

State of the Republic Address

**By President Tommy E. Remengesau, Jr.
Before the Ninth Olbiil Era Kelulau**

April 30, 2013

1. Introduction.

It is a great honor to appear before all of you this morning to report on the State of our Republic.

Before I begin I would just like to say that I am humbled and honored to serve you again and I am looking forward to working with all of you to help Palau realize its development goals.

In 2001 when I stood before you for my first State of the Republic I said that the Republic of Palau was in a state of “potential.” That is as true today as it was twelve years ago. We all know that the potential of our nation is vast – we have the people, the resources, and the drive to achieve great things. But we must ask ourselves when will this potential begin to be realized and for whose benefit? The answer is clear – now and for all Palauans.

Realizing our potential means focusing on economic growth for all Palauans rather than just the fortunate few. It means investing in and protecting our people and our environment. It means strengthening our social programs and services so that they provide real benefits in the short term, while maintaining stability for the long term. And it means opening up your government so that transparency and accountability will once again ensure excellence and honesty in the public sector. Implementing these initiatives will help Palauans today while ensuring Palau’s prosperity tomorrow.

As one small initial step towards realizing our potential, I am pleased to announce that I have just signed into law RPPL No. 9-1, the first law enacted by the 9th Constitutional Government of the Republic. This law, first and foremost, increases the minimum wage for the people of the Republic, which will provide a degree of relief for our minimum wage earners who have not seen a minimum wage increase since 1997. In addition, this law will provide a more level playing field between Palauan citizens and foreign workers, which should help increase Palauan employment since a major incentive to hire foreign workers – the lower minimum wage – is now eliminated.

This minimum wage law is a good example of how our government can work for the people. The need for a higher minimum wage for our people was clear, as our lowest paid workers were struggling to survive, and employers were choosing foreign workers over Palauans because of the lower wages for foreigners. Seeing this need, our elected officials introduced minimum wage legislation immediately after being sworn in to office. The bill was the subject of healthy debate within our community and the Olbiil Era Kelulau, and in the end a bill was presented to me for signature into law.

It is not a perfect bill, but it is a great improvement upon the current minimum wage law that will begin to have immediate beneficial effects for our people. And that is the point. Clearly we could continue to debate the minimum wage bill for years and years – in fact we have been. But the Olbiil Era Kelulau took the initiative and put petty politics aside to produce immediate results for the people. This is the type of action we need.

As we have seen throughout our young history this country is at its best when the leadership is able to put aside political differences to govern efficiently and effectively. In the past, when the Republic did put aside politics in pursuit of initiatives that will ensure the Republic's independent and strong economic future, the Republic received high marks on its financial audits, was on the road towards a sustainable financial model that was balanced and that respected the environment, and was headed toward financial independence in a Post-Compact world. In fact, in March 2008, as Palau was just beginning the Compact II negotiations, Steven McGann, the head of the U.S. group back then, said of Palau that: "Australia and New Zealand aside, Palau is the best run country in the Pacific."

Our goal must be to become the best run country in the Pacific, period. In order to do this we must reduce our budget deficit by increasing our revenues and eliminating ineffective and inefficient government, we must support balanced private sector growth with respect for our environment, and we must move forward on legislation that will provide the legal framework for new policy objectives. We must make the adjustments necessary and work together to effect real change in the lives of our people.

What is the current state of the Republic? The Republic is adjusting its sails to take advantage of fair winds. We have experienced rough seas in recent years and will likely encounter rough seas again in our voyage to economic prosperity. The Republic must work to sail the sea conditions presented and not the forecasted conditions. There is an old saying that "An optimist hopes for wind, a pessimist curses the lack of wind, and a realist adjusts the sails in order to catch the wind."

We must be realists and adjust our sails, our direction, and our tactics based on the conditions we find ourselves in and not based on what the weather forecast says the conditions should be or may soon be. In the first 100 days our administration has taken decisive steps to adjust our sails to ensure that we catch the fair wind. We have charted a course in the right direction and our sails are beginning to fill up again as we move towards economic self-sufficiency and our goal to be the best run country in the Pacific.

2. State of the Republic

As we move forward with fair wind in our sails, I would like to briefly share with you some key data on different areas of the economy to help illustrate the “State of the Republic”, this 30th day of April 2013, at the start of our 9th Constitutional Government.

Economic growth: After a period of economic downturn in Palau during FY2008 and FY2009 when real GDP fell by 5% and 10% reflecting the world financial recession, the economy began to recover. While the economy bottomed out in FY2010, strong performance in the tourist sector led to a resurgence of growth, and GDP expanded by 7% and 5% in FY2011 and FY2012. However, despite record numbers of tourists, the current level of economic activity is below that attained in the mid-2000s. The large infrastructure projects of the Compact road and building of the Capitol complex coupled with a vibrant tourist industry led to a record level of GDP in FY2005 that has yet to be surpassed. At the end of Fiscal Year 2007, the GDP of the Republic of Palau stood at \$205,200,000; however, in recent years that number plummeted down to \$174,500,000 in Fiscal Year 2010 before bouncing back modestly to \$196,000,000 in Fiscal Year 2012.

Inflation and living standards: However, the economic growth from Fiscal Year 2010 to 2013 is not reflected in the living standards of Palauans. If we look deeper at the economic data of the Republic we find that the *Real Gross Domestic Income*, which measures the actual purchasing power of the people of Palau, fell straight off of a cliff from 2008 to 2012 from \$198,100,000 to \$195,400,000.

More specifically, rates and trends in inflation reflect those in world commodity prices (food and oil) and Palau’s trading partners. Recent increases in oil and food prices led to a significant increase in inflation which peaked at nearly 9% during the last quarter of 2011. These rates have now eased with inflation falling to less than 2% by the end of 2012. However, while the current rate of inflation has leveled off, past inflation since 2000 has not been without cost. Real wages of Palauans has fallen by a total of 17% since FY2005 when the economy was in its record high. Thus, despite recent improvements in the economy, economic growth has not been sufficient to outpace the impact of higher prices and as a result, living standards have been eroded.

