

Palau

1 Project Summary

Project Title:

Republic of Palau Third Implementation Cycle Project to Reduce Corruption

Priority Area for Reform:

Legislative and Education

Implementing Institution:

Public Auditor, Ministry of Finance, Office of the Attorney General

Contact Person:

Beginning and End of the Project:

Beginning: June 2006

End: June 2007

2 Project Context

Which deficiencies and/or problems that allow corruption to proliferate does the project address and aim to resolve? Please outline the related current legal or institutional framework and its weaknesses or the exact circumstances that require improvement:

Pillar I

1. Elimination Of Patronage and Nepotism

The government is still faced with possible abuse of patronage, nepotism, and favoritism in the hiring and promotion of employees. Given the current legal and regulatory framework, the government is yet to strengthen policies to ensure transparent hiring and promotion, prevent possible corruption involving hiring and promotion and to prevent the creation of phantom jobs to promote and support political patronage.

2. Strengthening Procurement Rules

The lack of adequate procedures and administrative measures to promote transparent and fair competition in the public procurement process can create possible risk for corruption. The lack of understanding of the procurement policies makes it difficult to administer the procurement process.

Pillar II

1. Passage of AML Legislation

In 2001, Palau passed the Financial Institutions Act of 2001 and the Anti-Money Laundering and Proceeds of Crime Act of 2001. These acts, however, contained significant shortcomings and were not found by the Asia Pacific Group to be compliant with the original 40 Recommendations or the 8 Special Recommendations. Further, recent revisions to the FATF 40 recommendations the addition of new Special

Recommendation 9 has moved Palau's legislation further out of step with international norms. Due to the serious deficiencies in Palau's AML legislation, the executive branch drafted revisions to the AMLPCA that are intended to correct many of the legislative deficiencies and help close loopholes that allow corruption to proliferate and frustrate the Republic's goal to ensure the existence and effective enforcement of anti-money laundering legislation. Additionally, the executive branch has drafted and introduced a new Cash Courier Disclosure Bill designed to curb corruption and money laundering through increased disclosure of case moving across Palau's borders.

Unfortunately, the executive branch has experienced significant difficulty in obtaining passage of this important legislation by the National Congress (OEK). After nearly two years, the amendments to the AMLPCA were finally passed by the Senate and referred to the House of Delegates. Likewise, after more than one year the CCDA was also passed by the Senate and referred to the House of Delegates. While the Executive Branch is pleased with this action, it unfortunately appears that the legislation may again suffer a similar fate with the House of Delegates as pleas for its immediate passage have fallen on deaf ears.

Pillar III

1. **Initiation of public awareness campaigns at different levels**

In addition to providing copies of its audit reports to management and leadership of the country, the Office of the Public Auditor also provide copies of its reports to the media, Public Library, and Chamber of Commerce. Copies of our audit reports are published in the local media.

Presently, there are no regulatory frameworks directing the Public Auditor to publish audit reports to in the local media or otherwise to establish a public awareness program.

2. **Support of non-governmental organizations**

In addition to the above proposed measure, the Office of the Public Auditor, the Office of the Attorney General, Government Procurement Officers, and the Public Service System plans to implement a partnership with local NGO's (i.e. Palau Chamber of Commerce) to educate them on government Procurement Rules and Regulations, Code of Ethics Act, Civil Service System, and other concerning public policies dealing with public corruption issues.

Presently, there are no legal frameworks directing government regulatory agencies to work with local NGO's on efforts to curb corruption in the public sector. However, this does not prohibit regulatory agencies from partnering with NGO's to establish a framework that coordinates and collaborate the efforts and resources of the partnership in curbing corruption.

3 Expected Outcome of the Project

In relation to the above mentioned deficiencies and/or problems, which concrete improvements are expected to be achieved through the project? In which way does the project help to curb corruption?

Pillar I

1. **Elimination Of Patronage and Nepotism**

The Congress will pass new laws to provide more independence in the administration of Public Service System. This will help eliminate potential political influences overshadowing the hiring and promotion process. Additionally, the projects looks to the

formation of a PSS board that will (1) review hiring decision for elements of nepotism, favoritism or political patronage and (2) review existing jobs with the view of eliminating phantom jobs created as a result of political patronage or nepotism.

2. **Strengthening Procurement Rules**

More transparent procurement process that can promote fair competition and deter potential corrupt activities and adequate simplified administrative procedures for agencies to comply with.

Pillar II

1. **Passage of AML Legislation**

This subproject has two goals: (1) the education of the National Congress on the importance of the amendments to the AMLPCA and the CCDA to the global fight against corruption and (2) the passage of the amendment to AMLPCA and the CCDA. The passage of these two pieces of legislation will significant help to ensure effective enforcement of anti-money laundering and help detect the proceeds of corruption.

