validated and complemented by lead sector ministries through sector plan monitoring on a quarterly basis given the consistency of high level performance indicators. Annual sector reviews form the basis of annual reports which are then presented to Parliament on the implementation of the sector plans linked to the national development strategy. All line ministries are required by law to work with the Samoa Bureau of Statistics on the validation of any data generated.

Source: Governments of Vanuatu and Samoa

The Peer Review Team recommends:

50. Palau has rated quite well in overall accountability for the use of its PFM systems to account for the Compact funds, as noted by a survey undertaken by the United States GAO in 2008. The GAO report however has noted some weaknesses in financial internal controls, bank reconciliations and procedures for accounts reconciliation. IMF has also identified some weaknesses in budget and cash management practices that require attention. Palau has up to date audited government financial statements. A key challenge remains in addressing the audit findings and recommendations.

51. A self-assessment of Palau’s PFM has recently been carried out with the support of PFTAC. While the Review Team has not sighted the report, the Bureau of Budget and Planning has indicated that it would evaluate the PFTAC findings and take necessary action. A PFM self-assessment is an integral component of and a prelude for a full-fledged Public Expenditure and Financial Accountability (PEFA) assessment.

The purpose of the PEFA is to provide a baseline measurement of current PFM performance standards in the country and is used as a tool that can provide reliable information on the performance of PFM systems, processes and institutions over time. Palau is the only FIC not to have undertaken a PEFA. Some FICs have had 2 or 3 PEFA assessments carried out, which are usually undertaken within a 3 to 4 year time span. The advantage of a PEFA is that the country is able to develop and focus implementation on a PFM roadmap that addresses the issues highlighted in the PEFA. It also guides development partners in better targeting their assistance toward the priority areas identified in the PFM roadmap. It is therefore important that the government finalises and confirms the self-assessment findings and develops and implements an indicative PFM reform program to address issues identified in the self-assessment report. Assistance from international financial institutions such as the IMF/PFTAC could be sought to assist Palau develop and implement such a reform program.
52. Aid plays a significant role in the Palauan economy, constituting between 25% and 30% of total GDP and around 30% of total government expenditure. Palau’s major traditional donors are the United States, Japan, and ROC-Taiwan. Together they provide the bulk of ODA to Palau. Under the Compact of Free Association, the US provides the highest ODA support through direct compact funding. Federal services such as weather, aviation, and postal work are also significant discretionary Federal Grants with the health, education, telecommunications, and other sectors contributing about 28% of GDP. Japan and ROC-Taiwan also provide significant support to economic and social infrastructure, health, education and agriculture sectors. The Government of Palau’s formal engagement with its development partners is through bilateral arrangements mostly through country strategies or partnership agreements. Donors have their own preferences in terms of the sectors and the types of investments they would like their aid to be focused on. They have different modalities of aid delivery and reporting requirements. The differing project and grant based modalities of aid delivery in Palau appear to be fragmented and government has noted the difficulty of getting a clear overall strategic picture of all development assistance to Palau. The US federal grants alone range from between 60 to 60 grants a year and provide between $18 million and $25 million a year of additional support. Added to this complexity are the 28 ROC-Taiwan projects, the Japanese Small Grants programme and a mixture of isans and significant technical assistance from the multilateral and regional agencies, as well as direct service provision by the US through federal programmes. These modalities and reporting requirements exert a high transaction cost on Palau in terms of the administrative burden of managing these differing and often complex donor aid requirements. The staff focal point in Treasury responsible for the financial reporting of the US federal grants, for example, manages a portfolio of individual projects exceeding 200. Palau can access US federal grants assistance, like any US State, through submission of project proposals by individual ministries directly with the relevant US federal program and competing with other US States for those grant funds. These project proposals are conceived and written by the sector agencies themselves and there is no coordination with the central agencies, which means there is no oversight mechanism to ensure that those projects are in line with overall planning and budgeting priorities. The biggest challenge is to change the thinking and language away from the concept of chasing grants (which perpetuates the notion that programmes can be moulded to the available financial) and towards considering what the development objectives of the nation are and how external partnerships can help towards meeting them.

53. Currently, Palau does not have an aid management policy to guide overall aid coordination. An aid policy would outline the broad principles and objectives upon which development cooperation is premised, and how aid can be best aligned to achieve Palau’s national objectives and priorities. It clarifies Palau’s ownership and leadership of the development cooperation management processes and outlines the framework for institutional and operational arrangements. An aid policy will position Palau to drive and lead aid coordination and, at the same time, utilise a centrally channelled aid system. This will ensure that aid is aligned to national planning and budgeting priorities. The biggest challenge is to change the thinking and language away from the concept of chasing grants (which perpetuates the notion that programmes can be moulded to the available financial) and towards considering what the development objectives of the nation are and how external partnerships can help towards meeting them.