Tourism: In FY2007, before the onset of the world recession, the number of visitor arrivals to Palau reached 87,000. In FY2011 arrivals surpassed that level and rose by 26% and reached a record level of 117,000 in FY2012 growing by 13%. All major Asian markets have shown strong positive performance with greatest increases coming from the Republic of China (Taiwan), which has grown by over 80% between the two years FY2010 and FY2012. While occupancy rates are not known with precision, it is clear that the high-end hotels are reaching capacity during peak periods.

Population and employment: At the end of 2012 a “mini” population census was conducted and it recorded a total of 17,455 people living in Palau. This figure is a significant reduction from the height of 19,907 recorded in 2005. While many foreign workers were present in Palau in the mid-2000s and their numbers have fallen by over 800 since that time, the number of Palauans has fallen by nearly 2,500. The trend in depopulation likely reflects a desire to take advantage of greater opportunities abroad, but also to escape falling living standards. Fortunately, the recent population census indicates a low level of unemployment in Palau.

Money and banking: There are five commercial banks in Palau, three of which are FDIC insured. After a period of structural adjustment the sector has now stabilized and deposit growth has been healthy. However, while savings have grown strongly this has not been accompanied by any increase in lending to the private sector. The loans-to-deposit ratio has fallen from 33% at the end of 2009 to 20% three years later at the end of 2012. While there has been some recent increase in consumer loans, the commercial segment of the market remains weak. The commercial banks have not had the confidence to expand lending in the local market and have preferred to invest the excess liquidity off-shore.

Fiscal position: Recent fiscal trends have resulted in a favorable outcome and Palau has recorded small deficits of less than 2% of GDP in recent years. By most country standards in the world the Palau fiscal outcome is very positive and has supported financial stability. Tax effort has been buoyant particularly for local restricted funds including the ‘green fee’ and represents over 17% of GDP, but grant incomes have stagnated in money values during the recent past. Public sector payroll has been held in check and has fallen as a percent of GDP, while the percent of GDP of non-payroll costs has remained constant.

However, the favorable fiscal outcome masks a series of weaknesses. During recent years Palau has accumulated a significant level of short-term debt. While some of this has been paid down with the recent borrowing from the ADB, cash flow management remains tight. The recent increase in expenditure required for rehabilitation of infrastructure destroyed by Typhoon Bopha has placed additional pressure on limited cash reserves. While the recently concluded Compact negotiations regarding the extension of the economic provisions of the Compact have been favorable, Palau remains dependent on a source of grants that is not indefinite. A significant structural fiscal gap exists which must over the longer-term be replaced by greater domestic revenue effort.

External debt: Palau has maintained a favorable external debt position and total public sector debt is currently 30% of GDP. Debt service is also low although it has grown in recent years from a low base. Overall, Palau supports a sustainable external debt position that has supported financial stability.

Human Development Index (HDI): The HDI is a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living. Palau’s HDI value for 2012 is 0.791—in the high human development category—positioning the country at 52 out of 187 countries and territories.

3. The Plan – MAP

Government Restructuring and Performance

The first two challenges that the Republic faces are balancing the budget of the national government and developing the private sector, both of which are inextricably linked to one another. Each shall be addressed in turn.

In order to get the budget of the national government under control the Republic will need to address its accumulated budget deficit, which stood at \$13,000,000 as of the end of Fiscal Year 2011 and is likely much higher than that. As the Ministry of Finance improves the reliability of our accounting systems, which completely fell apart in recent years, the actual deficit will become clear. I am informed that another urgent concern is our cash flow requirements -- preliminary estimates indicate that we may need as much as \$20 million in order to meet our operating budget and permit us to pay our bills in a timely manner.

After years of being on a charted course aimed at sustainable economic development, the Republic has recently fallen off course. As we get back on course with fair wind in our sails, the government will need to reduce our budget deficit and address our cash flow requirements. In order to do this we must look to (1) enhance our revenue collection efforts, (2) contain the costs of government operations, and (3) support the development and diversification of our private sector.

First, it will be necessary to increase our revenue with a balanced and fair collection of taxes. I know that nobody likes to pay taxes, but taxes are an essential revenue source for the government to function and our tax collection practices will have to improve considerably. Our revenue enhancement efforts must first focus on strengthening our tax collection efforts in order to ensure that we are collecting all that is duly owed and then seek to broaden the revenue base.

Second, the Republic will need to address its cost of operations. In recent years, the government expenditures have topped out at unprecedented levels and the Transition Report indicated that many sectors of the government devote a large portion of their budget to salaries of employees. In fact, in some instances, it was reported that ALL of the budget went to salaries. This is simply unacceptable. The Republic will need to reform and restructure the government so that this does not continue. The government cannot sustainably or efficiently operate if it is viewed mainly as an employer rather than a service provider. The government can and will restructure so that more funds are responsibly utilized in providing services and investing in our people. The issue is not how large or small the government is; instead, the issue is that the government is the right size that allows it to work efficiently and effectively for the people.

Third, we must establish a level-playing field wherein the private sector is encouraged to invest in existing commercial enterprise and into new ventures. Bankruptcy and fair labor laws are two critical features of a comprehensive regulatory environment that would encourage and facilitate a strong private sector-led growth that contribute to our economic development objectives.

Our Administration has identified some of the key areas in which the government will need to reform as a part of this restructuring. We have set forth this Administration's guiding principles in the Management Action Plan. This plan shall act as the Executive Branch's MAP to the future. The MAP is the people's document for the improvement of the people's government. The MAP contains six guiding principles for an efficient and effective government:

- To improve the quality of life of the People of Palau;
- To focus on quality services while reducing costs;
- To ensure accountability of representatives and staff;
- To create a viable organizational structure;
- To ensure fair and considerate management of employee impacts; and
- To foster a strong sense of community while ensuring ongoing communication with the people about their government.

In all of our decision making my administration will adhere to these basic principles of good governance.

As we get our budget under control and the government restructures to operate more efficiently, the national government must take steps towards supporting the private sector, which will increase our tax base as the private sector expands and diversifies. As you all know, the backbone of our economy is the tourism industry, which has grown at an impressive rate and recently topped out at over 100,000 visitors in a single year.

There is much potential for future growth in tourist arrivals, but the government will need to take steps to ensure that this number grows in a manner that is consistent with our objectives of balanced growth and protection of our environment. This administration will not support unlimited and unplanned growth that benefits the few at the expense of the many. And this administration will not support any policy or project that lacks respect for our environment. Only a balanced approach with respect for the environment will allow the Republic to grow its economy in a sustainable manner.

