



TECHNICAL ASSISTANCE REPORT

REPUBLIC OF PALAU

Managing Government Employment and
Compensation - Update

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Abbreviations and Acronyms

BHR	Bureau of Human Resources
ECC	Employment and Compensation Committee
FAD	Fiscal Affairs Department
IMF	International Monetary Fund

Preface

At the request of the Minister of Finance of the Republic of Palau, a capacity development mission from the International Monetary Fund's (IMF's) Fiscal Affairs Department (FAD) visited Koror and Ngerulmud during the period May 23-29, 2024. The mission included Sébastien Walker (Mission Head, FAD) and Christopher Bender (FAD expert). The purpose of the mission was to support implementation of the recommendations of the [technical report](#) produced by the November 2023 mission on government compensation and employment. This work took place under FAD's JSA Strengthening MOF Capacity in Expenditure Policy Analysis FY24-26 program, supported by funding from Japan.

The mission had fruitful discussions with Minister of Finance Kaleb Udui, Jr.; Minister of Human Resources, Culture, Tourism, and Development Ngiraibelas Tmetuchl; Minister of Education Dr. Dale Jenkins; Minister of State Gustav Aitaro; Director of the Bureau of Budget and Planning Casmir Remengesau; Director of the Bureau of Human Resources Terra Nabeyama; Chief of Staff to the President of Palau Landisang Kotaro; Legal Counsel to the Office of the President of Palau Daniel Mensching; Ministry of Finance Aid Coordination Specialist and Focal Point Andrea Dukor Ngirarois; Ministry of Finance Human Resource Specialist Leony Christman; and other officials.

The mission briefed members of the Senate Ways, Means, and Financial Matters Committee and members of the House of Delegates.

The mission held productive meetings with Asian Development Bank (ADB) Senior Country Representative Alfonsa Koshiba and Graduate School USA Country Economist Georgina Conway.

The mission wishes to express its appreciation for the excellent collaboration and hospitality provided by officials of the above institutions and to recognize Andrea Dukor Ngirarois for her outstanding logistical support. The mission gratefully acknowledges Alfonsa Koshiba and Zoe Kintaro of the ADB for hosting some of its meetings. The mission is also thankful for the administrative assistance provided by Daine Hale and Yara Vásquez (both FAD).

Executive Summary

The creation of the Employment and Compensation Committee (ECC) demonstrated the authorities' commitment to reform. The mission supports the authorities' proposal to reorganize the ECC into a Steering Committee and a Working Group. This document provides further guidance for the ECC's work.

Before awarding across-the-board pay increases or targeted pay increases to address issues of recruitment and retention, the government needs to assess its fiscal space and determine its expenditure priorities. Across-the-board pay increases should be awarded by increasing pay on a percentage basis, rather than by a fixed dollar amount. Targeted pay increases can be implemented by applying higher percentage increases for higher grades (to decompress the pay scale) or through job reclassifications. In either case, they should be guided by the government's priorities to secure adequate staffing for essential public services within the available fiscal resources. The fiscal impact of proposals to increase pay levels should be assessed using the forecasting model provided to the authorities by the mission.

The importance of systematically and prominently advertising vacancies online cannot be overstated. The impact of pay increases on recruitment will be blunted if jobseekers cannot easily find vacancies. This is especially true for expatriate Palauans who wish to return and for others living abroad who are open to working in Palau.

Human resource laws and regulations are generally fit for purpose, but current practices governing new position creation and recruitment merit review by the ECC with support from FAD. Executive Order 238, which establishes the position classification system, should be amended to better serve Palau's needs.