54. There is currently a disjoint between planning, budgeting and aid management processes. The current practice to securing external investment, which is mostly project-based and grant driven, is handled by different agencies. As the Government recognises, aid management is disjointed at present. Broadly:
- Office of the President, which houses the Grants Coordinators’ office, is the national focal point for coordinating the US, Japan and ROC-Taiwan bilateral programs;
- Bureau of Foreign Affairs under the Ministry of State is the political focal point for dealing with development partners and international and regional institutions;
- Bureau of International Trade and Technical Assistance under the Ministry of State is the contact point for managing other donor programs such as AusAID, EU, UNDP and other UN agencies, and CROP and regional agencies;
- Bureau of Budget and Planning under the Ministry of Finance is the national focal point for the international financial institutions including the ADB and IMF;
- Office of Environmental Response and Coordination under the President’s Office is the national focal point for environment and climate change funding and has direct dealings with the GEF and UNFCC;
- Line Ministries, agencies and NGOs manage US federal grants as well as grants from UN and regional organisations.

55. The present decentralised structure and functions of aid coordination has its strengths and drawbacks. It presently allows individual ministries to develop their own capacities to be able to access, utilise and manage their own donor-funded projects. Some agencies that have developed their capacity and experience over time have been more successful in obtaining grants than others. There are however a number of drawbacks of the present system. The different project and reporting requirements and their complexities put a high transaction cost on their administration. There is no central mechanism to ensure that projects are aligned with national planning and budget systems and priorities. There is no centralised system for capturing all aid funds available to Palau and using such information to make strategic choices on how best to utilise aid to achieve development outcomes. The current practice of chasing grants perpetuates the notion that programmes can be moulded to the available financial. The current focus on project management is a disincentive to shift towards a program or sector-based approach whereby ODA is designed, targeted and sometimes pooled together and directed towards implementing a well-developed program or sector plan.

56. Experience elsewhere in the Pacific suggests that aid management would be strengthened by consolidating its functions within a single agency, which would be aligned to national planning and budgeting. The functions of Tonga and Samoa centralised aid coordination mechanisms are shown in Box 2. The Review Team is not advocating for a sudden overhaul of Palau’s current structure of aid coordination, since experience suggests that the shift towards strengthening aid coordination cannot be accomplished overnight. It has taken Tonga and Samoa multiple years to move towards an integrated and centralised aid coordination system. Developing an aid policy is the necessary first step through, followed by the planned and sequenced implementation of the policy components that ultimately could lead to a more centralised policy, and coordination system that is aligned to national and planning systems.

The Peer Review Team recommends:
- Recommendation 12: That Palau develop a national aid management policy to guide donor aid coordination and ensure aid is aligned to Palau’s national priorities.
- Recommendation 13: That Palau establish a process and timetable for better alignment of aid management functions to national planning and budgeting, drawing from experiences elsewhere in the Pacific where this has worked.
59. Currently, there is limited coordination between donors, including bi-lateral and multi-lateral agencies. There are no formal donor coordination arrangements or roundtable dialogue meetings held between Palau and its development partners. Experience elsewhere suggests that having regular formal coordination meetings with development partners provide a good avenue to facilitate dialogue for improved streamlining and harmonising donor assistance towards national planning and budgeting systems. By encouraging donors to work through a structured mechanism of dialogue and investment, there is a higher likelihood of achieving Palau’s national priorities and reduce the cost of delivering aid. It will also ensure that donors report evidence-based results against priorities and KPIs of Palau’s national development plans.

59. As with FSM and RMI, the relationship with the US inevitably dominates and shapes Palau’s thinking about external support and its systems for managing it. However, there are built-in controls and rigidities to the way that US funding is provided, which may undermine its effectiveness in the long run. Grants are given for one year and in most cases are for specific activities and outputs, and they are subject to quarterly reporting. Experience elsewhere in the Pacific has been that countries have been able to shape external assistance to better fit their own objectives and systems, and to change the system of accountability away from accountability to development partners for aid financed activities to an overall accountability internally and externally for achieving results. Managing the relationship with the US is naturally a high priority for Palau, but it needs to be done in the context of better managing its own resources and within structures for managing its aid relationships overall. Putting in place an overall aid management policy framework that clearly puts Palau’s development objectives and priorities at the forefront, with all resources (domestic and external) mobilised and designed to achieve those priorities using national planning and budgeting systems, would go a long way to reshaping Palau’s overall approach to aid administration.