4. Economic Policy

A rising tide lifts all boats and the first thing that we must do to help raise everyone's boat is to expand our tourism capacity. Some of the issues that have occurred with the water and sewer operations of the Republic have to do with the fact that the current infrastructure is simply not designed to handle 100,000 + tourists per year. But that is just one example of our current limited capacity. The Republic will need to pursue the development of further infrastructure, including roads, telecommunications, and hotels. As we work to expand our tourism capacity we must emphasize the focus of the Republic on high-end, eco-tourism focused policies and projects.

As we work to expand our tourism capacity we must also think about – What do we want Palau to look like? How many tourists do we want to see in Palau? What types of hotels would we prefer to occupy our landscape? What type of impact on our Rock Islands is acceptable to us? We only need to look at our neighbors about what to choose. Do we want to look like Guam and Saipan, which reflect policies of mass-tourism and its vulnerability to changing economic conditions, or do we want to protect our environment and pursue a balanced and diversified economy that can withstand global economic fluctuations?

I see a Palau that protects its environment. I see a tourism industry that bases itself on its beautifully pristine environment. I see an economy that respects our culture and our traditions. I see tourism growth that is planned, balanced, and measured to reflect our goal to protect our environment and extend the benefits of economic growth to all of our people. But above all, I see a Palauan future built by Palauans for Palauans that is unique to our island, our environment, and our culture.

As a part of a more measured and balanced approach towards economic policy with respect for the environment this Administration will:

- Actively recruit and support quality high-end tourism projects and partnerships;
- Establish ongoing financial and technical assistance support programs for local businesses to meet high-end Palau tourism industry standards;
- Support the efforts of the Palau Visitors Authority and the Belau Tourism Association to develop minimum standards for the provision of high-end tourism products and services and the diversification of tourism products;
- Support the development of Babeldaob and outlying state visitor attraction sites to facilitate diversified high-end tourism products and income generating activities at the state level;
- Facilitate the funding and technical assistance support to other economic sectors for targeted high-end development in cooperation with the National Development Bank of Palau;
- Expand the development of the Aquaculture industry and establish a program to restock depleted marine live-stocks;
- Improve the regulatory environment to encourage and support private sector-led high-end growth that also provides appropriate incentives for small businesses;
- Establish license requirements of vocational trades to encourage local participation in certain trade skills and provide incentives that make Palauan labor more competitive and identify and generate funding for on-the-job training; and

- Procure a standard fiber optic cable to connect Palau to the global community with faster and reduced internet costs. A quick note on the Fiber Optic cable is warranted. Previous efforts to procure a Fiber Optic Cable focused on the procurement of a *used* fiber optic cable, which raised serious concerns concerning the reliability and longevity of the cable. Our administration will be moving forward with efforts to obtain a *new* fiber optic cable that will include funding for annual maintenance requirements and redundancy costs.

When we think about the relationship that our economy has with our environment we must always remember two things: (1) That we did not inherit our environment from our ancestors, we are borrowing our environment from our children, and (2) Our economy is our environment and our environment is our economy.

In order to support our economy, we must pursue policies that protect our environment; in order to support our environment, we must pursue policies that foster balanced economic growth. The policy objectives I have set forth here will support balanced economic growth with respect for our environment that will produce a sustainable economic model for generations to come. There is simply no reason why the number of tourists visiting our beautiful country cannot increase in a balanced manner that coincides with respect for our environment.

5. Other Key Policy Priorities

But managing our economy through balanced economic growth with respect for our environment is just one aspect of our plan of achieving change for our people. As a part of addressing each challenge the administration has identified the core priority and critical achievement areas that the government will focus upon in achieving the full implementation of the objectives set forth in the MAP.

The other major priority and critical achievement areas are to increase the income of Palauans and lower the cost of living, improve transparency and accountability in the government, improve the health of Palauans, and improve the education of Palauans.

The first priority area, to increase the income of Palauans, has already been partially achieved. As I mentioned earlier, I just signed into law RPPL No. 9-1, which legislates a higher minimum wage that will provide a higher income for Palauans that are working at the minimum wage level and provide a better playing field for the employment of the Palauan people. In addition, the administration will pursue a permanent Cost of Living Allowance increase for pension plan recipients that will be pegged to the Consumer Price Index in order to provide for a more sustainable benefit structure.

Second, this government will be transparent and accountable to the people and we will take steps to permanently change the government so that it will remain transparent and accountable for the years to come. As this administration moves forward with essential change to our government structures it will be apparent that no one is above the law and the law must be applied fairly and equally to everyone. In order to move forward on this priority objective, the administration will pursue institutions that ensure appropriate behavior from public officials and employees alike.

As a strong first step in achieving this priority, I have promulgated Executive Order No. 317, which rescinded Executive Order Nos. 279 and 301, as amended, so that the Office of the President and Vice President are once again required to adhere to per diem rates and to justify and account for all official expenses that are to be paid with public funds. All government spending must be justified to the people and all government officials must be held accountable for government spending.

As we move forward with essential government reform that will result in a financially strong government that works, the people *will* be informed about what their government is spending their money on. It is a priority of this administration to enact a law that will create a legislative framework for the maxim enshrined in our constitution that every “citizen has the right to examine any government document and to observe the official deliberations of any agency of government.” I have already introduced a bill that will achieve this objective and I urge the Olbiil Era Kelulau to take action on it in a manner that is consistent with the intent of the bill as it was introduced.

In addition, it is a critical priority area to appoint a Special Prosecutor and strengthen the Office of the Special Prosecutor in order to ensure that government officials are held accountable when they violate the trust of the people. This administration has taken positive steps towards securing another Special Prosecutor; unfortunately, a few candidates that were identified as strong candidates have withdrawn their name from consideration. Rest assured this administration remains vigilant that a Special Prosecutor will be appointed. Government officials should be wary of the consequences of abusing the people’s trust.