Short-Term Recommendations for the Operationalization of the ECC

Organization of the ECC	
A.1	Reorganize the ECC into a Steering Committee and a Working Group
The ECC's work on compensation	
B.1	Make recommendations to Congress for across-the-board percentage wage adjustments
B.2	Make recommendations to Congress for targeted wage adjustments to address position-specific challenges with recruitment and retention
The ECC's work on employment	
C.1	Make recommendations to the President on proposed changes to ministerial organizational structures
C.2	Make recommendations to the President on the creation of new positions
C.3	Make recommendations to the President on the filling of vacancies
The ECC's work on processes and procedures	
D.1	Review current human resource processes and procedures and recommend changes to the President
D.2	Amend Executive Order 238 to improve the process by which government positions are assigned to pay grades

Note: "Short term" means within 1-2 years.

Previous Recommendations

Develop a medium-term strategy for Palau's government human resources needs		
1.1	Determine a work plan for the ECC drawing on this report.	Short term
1.2	Take stock of essential skills in short supply in the government workforce.	Short term
1.3	Conduct pilot functional reviews of priority ministries to detect functional overlaps, prioritize essential government services, and right-size the workforce.	Short term
1.4	Define a medium-term path for targeted pay increases to support recruitment and retention of skilled workers.	Short term
1.5	Conduct functional reviews of the remaining ministries.	Medium term
Harness economies of scale and improve the efficiency of the government sector		
2.1	Document occupations and functions of state governments' workforce.	Short term
2.2	Consider merging some state functions into national government (e.g., park policing, road maintenance, trash collection, or vehicle registration).	Medium term
Strengthen human resources management		
3.1	Systematically and prominently advertise vacancies online.	Short term
3.2	Harmonize employment and compensation policies across workers, notably Palauan and foreign workers.	Short term
3.3	Review processes followed by the Bureau of Human Resources to eliminate unnecessary steps.	Short term
3.4	Develop human resource management training programs for new ministers and supervisory staff; reinforce managerial skills of middle managers.	Short term
3.5	Review enabling human resource laws and regulations to ensure that they are written to meet human resource needs.	Short term
Expand the pool of potential hires		
4.1	Recruit foreign workers into government service through fellowship or other programs for young professionals such as the Overseas Development Institute fellowship, Teach for America, and the Peace Corps.	Short term
4.2	Encourage younger Palauans to enter government service through internships and apprenticeship programs.	Medium term
4.3	Expand opportunities for higher education with in-country programs designed to support the government's human resource needs.	Medium term
4.4	Gradually raise the retirement age for government employees.	Medium term

Note: These recommendations are reproduced from [Technical Assistance Report No. 2024/027](#). "Short term" means within 1-2 years and "medium term" means within 3-5 years.

I. Further Elements of a Strategy for Reform

A. Reorganizing the ECC

1. The creation of the ECC in November 2023 was an essential—and laudable—first step toward improving the management of Palau’s government employment and compensation. As the mission noted in its February 2024 report, the most important duty of the ECC is to formulate a medium-term strategy for securing adequate staffing for public services in an efficient and fiscally sustainable manner. That strategy—once submitted to and approved by Congress—should inform decisions regarding the filling of vacancies, the creation of new positions, and changes in compensation policies within the constraints imposed by year-to-year resource availability. This will help ensure the sustainability of compensation expenditure and will enable wages to be adjusted incrementally—and to be informed by data—to address problems with recruitment and retention for essential positions. The ECC’s role should be understood to be ongoing because (i) the strategy will need to evolve over time in response to changing priorities and circumstances and (ii) the ECC will need to play an operational role in the execution of the strategy on behalf of the government.