Box 2: Centralised Aid Coordination Functions

**Tonga**
- advise ministers on aid policy and management issues
- coordinate donor funded development activity planning and management
- establish and maintain an aid information database
- contribute to incorporation into national budget the fiscal value of donor funded development activities
- work to achieve enhanced donor coordination and harmonisation and alignment by donors with the government’s systems and processes
- maintain close and effective relations with ministries
- maintain close and effective relations with donor partners

**Samoa**
- lead policy discussions with development partners on country strategies and program priorities as well as maintain day-to-day contact with development partners and line ministries on all external aid matters
- maintain updated information systems and databases on aid flows, prepare bi-annual development cooperation reports and update information provided on the MoF website
- build partnerships with development partners and all other stakeholders to enhance aid effectiveness
- organise and prepare key documentation for presentation at all for a on resource mobilisation
- participate in international fora on aid effectiveness and in OECD/DAC evaluations of the Paris Declaration and Cairns Compact
- develop and implement appropriate instruments to monitor progress on commitments made to implement the principle of the Paris Declaration
- establish close liaison with the sector steering committee to monitor progress of program implementation as well as liaison with development partners on resource flows for sector programs, particularly where there are pooled resource financing arrangements
- ensure effective functioning of the Secretariat of the Aid Coordination Committee
- continue to progress the achievement of key objectives under the Public Finance Management reform plan as well as implementation of the debt Management Strategy

Source: Governments of Tonga and Samoa
Recommendations

1. That Palau decide on a process and timetable for updating the Master Development Plan 2020 to identify long-term national development planning priorities for Palau;

2. That current national plans, particularly the MTDS, are updated and prioritised with monitoring framework, timelines, and costing developed to better guide implementation, and that corporate or annual plans be developed for key sectors to guide alignment with budgets;

3. That Government consider issuing a clear directive as to the role of the MAP and MTDS in guiding overall planning, development efforts, and implementation;

4. That the Bureau of Budget and Planning develop and implement a planning communication strategy aimed at increasing understanding among government agencies and other key stakeholders of the national planning processes to achieve the national development objectives and successful implementation of sector plans, strategies, and budgets;

5. That the Government invest in and strengthen the capacity of the Bureau of Budget and Planning in policy/planning development and monitoring to ensure the development planning process is institutionalised and functioning effectively;

6. That the Government consider expanding the Inter-Agency Coordinating Group’s mandate to provide a mechanism for improved coordination of policy monitoring and implementation, and to advise government on national development priorities and track progress against the National Development Plan;

7. That the Government establish a formalised dialogue with the private sector to encourage public-private partnerships and promote private sector involvement in national planning, policy setting, and implementation;

8. That Palau is encouraged to implement planned public policy reforms with the support of relevant international development institutions and learning from similar country experiences in the region;

9. That Palau ensure that long-term budgeting strategies account for public policy reforms and provide the medium-term resourcing framework to guide annual budgeting;

10. That Palau establish a clear budget strategy and process that consolidates budget information, captures total available resources (domestic and aid), and institutes performance monitoring and reporting and dissemination. Assistance from IMF/PFTAC, ADB, other development partners, and FICs with experience in these areas should be considered;

11. That Government finalise and confirm its current PEFA self-assessment and accelerate its efforts in public financial management reforms;

12. That Palau develop a national aid management policy to guide donor aid coordination and ensure aid is aligned to Palau’s national priorities;

13. That Palau establish a process and timetable for better alignment of aid management functions to national planning and budgeting, drawing from experiences elsewhere in the Pacific where this has worked;

14. That Government is encouraged to lead and take a more proactive role in donor coordination and harmonisation.
61. **Next Steps**

   It is for the Government of Palau to determine which of the recommendations it wants to take forward. If the Government agrees, there should be a follow-up visit or discussion by PIFS with Palau to discuss concrete work plan/actions and resource framework/division of labour for implementing the recommendations of the Peer Review Report. This visit is proposed to happen within six months after the completion of the Peer Review in-country. Key development partners for Palau can consider supporting the implementation of the Peer Review recommendations in addition to other government-identified priority development coordination priorities.

62. It is proposed that a simple Monitoring and Evaluation Framework/indicators agreed between the Government, development partners and PIFS be developed and used to track the implementation of the Review Recommendations (recommendations to the Government, development partners and the PIFS).