Finally, critical change must take place as we move forward with fair wind in our sails that will emphasize the health and education of our people. The Ministry of Health is making it a priority to hire medical professionals so that all of our people will receive the health care that they deserve. Moreover, the Ministry of Health is working with the Ministry of Cultural and Community Affairs to encourage a healthy lifestyle through exercise and eating right. A strong commitment by our people to exercise and eat right is a strong step in the right direction to eradicate the non-communicable diseases that plague our society.

The Ministry of Education will be taking steps to, first and foremost, facilitate an environment that is conducive to the education of our people. What that means is that the Ministry will be pursuing updated textbooks, new desks, and focusing on increasing students’ access to technology in the classroom. I am calling this objective the pursuit of proper educational infrastructure. Our students simply cannot learn without the proper tools.

Moreover, some of the focus of our educational priorities must be shifted towards more vocational training. I have already introduced legislation on this issue, the Palauan Skilled Workforce Investment Act. This act will create a certification program through Palau Community College that will provide businesses a degree of confidence in hiring Palauans who pass the certification program. The certification program will be focused upon developing a skilled Palauan workforce in those areas that are currently dominated by foreign workers, such as: electrician, mechanic, and plumbing.

6. 100 Day Accomplishments

With these policy priorities and critical achievement areas in mind, I now would like to go Ministry by Ministry to describe some of the specific recommendations set forth in the MAP that have already been accomplished in the first 100 days of my administration.

Ministry of Finance

As the Ministry responsible for managing the finances of the country, the Ministry of Finance is a vital Ministry for our Republic. Despite the fact that the Ministry has so far operated without a Minister in place, the Ministry has already accomplished the implementation of important objectives set forth in the MAP.

First, a timetable to complete a trial balance has been prepared to help facilitate the timely completion of the FY 2012 audit of financial statements and to ensure the timely preparation of the annual audit going forward.

Second, the Ministry has taken steps to re-institute an annual orientation workshop for all government agencies to inform employees of the current and planned changes to personnel management, budget preparation, procurement, payments, and draw down procedures prior to the start of a new fiscal year.

Finally, the Ministry has initiated a comprehensive assessment of the Capital Complex computer network system. This assessment is essential to the functions of the Ministry of Finance because it includes the centralized management system. Moreover, an overhaul of essential security issues, such as a secured telephone, internet, and email system is complete and restorative efforts are underway to ensure the full utilization of this system, including expanded access to the financial accounting system.

I am pleased to announce that the Olbiil Era Kelulau recently confirmed my appointment of Elbuchel Sadang to be the Minister of Finance and I am looking forward to seeing what the Ministry of Finance may accomplish with a Minister properly in place.

Ministry of Justice

The importance of the Ministry of Justice to this administration is evident because that is where I have requested the Vice President to serve as the eyes and ears of the administration to oversee the needed changes in the Ministry. Vice President Bells has already made a significant impact on the reform in the Ministry of Justice. First, an extensive internal assessment has been conducted of the Bureau of Public Safety that exposed some serious shortcomings within the Bureau of Public Safety.

The assessment has served as an important reform document within the Bureau. Based upon that assessment the following flaws have already been corrected: the evidence locker has been organized and cleaned; a policy regarding responsible use of government vehicles has been instituted; a policy regarding cell phone assignment to only those on duty has been instituted; a policy of accurate time sheet reporting and approval has been instituted; a stricter sick leave policy has been instituted in order to eliminate the rampant abuse of sick leave; 5 new Marine Law Enforcement Officers have been sworn in; and a police and fire substation has opened in Ngardmau, which will increase the police presence in Babeldaob. Finally, a new Director of the Bureau of Public Safety has been appointed to oversee further reform in the Bureau, Director Ishmael Aguon. I have high hopes for what Director Aguon will accomplish for the people of the Republic.

As for the Office of the Attorney General, almost immediately upon taking office, I signed Executive Order No. 316, which restored the independence of the Attorney General and lifted the gag order placed upon that office. Although the Office of the President and the Office of the Attorney General have a strong working relationship, it is important that the independent professional judgment of the Attorney General be respected. This Executive Order will ensure the independence of the professional judgment of the Attorney General.

I must turn our attention now to an unfortunate problem in our Republic that will require the collective efforts of the Ministry of Justice and the people of the Republic. I speak of the increased use of illegal drugs and abuse of legal prescription drugs in our community. As my first time as President came to a close in 2008, the Republic had made significant progress in eradicating the use of drugs in the Republic. Unfortunately, in recent years, drug use and drug trafficking through the Republic has increased. This must end.

In order to address the problem, I have promulgated Executive Order No. 323, which re-established the Drug Task Force. The Drug Task Force ensures a coordinated effort between all law enforcement agencies to prevent drugs from coming into Palau and to increase investigations and prosecutions of illegal drugs. The Vice President and the Attorney General have been directed to make the eradication of drugs their first and highest priority.

In fact, the first quarterly report of the Drug Task Force has just been provided to me and I am happy to report that the Task Force has identified a strong three-point plan of attack: Education - Investigation - Enforcement. This three point plan focuses first and foremost upon Education because that targets users and potential users before they become addicted to drugs. Secondly, individuals who are suspected of drug use, drug importation, or drug manufacture will be investigated for violations of the law. And when violations of the law are found, then Enforcement will be pursued through the legal system. All of the members of the Task Force have signed confidentiality agreements and have been working on the Task Force in addition to their regular duties to focus on this issue.

Let me be clear to all of you in this room today. Vice President Antonio Bells and I, and this entire administration, are collectively dedicated to eradicating the presence of drugs on our island. More specifically, this administration is determined to fight the source of drugs: drug dealers, those who import drugs into our island, and even those who may manufacture drugs on-island. It does not matter who you are or who you know; if we catch you, you will be tried under the law and, if guilty, you will spend time in prison.

Ministry of Health

Minister Greg Ngirmang took office with many challenges to address and Minister Ngirmang has taken on these challenges with enthusiasm.

The most pressing issue facing the Ministry when we took office is the shortage of access to professional medical staff for patients. Since taking office, Minister Ngirmang has hired an Orthopedic surgeon, three (3) new ER doctors, five (5) nurses, and the Republic of China (Taiwan) has provided three (3) new gynecologists to address the shortage of professionals that we inherited. In addition, the Ministry has managed to secure grant funding for a Taiwan Medical program that will coordinate cooperation between the Belau National Hospital and the Shin Kong Hospital in Taiwan. In fact, I am proud to announce that the Ministry will, for the first time ever, be sending referral patients to the Republic of China's Shin Kong Hospital for medical treatment this week.

