



COMPACT OF FREE ASSOCIATION

Proposed U.S. Assistance to Palau through Fiscal Year 2024

Highlights of [GAO-12-798T](#), a testimony before the Subcommittee on Fisheries, Wildlife, Oceans, and Insular Affairs, Committee on Natural Resources, House of Representatives

Why GAO Did This Study

The Compact of Free Association between the United States and the Republic of Palau, which entered into force in 1994, provided for several types of assistance aimed at promoting Palau's self-sufficiency and economic advancement. Included were 15 years of direct assistance to the Palau government; contributions to a trust fund meant to provide Palau \$15 million each year in fiscal years 2010 through 2044; construction of a road system, known as the Compact Road; and federal services such as postal, weather, and aviation. U.S. agencies also provided discretionary federal programs related to health, education, and infrastructure. In 2008, GAO projected that total assistance in fiscal years 1994 through 2009 would exceed \$852 million.

In September 2010, the United States and Palau signed an agreement (the Agreement) that would, among other things, provide for additional assistance to Palau beginning in fiscal year 2011 and modify its trust fund. Currently, there are two bills pending before Congress to implement the Agreement.

In this testimony, GAO updates a November 2011 testimony on (1) the Agreement's provisions for economic assistance to Palau, (2) its impact on the trust fund's likelihood of sustaining scheduled payments through fiscal year 2044, (3) the projected role of U.S. assistance in Palau government revenues, and (4) the pending legislation to implement the Agreement. GAO reviewed current trust fund data and new pending legislation for this testimony.

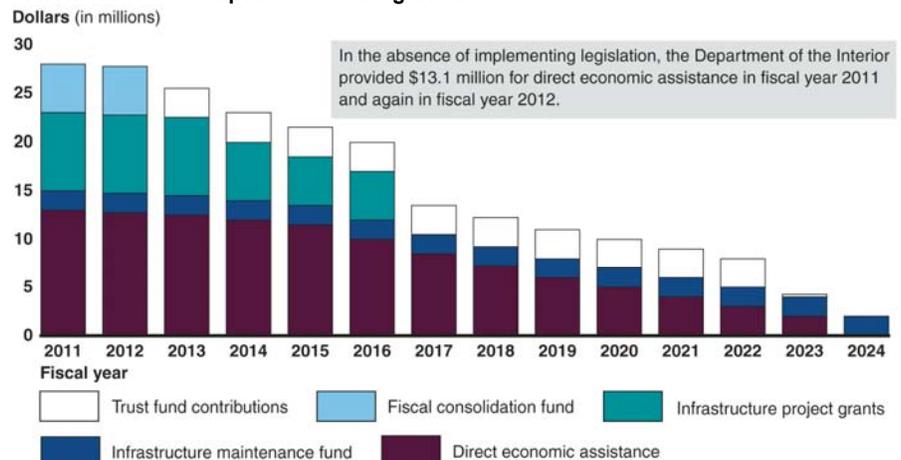
View [GAO-12-798T](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

What GAO Found

The Agreement would provide decreasing assistance, totaling approximately \$215 million through fiscal year 2024 and includes the following:

- direct economic assistance (\$107.5 million) for Palau government operations;
- infrastructure project grants (\$40 million) to build mutually agreed projects;
- infrastructure maintenance fund (\$28 million) for maintaining the Compact Road, Palau's primary airport, and certain other major U.S.-funded projects;
- fiscal consolidation fund (\$10 million) to assist Palau in debt reduction; and
- trust fund contributions (\$30.25 million) in addition to the \$70 million contributed under the compact

Assistance to Palau Specified in the Agreement



Source: GAO analysis of the Agreement between the Government of the United States of America and the Government of the Republic of Palau Following the Compact of Free Association Section 432 Review, and Department of the Interior Budget Justifications and Performance Information, Fiscal Years 2012 and 2013.

Notes: All dollar amounts are in nominal dollars (i.e., unadjusted for inflation). Funds were not provided in fiscal years 2011 or 2012 to date for infrastructure projects, the infrastructure maintenance fund, or the fiscal consolidation fund.

Under the Agreement, the United States would contribute to the trust fund in fiscal years 2013 through 2023, and Palau would reduce its withdrawals by \$89 million in fiscal years 2010 through 2023. GAO projects that the fund would have a 90 percent likelihood of sustaining payments through fiscal year 2044 with these changes, versus 40 percent without these changes.

Estimates prepared for the Palau government project declining reliance on U.S. assistance under the Agreement—from 28 percent of government revenue in fiscal year 2011 to 2 percent in fiscal year 2024—and growing reliance on trust fund withdrawals and domestic revenues. The estimates show trust fund withdrawals rising from 5 percent to 24 percent and domestic revenues rising from 40 to 59 percent, of total government revenue. According to the estimates, U.S. assistance in fiscal years 2011 through 2024 would total \$427 million, with discretionary federal programs accounting for about half of that amount.

Congress has not approved legislation to implement the Agreement as of September 2012. Pending Senate legislation would implement the Agreement and appropriate funds to do so. Pending House legislation would implement the agreement, apply an inflation adjustment to assistance payments, and shift the timing of certain assistance payments to reflect the fact that 2011 has passed.