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*Fun in the flats, Koror, Palau*

*Palauan girls performing traditional dance*
1.0 Purpose
This note sets out draft Terms of Reference for a peer review of Palau’s national development planning and related processes under the Cairns Compact on Strengthening Development Coordination in the Pacific.

These draft Terms of Reference draw on a concept note on the peer review process that was circulated by the Pacific Islands Forum Secretariat (PIFS) on 20 October 2009 and discussed at a regional workshop on 26-28 November 2009.

2.0 Background
Through the Cairns Compact, Forum Leaders agreed in August 2009 that the Pacific Islands Forum Secretariat (PIFS) should establish and report annually to the Post Forum Dialogue on a process of regular peer review of Forum Island Countries’ (FICs’) national development plans to:

a. promote international best practice in key sectors,
b. improve effective budget allocation processes; and
c. guide support from development partners.

The objective of the peer review process is also to guide improvements in development coordination, including by informing discussions at the Pacific Islands Forum and Post Forum Dialogue, through reviews of coordination at a country level.

Peer reviews are an opportunity for mutual learning between FICs on the one hand and their peers in other FICs and development partners (donors) on the other about how best to address development challenges. The peer review process is intended to contribute to reinforcing country leadership over the establishment of national priorities, and enhance the capacity of countries to guide the use of development resources – both government and development partner funded resources.

3.0 Issues for review
The Peer Review process will consider the following issues in line with globally (Paris, Accra) and regionally (Pacific Principles of Aid Effectiveness) accepted principles for development effectiveness:

Ownership (National Planning/Budgeting):
- whether the national and sector plans define a clear set of development results and set realistic timeframes for achieving these;
- how domestic stakeholders are consulted in the preparation and review of national and sector plans;
- the extent to which the Government has communicated national and sector plans within Government and to other domestic stakeholders;
- the extent to which the Government has established and implemented an effective review process for national and sector plans;
- how evidence (including statistics) was used to develop national and sector plans, set budgets and monitor progress.

Alignment and Harmonisation (Aid Management):
- the extent to which development partners align their assistance to the priorities articulated in national and sector plans in a coordinated manner;
- the extent to which development partners harmonise among themselves to ensure coherent and collective assistance to the government. Eg. joint missions, joint assessments, joint country strategies, joint programmes;
- the adequacy of national and sector plans to provide clear guidance to development partners on how aid can complement national resources;
- the extent to which development partners deploy aid resources through national (government and other domestic stakeholder) systems.

Managing for Results and Mutual Accountability (Monitoring and Performance Management):
- the extent to which the plans included above are supported by realistic and appropriately costed annual budgets and sector plans;
- whether the processes for developing and reviewing national plans, sector plans and annual budgets are integrated with each other.

3.0 Outputs
The key output from the peer review process will be a report prepared by the review team and agreed by the Government that will summarise the available evidence, based on existing documents and in-country consultations, to draw conclusions on the above issues as the basis for:

- Recommendations to the Government on how it can improve:
  - processes for preparing and reviewing its national and sector plans, including consultation mechanisms with domestic stakeholders;
  - processes for linking these plans to the annual budget;
  - coordination of development partners assistance, including by providing appropriate guidance through national and sector plans;
  - budget allocation and monitoring systems;
- Recommendations for development partners on how they can improve:
  - processes for aligning their assistance to the priorities articulated in the national and sector plans;
  - processes for coordinating assistance between development partners;
  - efforts to support and strengthen Government monitoring and implementation systems.
- Broader lessons on the above issues for other FICs and development partners to consider through the Post Forum Dialogue and other regional meetings.

Annex 1: Cont.

Following are the detailed considerations for the Peer Review:

Ownership (National Planning/Budgeting):
- Processes for preparing and reviewing national and sector development plans, including:
  - whether the national and sector plans define a clear set of development results and set realistic timeframes for achieving these;
  - how domestic stakeholders are consulted in the preparation and review of national and sector plans;
  - the extent to which the Government has communicated national and sector plans within Government and to other domestic stakeholders;
  - the extent to which the Government has established and implemented an effective review process for national and sector plans;
  - how evidence (including statistics) was used to develop national and sector plans, set budgets and monitor progress.
- Links between the national plan, sector plans and budgets, including:
  - the extent to which the plans included above are supported by realistic and appropriately costed annual budgets and sector plans;
  - whether the processes for developing and reviewing national plans, sector plans and annual budgets are integrated with each other.