In addition, Minister Ngirmang has taken positive steps to build a better working environment for the people working in the Ministry. On the one hand, Minister Ngirmang has focused internally by piloting a "Healthy Ministry Program" through which a healthy work environment is being promoted by providing annual medical check-ups, establishing a reward system for employees who lead healthy lifestyles, opening a new cafeteria that will focus upon providing healthy food, the establishment of an exercise and weight loss program, and the promotion of religious and social events. These steps will ensure that Ministry staff are physically, mentally, and spiritually fit so that they can serve as an example of health in the Republic and properly meet the needs of the people that they serve.

On the other hand, Minister Ngirmang has focused externally to build relationships with the community. When Minister Ngirmang took office, the Hospital was in an unsatisfactory condition. The paint was peeling; the inventory was in complete disarray; and there were even holes in the roofs and ceilings, which led to a rat infestation in key areas of the Hospital. In order to combat this situation, rather than taking on a difficult task by himself, Minister Ngirmang called upon the community for help.

The response was overwhelming. In answer to his call, the community rose up together and *volunteered* to clean up the Hospital and give the Hospital a complete makeover. The volunteers not only repainted the exterior and closed the holes in the roofs and ceilings, but also gave our patients, staff, and guests a clear, fresh, and positive working environment. The issues with the inventory are being addressed as a part of a comprehensive overhaul of the entire procurement system and inventory tracking system that is moving forward as a part of an ongoing effort.

Minister Ngirmang's response to what could have turned into a crisis situation is a perfect example of why I chose him to be a Minister in my administration. Rather than take on a difficult task by himself Minister Ngirmang pulled together the community and has completely turned around the culture in the Hospital and the Ministry. I am looking forward to seeing what he can accomplish with further help from the Community. Remember, only "together we can make tomorrow better."

Ministry of Natural Resources, Environment, and Tourism

The Ministry of Natural Resources, Environment, and Tourism, more commonly referred to as MNRET, plays a significant role in my administration because that is where environmental protection meets tourist sector development. As I have stated earlier, our tourism-based economy depends upon a protected environment. The Ministry has accomplished a good deal since the beginning of the Administration.

On February 8, 2013, the Bureau of Agriculture worked with the Palau Conservation Society to organize World Wetlands Day in Palau. In addition to a drawing contest, an essay contest also took place for students in grades 6 – 8 in Melekeok, Ngaraard, Ngarchelong, Ngardmau, and Ngeremlengui. Anytime we can put together a day that combines environmental protection awareness with an educational component, such as essay writing, gets my vote for a great idea.

After four months of planning, beginning tomorrow, May 1, 2013, the Bureau of Marine Resources will be implementing a new data collection system on the export of our marine life that will be in place at the Palau International Airport, which will apply to all United Airlines flights that depart for Guam. The new inspection system will allow the Republic, for the first time, to accurately determine the numbers and tonnage of the export of our most popular fish species.

This data will enable resource managers and the policy makers of the government to properly evaluate the impact that the export of our marine resources is having upon our environment; the amount of any export tax that should be imposed, if any; and whether the export of our marine resources should be banned. I am looking forward to the results of this data and working with the Olbiil Era Kelulau to determine the appropriate response to the export of our marine resources.

The Protected Areas Network Office provided a very detailed update on its efforts. To date, there are thirteen (13) states in our Republic that have committed themselves to the PAN with PAN sites under their management. Consistent with the unique beauty that is present in each of our states, each state site has its own unique reason for being included in the PAN. Aimeliik has the beautiful Ngerderar Watershed Conservation Area; Hatohobei, the untouched Helen Reef; Koror, the internationally recognized Seventy Islands; Ngeremlengui, the Ngermeskang Bird Sanctuary, which is home to endemic birds that are found nowhere else in the world but in Palau – the list goes on and on. I am proud to say that Palau is by far the greatest conserver and the greatest financial contributor in the Micronesia Challenge.

As the Office organizes, I am looking forward to observing the next steps that the Office must take: the development of the National Management Plan, the PAN Design, and the development of the PAN Management Committee. The individual that Minister Sengebau has selected as the Program Manager for this endeavor, King M. Sam, a former Koror State Ranger who is personally committed to environmental protection, should be commended on his work thus far.

On March 1, 2013, Minister Sengebau signed a Memorandum of Understanding with the Parties of the Palau Arrangement, which established the Vessel Day Scheme for the Parties to the Nauru Agreement. The Memorandum of Understanding set a minimum bench mark fee for a Fishing Day under the Vessel Day Scheme at \$6,000 per day. The signing of this Agreement is a perfect example of why I selected Minister Sengebau to serve in my cabinet. Minister Sengebau clearly sees the value of our fisheries and the fact that our fish have been undervalued for the people of the Pacific for too long. This is a good step for our fisheries and it will enhance the value of our fishing stocks.

However – although Minister Sengebau signed an agreement on behalf of the government that increases the value of our fishing days within the Vessel Day Scheme of the Palau Arrangement – I want to make it clear that this administration will continue to pursue efforts to make all of the Exclusive Economic Zone of the Republic of Palau a “Sea Sanctuary” that is off-limits to foreign commercial fishing. I will continue to move forward marshalling international financial support that will off-set the economic impact stemming from the loss of revenues from our foreign fishing licenses.

More importantly, I will be working to improve our marine law enforcement abilities, which is essential not only to enforce our fishing laws and enhance our ability to enforce a foreign fishing ban, but to protect our sovereign territorial integrity. The closure of our EEZ will take some time as we pull together the international support and develop stronger Marine Law Enforcement capabilities, but this administration will not lose sight of our goal.

Ministry of Community and Cultural Affairs

In the Ministry of Community and Cultural Affairs, the main function of the Ministry continues to be the administration of the Palau Historical Preservation Office, which operates in a joint venture with the National Parks Service of the United States to administer U.S. federal programs that are related to historical preservation within Palau. This is an essential program aimed at protecting and developing knowledge of our history and culture. Minister Temengil has provided strong support for this program and I am looking forward to watching it flourish under her leadership.