Pillar III

1. **Initiation of public awareness campaigns at different levels**

The goal of this project is to seek and obtain the passage of amendments to the Public Auditing Act to allow the Public Auditor to provide copies of audit reports to local media and relevant NGOs so as to raise public awareness of the problems and issues and to inform stakeholders on how the government is spending their tax dollars through audit reports.

2. **Support of non-governmental organizations**

The objective of this measure is to establish a government/NGO partnership as a frontline for raising public corruption issues, conduct public awareness campaigns of the effects of corruption on government operations, economic growth, public trust, and working relationship with local businesses.

4 Components – Main Activities – Method

What are the project's components, implementation steps, main activities and/or methods to achieve the above mentioned outcome and objectives?

Pillar I

1. **Elimination Of Patronage and Nepotism**

Ministry of Finance working with the Congress will address weak areas in the public service act and formulate policies to ensure more independence in the administration of public service system or the Congress will explore the possibility of creating a Civil Service Commission with the function to administer hiring, promotion, grievance, etc.

2. **Strengthening Procurement Rules**

Procurement Officers work with Congress to address deficiencies in the procurement act and to simplify procedure and guidelines for the procurement process. In addition, the Procurement Officers shall initiate awareness programs to ensure all agencies comply with procurement rules and regulations.

Pillar II

1. **Passage of AML Legislation**

The Ministry of Finance, in connection with the Office of the Attorney General, the Financial Institutions Commission and the Office of the President will prepare and implement a plan to educate the House of Delegates as to the importance of these two pieces of legislation. In addition, the aforementioned will look to international organizations who can help establish an education campaign (in connection with the proposed Tier 3 project) that will target not only the public but also the OEK on the importance of anticorruption efforts and the role that AML legislation plays.

Pillar III

1. **Initiation of public awareness campaigns at different levels**

The Public Auditor will discuss this issue with responsible Congressional members to propose an amendment to the Public Auditing Act directing the Public Auditor to provide copies of audit reports to local media and relevant NGO's.

2. **Support of non-governmental organizations**

The Republic of Palau will need technical and financial assistance from ADB/OECD or other member countries who have implemented similar programs in order to draw from their experiences in creating a program in Palau. The technical assistance is requested in order to formulate a program that is appropriate, effective, and sustainable taking into consideration the relative size of the government, population, culture, and commerce. Financial assistance will be required as a start-up capital to set up the system, implement first program initiative; hopefully to convince local leadership of the importance of the program and its services, and the need to sustain and fund the program locally.

5 Involvement of non-governmental actors and donors

In which way does the project involve civil society actors or other stakeholders and have they been consulted during the project development phase?

Pillar I

1. **Elimination Of Patronage and Nepotism**
2. **Strengthening Procurement Rules**

None have been consulted to date, though the Republic welcome any interest and advice from other jurisdictions or NGOs who have experience in this area.

Pillar II

1. **Passage of AML Legislation**

To date, the only non-government actors involved are certain local financial institutions. As part of this project, we hope to expand this effort and include the chamber of commerce as well as off-island NGOs.

Pillar III

1. **Initiation of public awareness campaigns at different levels**

The Public Auditor is responsible for the dissemination of audit reports and any effort to draw public support and awareness of audits performed. None have been consulted to date, though the Republic welcome any interest and advice from other jurisdictions or NGOs who have experience in this area.

2. **Support of non-governmental organizations**

The agencies responsible for the implementation of this plan are the Office of the Public Auditor, Office of the Attorney General, National Government Procurement Officers, and the Director of public Service System. None have been consulted to date, though the Republic welcome any interest and advice from other jurisdictions or NGOs who have experience in this area.

6 Related Projects under the 2nd Implementation Cycle

Is the project linked to reforms accomplished under the Action Plan's 2nd Implementation Cycle? In which way does this project follow up previous activities?

Pillar I

None

Pillar II

None

Pillar III

7 Project Financing and Budget

Approved or estimated overall project budget:

At this time, we are unable to estimate the approximate cost of these projects. However, the projects will require expertise from NGO organizations who have experience in establishing and implementing anti-corruption projects. Once the details of the are worked out, a better assessment of a budget as well as the need for external funding can be made.

Is external funding required?

Yes

If external funding is required, have donor organizations been approached yet, and have any commitments been made?

No

If external funding is required, what percentage of the total project costs requires external funding?

Unknown at this time.

8 Technical Assistance

Is external technical assistance required? Have relevant agencies been approached and have they made any commitments?

Technical assistance is required, though no relevant agencies have been approached as of yet or have made any commitments to provide such funding.