Alignment and Harmonisation (Aid Management):
- Relationship of development partners to national and sector development plans, including:
  - the extent to which development partners align their assistance to the priorities articulated in national and sector plans in a coordinated manner;
  - the extent to which development partners harmonise among themselves to ensure coherent and collective assistance to the government. Eg. joint missions, joint assessments, joint country strategies, joint programmes;
  - the adequacy of national and sector plans to provide clear guidance to development partners on how aid can complement national resources;
  - the extent to which development partners deploy aid resources through national (government and other domestic stakeholder) systems.

Managing for Results and Mutual Accountability (Monitoring and Performance Management):
- Monitoring the implementation of national and sector development plans, including:
  - processes and frameworks for tracking and reporting progress against outcomes in national and sector plans, and for drawing policy conclusions from progress reporting.

3.0 Outputs
The key output from the peer review process will be a report prepared by the review team and agreed by the Government that will summarise the available evidence, based on existing documents and in-country consultations, to draw conclusions on the above issues as the basis for:

- Recommendations to the Government on how it can improve:
  - processes for preparing and reviewing its national and sector plans, including consultation mechanisms with domestic stakeholders;
  - processes for linking these plans to the annual budget;
  - coordination of development partners assistance, including by providing appropriate guidance through national and sector plans;
  - budget allocation and monitoring systems;
- Recommendations for development partners on how they can improve:
  - processes for aligning their assistance to the priorities articulated in the national and sector plans;
  - processes for coordinating assistance between development partners;
  - efforts to support and strengthen Government monitoring and implementation systems.
- Broader lessons on the above issues for other FICs and development partners to consider through the Post Forum Dialogue and other regional meetings.
Annex 1: Cont.

4.0 Peer Review Team
The review team will consist of two representatives from other FICs, Ms. Natalia Palu-Latu, Acting Secretary of Finance from Tonga, Ms. Maybelline Aitoni Bing, Assistant Secretary Administration, Finance and Personnel of Ministry of Health from RM and one representative from a development partner, Mr. Alopi Latukefu, Director for Food Security and Rural Development, Policy and Sector Division of AusAID. As much as possible, the host countries are encouraged to draw their peer review team from the PIFS established Peer Reviewers Database consisting of government and development partner nominated officials. The Peer Review Team will be supported by the Regional Planning Adviser, a consultant engaged by the PIFS, and a Communications Team to support peer review documentation (photography/videography) and profile the consultations and the peer review team.

5.0 Stages of Review Process
5.1 Pre-Analytical review
With support of the Regional Planning Adviser, the consultant engaged by PIFS will consider the Government’s self-assessment (2010 Cairns Compact report, Paris Monitoring Survey Report if available) against the agreed format for annual reporting by all FICs on their national development plans, and any reflections by, or commissioned by, the Government on the implications of the self-assessment, as well as any other recent reporting on implementation of plans, progress against the MDGs, and the economic and financial situation. An Information Brief will be prepared for the review team and shared with the Government.

5.2 In-country review
The in-country peer review process will take no more than 10 working days. The in-country review consultations with relevant national and development partner stakeholders should take no more than 10 working days.

Prior to the consultations, the Peer Review Team will hold an Initial Briefing with the Peer Review Focal Point/Agency to confirm the objectives and focus of the Peer Review and the stakeholders to be consulted.

The review team would then meet with relevant stakeholders. A list of stakeholders will be agreed between the Government and the review team. It is anticipated that consultations will include:
- Presidents, Prime Ministers or Premiers
- Parliamentarians including Speaker of the House, Chair and members of Public Accounts Committees, Leader of the opposition party
- Ministers and officials in central planning and financial management agencies and key service delivery agencies (e.g. education, health, environment, infrastructure/transport, commerce).
- Representatives of key development partners
- Representatives of non-government organisations and the private sector.

The Peer Review Team will consult with the Government on the best way of getting a range of non-Governmental opinion and will if appropriate request that Government convene a consultative meeting with wide community representation.

The PIFS Communications Team will record/document where appropriate the peer review process in Palau to support the publication of the Palau Peer Review report and input to the annual update of the Pacific Peer Review DVD for the Pacific Leaders Meeting and for knowledge sharing.

A Peer Review Debrief will be held on the last day of the Peer Review in country where the Peer Review team will provide some very preliminary findings from the peer review consultations through an Aide Memoire. Stakeholders from both government & non-government sectors and development partners will be invited to attend.