Minister Temengil has made strong strides in developing partnerships with non-government agencies and the community to address the issue of non-communicable diseases. First, Minister Temengil and Minister Ngirmang from the Ministry of Health have pulled together the Palau National Olympic Committee, the Ulekerruull a Klengar, the Coalition for Tobacco Free Palau, the Civic Action Team, state governments, the Ministry of Health and the Palau Women and Sport Commission to promote a healthy lifestyle by building infrastructure for exercise stations that are easily accessed by the Community. The most prominent example is the new exercise

station that was built by the Civic Action Team that is located right outside the national gymnasium. A community effort in support of exercise is a strong step in the right direction towards addressing a major health issue in Palau, the non-communicable diseases that are brought on by a sedentary lifestyle. I look forward to watching Minister Temengil and Minister Ngirmang work together to address the prevalence of non-communicable diseases in our society.

Second, in support of the Bureau of Youth, Sports and Recreation, Minister Temengil has established a new Palau National Youth Council, with its office located at the back of the Palau National Gymnasium. The Council and its secretariat serve as the focal point for all youth organizations and programs in Palau. The best part about this Council is that it is completely made up of youths from each state that are currently in either high school or attending Palau Community College. Placing youths directly into the council will empower these youths and provide them with a means through which they will have a say in their own future.

After being established, the Youth Council got to work almost immediately. On Youth Day on March 15, the Youth Council organized activities to involve youths in their future. The main Youth Day feature was an essay contest that posed the question: “If you were President how would you help a young person stay out of trouble?” With youth violence and drug and alcohol abuse on the rise, the national government took the answers to these essays very seriously. After reviewing the 44 essay entrants, I promulgated Executive Order No. 328 to create a Youth Policy Committee to assess our policies, strategies, and plans in order to develop a better policy for addressing the problems that currently plague our youth.

I promise the youth of Palau that when the Youth speak up seriously about how to resolve the issues that they face, then this administration will take you seriously and take steps to address the issues that you face. I firmly believe that a youth that is invested in planning their future is more likely to build a better future for themselves. I commend Minister Temengil’s efforts on this front so far.

Finally, Minister Temengil has taken the initiative to create a Youth entrepreneurship program in partnership with the Small Business Development Center and the Youth Council. The “Youth Entrepreneur Solutions” – or the YES program – is designed to provide a unique business training opportunity for the Youth of Palau. The program is designed to provide hands-on training, through which the Youth will create a business plan to be implemented and delivered by the end of a six (6) month period. The YES program has been developed in partnership with the United Nations Development Programme (UNDP).

Ministry of Education

Although the Olbiil Era Kelulau and I have been unable to come together on the appointment of a Minister of Education, as an example of the resolve of this administration the Ministry of Education has accomplished a significant amount within the first 100 days of the Administration without a Minister in place.

First, I am pleased to announce that the Ministry has identified and obtained new textbooks, including a recently published Palauan textbook for early elementary school students, math textbooks from Singapore for grades 7 and 8, and new English textbooks with Reading Kits for grades 3 – 6. These new textbooks accompanied the launch of the Library’s “Bookmobile,” which aims to promote literacy throughout all of Palau. The “Bookmobile” is a library on wheels with the latest fictions, non-fictions, reference books, and books about the Pacific. I believe that literacy is the gateway to all other education and I am looking forward to following the progress of this initiative.

Second, the Ministry of Education has made significant progress to improve access to technology for educational purposes. Ngeremlengui elementary is now connected to high-speed internet; content servers and resources for 7 pilot elementary schools have been installed; iClassrooms for career and technical education and math and science at Palau High School have been developed, which includes 25 sets of iPad or iTouch for use by students and teachers; the Ministry of Education and PHS are now equipped with open wi-fi for students, teachers and staff; 22 tablet devices are undergoing a pilot program at GB Harris Elementary for reading, math, and interactive activities; finally, plans have been finalized to supply all public elementary school teachers, students, and principals with tablet devices before the end of this administration. As I have already mentioned, the administration will also be pursuing a fiber-optic cable that will also improve access to technology in the classroom.

Finally, the Ministry continues its ongoing efforts to improve teacher training and certification throughout the Republic. The Ministry boasts thirteen (13) teachers that are enrolled in an on-line bachelor degree program with San Diego State University through Palau Community College. Our efforts at teacher training must remain at a high level as the Ministry prepares for a visit from the Western Association of Schools and Colleges (WASC) who will be evaluating Palau High School’s current six (6) year accreditation. I am confident that the Ministry and Palau High School will pass that evaluation with flying colors.

Ministry of Public Infrastructure, Industry, and Commerce

When my administration took office, the water and sewer operations of the Republic were in a deplorable state. At the time, there was confusion between the Bureau of Public Works and the newly created Water and Sewer Corporation as a premature focus on privatization took away from efforts to ensure that the people continued to receive a consistent source of safe running water.

As the Republic moves from a nationalized water and sewer operations system to a privatized water and sewer system that transition must go smoothly. When this administration first took office it quickly became apparent that the water and sewer system was not functioning properly; as a result, I issued Executive Order No. 323, which effectively placed a temporary halt on the privatization process and pulled the ultimate responsibility for fixing the water and sewer system back under the Bureau of Public Works.

Allow me to emphasize that the administration remains firmly committed to reforming the water and sewer system in order to create a privatized water and sewer operation. However, with the added benefit of hindsight I am confident that temporarily halting that privatization process has been the right decision for the people of the Republic because clean water is once again flowing to the people consistently.

Under the guidance of the Water and Sewer Task Force created by Executive Order No. 323, the Bureau of Public Works and the Water and Sewer Corporation have worked together to repair four (4) major leaks in the water main near the Malakal water break, the leak near the M-Dock road water break, the water leak near the Bank of Hawaii, the water leak near T-Dock, over thirty (30) smaller leaks that included breaks in service lines to residences and public buildings, and a broken gate valve along the main line to Ngesaol has been repaired.

The major value of Executive Order No. 323 is that by temporarily halting the privatization process, the focus of the entity responsible for the water and sewer operations of the Republic was able to refocus from privatization efforts back to getting clean running water to the public in a consistent manner. Now that the water and sewer operations have begun to stabilize, the privatization process will get back on track in the near future. I will discuss the bill pending to merge the Water and Sewer Corporation with the Palau Public Utilities Corporation later in this address.

In addition, the Ministry has made infrastructure maintenance a priority once again. In recent years, our infrastructure maintenance efforts basically stopped. This is evident in the collapse in 3 portions of the Compact Road, the current state of the Capitol building, and the state of the Hospital that Minister Ngirmang inherited. Since my administration has taken office, the infrastructure maintenance of the Compact Road is once again up and running and a contractor is on-island to repair the current problems with the road; in addition, a comprehensive plan is in place to address the issues with the capitol building – the issues with the Capitol range from landscaping and repainting, to the replacement of the Air-conditioning units.

Finally, there are so many things that the Ministry does that we take for granted, such as solid waste management and wastewater treatment. For these services, it is sufficient to say that the Ministry is now getting the job done.

All of this has been accomplished without a Minister in place, which is impressive and a testament to the people working in the Ministry. However, I am pleased to announce that Charles Obichang, Director of the Bureau of Aviation has recently been confirmed to be the new Minister of the Ministry of Public Infrastructure, Industry, and Commerce. With already so much accomplished without a Minister in place, I am looking forward to what the Ministry can accomplish.

Ministry of State

The Ministry of State is an important Ministry because it is the Ministry that manages the relationships that Palau has with foreign nations. Already this year, the Ministry has successfully handled official delegations from Indonesia; Russia; New Zealand; the presentation of credentials from the Korean Ambassador and Indian Ambassador; an Official Visit by His Serene Highness Prince Albert II of Monaco; and of course, most recently, arranged the Protocol for a visit by a United States delegation, which visited as a part of the Joint Committee Meeting as a part of our Compact of Free Association with the United States of America.

The official visit by His Serene Highness Prince Albert II of Monaco is further evidence of the strides that Palau has made internationally as a leader in environmental conservation. It was at his official visit that I announced the policy objective of the Republic to achieve a foreign commercial fishing ban within Palau's entire Exclusive Economic Zone. Prince Albert and I both recognize the challenges that come with pursuing environmentally conscious policies and I believe that we both will be mutually supportive of one another in our quest to achieve a greener and more sustainable future for our children. I foresee the development of a strong relationship between the people of Monaco and the people of Palau.

That is why I am pleased to announce that on June 22, 2013, I will be going with a delegation from the Republic of Palau to the Principality of Monaco in support of Prince Albert's "Monaco Blue Initiative," which meets annually to discuss the preservation and protection of our oceans. This year, the focus of the "Monaco Blue Initiative" will be on large predators and the impact that marine protected areas can have on the environmental protection.

This event is tailor made for Palau's active participation because Palau already protects the most famous large predator of the ocean, sharks, and has already established numerous marine protected areas with the intent to create the largest marine protected area in the world. I am looking forward to this opportunity to build upon Palau's already stellar international reputation in environmental conservation.

I am happy to report that the Joint Committee Meeting with the United States was a resounding success. The Republic remains assured of our secure relationship with the U.S. And I hope, Madam Ambassador Reed-Rowe, that the United States remains assured of the close friendship between our two nations. As the United States continues to rebalance its world focus to include more of the Pacific region, please know that you have no greater ally in the Pacific than the Republic of Palau.

I want to thank the United States for the sixty (60) year commitment of the Peace Corps to the development of Palau. After sixty (60) years, I am pleased, and a bit saddened, to report that the Republic of Palau has "graduated" from the Peace Corps program and after the current group leaves Palau in 2014, the Peace Corps will no longer serve Palau. The reason that Palau has "graduated" from the Peace Corps is because Palau has reached a ranking of fifty-two (52) on the Human Development Index score. This makes me happy because this means that Palau is

progressing as a nation and this progress is thanks in part to volunteer organizations like the Peace Corps and JICA, the Japanese version of the Peace Corps.

At the same time, however, this also saddens me because it means that the Republic is losing access to teachers who are routinely some of the best teachers – particularly English teachers – in the Republic. However, I believe that this may provide an opportunity for training more Palauan teachers. I am hopeful that the United States and Palau can work together to explore other ways in which Palau may enhance our access to other education resources.

Our relationship with the United States is strong and the Republic of Palau will be working with our allies in Washington D.C. to have the Compact II ratified by the United States Congress as soon as possible.

I would now like to recognize our ally and friend, Japan, which has also made a number of significant contributions to the Republic. I have already mentioned JICA, a volunteer organization that will become more important to Palau's development than ever before now that the Republic has graduated from the U.S. Peace Corps program. Currently there is 1 technical expert, 8 Senior Volunteers, and 6 Japan Overseas Cooperation Volunteers. In addition, Japan, along with the Republic of China (Taiwan), is a significant contributor to our Overseas Development Assistance projects. Major grant aid projects of Japan include a project to enhance the power generation capacity in the Koror-Airai metropolitan area and significant contributions to our schools.

Finally, the Republic of China (Taiwan) is another important ally which whom our relationship has flourished since the beginning of diplomatic relations in 2000. The Republic of China (Taiwan) annually provides millions of dollars in aid to the Republic through the Overseas Development Assistant projects, which has a positive impact upon Palau's development.

The Republic thanks all of its allies for supporting our development and we look forward to strengthening all of our international relationships, in particular, Australia and Israel who are also important allies for the Republic.

7. Legislative Initiatives

As I move towards the end of this State of the Republic Address, I want to take a moment to comment on some of the legislation that is currently before the Olbiil Era Kelulau that happens to coincide with important objectives of my administration and then on some longer term priority legislation that I look forward to working together with the Olbiil Era Kelulau on. I am confident that the leadership of the Republic will be able to come together on these important legislative initiatives.

First is the Responsible Government Compensation Act. I introduced this bill with modest salary decreases for elected public officials in the executive branch that reflects the economic hardship that is currently being borne by our people. There is simply no reason for exorbitant salaries for elected public officials during a time of economic hardship for our people. I bring up this bill because I have noticed that the most recent amendments to the bill would reduce the salary of the

President by a mere \$5,000 from \$90,000 to \$85,000 and attaches a rider that incomprehensibly reduces an essential tax incentive that encourages businesses to hire Palauan citizens and adds a tax break incentive to hire non-citizens. The rider essentially boils down to giving a tax break to businesses that hire non-citizens. If the Olbiil Era Kelulau believes that I will accept a higher salary so that businesses may receive a tax break to hire non-citizens, then I think there is some confusion as to what this administration is about.