5.3 Post Peer Review Process
1. Preliminary Report by Peer Review Team
Within three weeks of the completion of the in-country peer review visit, the Peer Review Team with support of the PIFS and consultant will produce and submit a preliminary Peer Review Report to the government for review and comment.

Annex 1: Cont.

2. Government approval of the Peer Review Report
The host country, their development partners and other key national stakeholders consulted during the review will be asked to respond to the draft report within three weeks of receiving the draft and asked to approve a final Peer Review Report within two months of completion of the peer review visit.

3. Publication and dissemination of the Peer Review Report
Within two weeks of host country approval of final peer review reports, Peer Review (unpublished) Reports will be disseminated widely by the PIFS to all Forum members and development partners via PIFS Circular and on the PIFS website. The PIFS will disseminate the published Palau Peer Review report within 2 months of receiving final approval from Palau.

4. Host Country and PIFS Report on Peer Reviews to PIC-Partners and PPAC meetings
The host country and the PIFS will present the peer review report and a consolidated report summarising the peer reviews undertaken in 2013 at the Pacific Island Countries – Development partners meeting and the Pacific Plan Action Committee (PPAC) meeting. The conclusions of the peer reviews will be reported to the Forum Leaders meeting as part of the PPAC Chair’s Letter to the Chair of the Forum.

PIFS will present a summary of the peer review report and a consolidated report summarising the peer reviews undertaken in 2013 to Forum Leaders and the Post-forum Dialogue to inform discussions on development coordination.

The host country can also consider a high level report potentially through their leader’s address to the Forum Leaders on their peer review process and follow-up.

6. Development Coordination Action Planning, Resourcing and Implementation
Based on the preference of the host Government, it is proposed that there be a follow up visit by the PIFS and development partners to the host country to discuss concrete work plan/actions and resource framework/division of labor for implementing the recommendations of the Peer Review Report. This visit is proposed to happen within and no more than three months after the completion of the Peer Review in country. Key development partners in country can consider a pooled fund to support the implementation of the peer review recommendations in addition to other government identified priority development coordination priorities.

Alternatively and/or additionally, and again based on the preference of the host Government, the government can integrate the Peer Review Recommendations into their ongoing national development planning, budgeting and aid coordination/ management development strategy/plan and processes.

It is proposed that a simple Monitoring and Evaluation Framework/indicators agreed between the Government, development partners and PIFS will be developed and used to track the implementation of the Peer Review Recommendations (recommendations to both Government and Development partners). Attached is a Draft Work plan and Report Template for consideration.

6.0 Administrative and funding arrangements
In addition to the consultant, PIFS will provide logistical and administrative support to the peer review process coordinated by the Regional Planning Adviser.

The major costs of the peer review process will be met by the PIFS. These costs include the consultant and administrative support provided by PIFS, travel by the peer review team and incidental costs incurred by the Government such as hiring meeting facilities and catering. The only significant costs to the Government will be the time of officials consulted. It is proposed that the development partner participating in the review team will cover their own costs.

The Government will nominate a designated focal point to set up and manage the consultation process in close coordination with PIFS.
Annex 2: Palau Government, Peer Review & Support teams

Palau Government Official focal point and contacts for the Peer Review
- Mr. Rhinehart Silas, Deputy Chief of Staff - Office of the President
- Casimir Remengesau, Director of Planning and Budgeting Bureau, Ministry of Finance
- Ms. Hila Asanuma, Chief Division of Multilateral Affairs, Ministry of State
- Mr. Gustav Aitaro, Director Bureau of International Trade and Technical Assistance, Ministry of State
- Mr. Kyonori Tellames, Planning Analyst, Bureau of Budgeting and Planning, Ministry of Finance

Palau Peer Review Team
- Ms. Natalia Palu-Latu, Principal Economist, Aid and Project Management Division, Ministry of Finance and National Planning from Tonga.
- Ms. Maybelline Andon Bing, Assistant Secretary Administration, Finance and Personnel of Ministry of Health from RMI
- Mr. Alopi Latukefu, Director for Food Security and Rural Development, Policy and Sector Division of AusAID.

PIFS Peer Review Management/Technical & Communications Team
- Ms. Charmina Saili, Regional Planning Adviser, PIFS
- Mr. Seve Paeniu, PIFS Peer Review Consultant Pacific Islands Forum Secretariat
- Ms. Portia Domonatani, Forum Compact Research Assistant, PIFS
- Mr. Jason Chute, PIFS consultant - communications (Peer Review Video and Palau photography)
- Holly Yamada, SIS/Pacific Plan Desk Officer, PIFS