Second, the Palau Water and Sewer Corporation merger with the Palau Public Utilities Corporation, there are three issues to mention with regard to this bill: (A) As I mentioned earlier, enormous improvements have been made in our water and sewer operations since I promulgated Executive Order No. 324, which created a Water and Sewer Task Force to oversee the transition to a privatized water and sewer operations. And (B) the fact that the merger will, according to analysis provided by the Asian Development Bank, produce savings of approximately 20% per year for the Republic through shared services. Just as we have stopped the leaks in the water system we must stop unnecessary costs to the Republic.

(C) Since the bill was introduced the administration has had numerous meetings with Asian Development Bank representatives and consultants that has led to a much stronger understanding on the part of the administration of the steps that need to be taken in order for the merged entity to operate under the international “best practices” of state owned enterprises. Within the week I will be sending suggested amendments for the current bill to the OEK. I strongly urge the Olbiil Era Kelulau to move on this needed water and sewer reform with the suggested amendments by the end of the next month so that we can turn our attention to the policy actions needed to attain the second disbursement of funds from the Asian Development Bank and move forward with the next loan of the project that is aimed at improving our water and sewer infrastructure.

Third, is the Skilled Palauan Workforce Investment Act, which I submitted to the Olbiil Era Kelulau recently. I believe that this bill will provide a strong legislative framework to develop a more skilled Palauan workforce. As I mentioned earlier, our workforce is currently dominated by foreign workers – over half of our workforce is foreign workers. Most of these foreign workers possess skills that enable them to dominate areas of the economy that require technical skills and expertise, such as electricians, mechanics, and construction workers. I believe that a certification program through PCC may provide employers with a degree of confidence to hire Palauan workers. I am certain that the tax incentive to hire holders of a certificate from the program will help. I am looking forward to working with the Olbiil Era Kelulau to refine this effort to employ more Palauans. I urge the Olbiil Era Kelulau to take appropriate action on this bill that is consistent with the intent behind its creation.

Finally, the Republic must re-establish the Compact Trust Fund Board of Trustees. The Board of Trustees was eliminated at the end of the 7th Constitutional government, but I believe that events that have taken place in recent years has firmly established the need for this Board in order to protect the Trust Fund. I am pleased to learn that the Senate has already taken action by introducing Senate Bill No. 9-18. I am looking forward to the reestablishment of this advisory board in a form that is consistent with how it was created in the first the first place under the legal authority of RPPL No. 2-22. In the meantime, however, I can tell you that this administration will not be making withdrawals from the Compact Trust Fund in excess of that

which is permitted by law or that which is permitted under grant agreements with the United States.

I must now turn our attention to priority legislation that is not yet before the Olbiil Era Kelulau.

First, the Republic must embrace comprehensive tax reform. I almost hesitate to bring this up because I talked about this back in my very first State of the Republic Address in 2001. The fact is that the government – President and both houses of the OEK – has simply failed to reform our tax code to a more modern system that will enable low tax rates alongside a broadened tax base. Such a system should provide lower taxes for most individuals and greater revenue for the government. The current tax code was developed for a *dependent* country because at the time our tax system was created we were seriously dependent upon the United States. As our country has grown and continues to grow, our tax code must be reformed to a modern system that will reflect our reality as an *independent* country. The Value Added Tax that has been introduced in the Senate is a good start, but more is needed. I am looking forward to working with all of you to address this critical reform for our government.

Second, I believe that our budget preparation law should be refined to ensure effective consultations between the various executive agencies and the Ministry of Finance. In addition, the budget preparation law must provide for adequate budget submission timeframes that enhance the reliability of revenue projections. Finally, we must re-establish a budget reserve fund that will supplement the Compact Trust Fund as an investment in our future.

Third, this country needs a Bankruptcy Law. Too many of our Palauan brothers and sisters are flailing under crushing debt. A bankruptcy law will give these individuals the chance to start over. A start-over for many people will give them another chance in life. I believe that we all deserve that chance.

Fourth, we must also establish a fair and comprehensive labor code. The labor code would provide for and fair compensation, safe working conditions and dispute resolution. This is important if Palau is to be able to facilitate the growth of a strong private sector that will support Palau's sustainable economic development.

Finally, there are important steps that our nation must take to move on the road towards full integration with the global community. As a part of its recommendations to the Transition Committee, the Ministry of Community and Cultural Affairs recommended that the Republic become a party to two United Nations Conventions: the *Convention on the Rights of Persons with Disabilities* and the *Convention on the Elimination of all forms of Discrimination against Women*. Adopting these conventions is another step that the Republic can take in joining the stance of most of the international community in support of the elimination of all forms of discrimination.

I am happy to announce that the Republic has already taken all of the legal steps necessary under our Constitution to become a party to the *Convention on the Rights of Persons with Disabilities* and our depository instrument is being sent to the Secretary General of the United Nations as we speak.

In addition, the Republic is already a signatory to the *Convention on the Elimination of all forms of Discrimination against Women*. A resolution to ratify that convention was introduced in the 8th Olbiil Era Kelulau, but was not acted upon. As a matrilineal society that vests significant decision making authority with women, the Republic already has strong women leaders. There is simply no reason that the Republic is not a party to this Convention; in fact, the Republic should be taking steps to move our strong women leaders to the international stage whenever possible. I look forward to watching the 9th Olbiil Era Kelulau take the action necessary to ratify this Convention.

8. Conclusion.

It is clear that Palau faces a number of challenges on the road to economic sustainability and prosperity for all of our people. Making the necessary adjustments to ensure that we take advantage of the fair winds will allow us to meet those challenges. But staying in the fair winds requires that we all work hard and work together, for even a momentary loss of focus or resolve can knock us off course and send us adrift. We all have a job to do and I am asking each and every one of you to do that job to the best of your ability.

If we all come together, we can stay in the wind and realize a better tomorrow.

Kom Kmal Mesulang. God Bless the Republic of Palau.