2. The mission supports the authorities’ proposal to reorganize the ECC into a Steering Committee and a Working Group. The creation of a medium-term strategy for managing government employment and compensation is appropriately the responsibility of the Cabinet, which—along with the President’s Chief of Staff—will constitute the ECC’s Steering Committee. The mission recommends that the Director of the Bureau of Budget and Planning and the Director of the Bureau of Human Resources (BHR) attend the Steering Committee’s meetings as nonvoting advisors. To develop an informed strategy for managing employment and compensation on behalf of the government, the Steering Committee will need to be supported with data, quantitative analysis, and other inputs. Consequently, it is appropriate for the Committee to be supported by a Working Group. The mission recommends that the Minister of Finance and the Minister of Human Resources, Culture, Tourism, and Development—or their designated representatives—serve as co-chairs of the Working Group. Any proposals that impact overall government employment, average wages, or the wages paid for certain positions (notably to address problems with recruitment and retention) should be evaluated by the Working Group using the forecasting model developed by the mission to quantify their fiscal impact. Ministry of Finance staff were trained on the model’s use both during the November 2023 mission and during this current mission.

B. Priorities for the ECC

3. With respect to employment, the strategy should establish clear objectives for how the size of the workforce—and its composition—should evolve over the medium term. The overarching goal is to ensure that ministries have sufficient staff with the requisite skills and are suitably organized to provide essential public services—both now and in the future—while also ensuring that employment evolves in a manner which is consistent with fiscal resources and overall expenditure priorities. Starting from the recognition that the President has sole authority over the Executive branch, the ECC’s duties include:

- Commissioning functional reviews, with the support of development partners, to ensure that ministries are suitably organized and staffed.
- Making recommendations to the President on proposed changes to ministerial organizational structures.
- Making recommendations to the President on the creation of new positions.
- Making recommendations to the President on the filling of vacancies.¹

4. With respect to compensation, the strategy should include both across-the-board and targeted adjustments to address difficulties with recruitment and retention. The overarching goal is to ensure that government workers are compensated fairly--given their qualifications, experience, and the nature of the work they perform--and that compensation is adequate to attract qualified applicants and discourage turnover, subject to fiscal resources and overall expenditure priorities. Across-the-board pay increases should generally be commensurate with (but not formally indexed to) observed levels of inflation and awarded on a percentage basis.² Higher percentages will need to be applied to higher grades to decompress the wage scale or certain positions will need to be reclassified to support staffing for priority positions (discussed below). Given that Congress has sole authority over the annual National Government Salary and Wage Act, the ECC's duties in this regard should include:

- Making recommendations to Congress—consistent with the President's policy priorities and budget availability—for across-the-board percentage wage adjustments as part of the annual process of budget formulation.
- Making recommendations to Congress—based on an analysis of recruitment and retention data—for targeted wage adjustments to address position-specific challenges with recruitment and retention.

5. The authorities should use targeted wage adjustments to address difficulties with recruitment and retention, subject to resource availability. This can be accomplished by (i) awarding higher pay increases for higher grades (to decompress the wage scale) or (ii) reclassifying specific positions at higher grades. The mission's previous report highlighted difficulties with the recruitment and retention of teachers, so they are considered in the following illustrative example. Similar arguments apply to other priority occupations.

- **Higher pay increases for higher grades.** Since teachers normally start at grade 8 in the pay scale,³ the National Government Salary and Wage Act of 2024 could implement salary increases of X percent for grades 1 to 7 and of $X + Y$ percent for grade 8 and all grades above. This would help to decompress the pay scale and support recruitment and retention of other skilled workers, such as nurses, who *work in positions which are also assigned to these grades*.

¹ Under current practice, recruitment for vacant positions is largely automatic. This is problematic because (i) it limits the authorities' capacity to respond to external economic shocks and (ii) it precludes the ECC from using attrition gradually to change the composition of the workforce, as a part of its medium-term strategy for managing government employment.

² The mission believes that this approach is appropriate for Palau but recognizes it may not be appropriate for other countries. See [Thévenot, Céline, and Sébastien Walker. 2024. "How to Set Compensation for Government Employees." IMF How to Note 2024/003, International Monetary Fund, Washington, DC.](#)

³ There may be rare exceptions.

- **Job reclassifications.** Executive Order 238⁴ could be revised to permit the BHR to reclassify teachers one grade higher than their current grade. This would award teachers a pay increase of approximately 10% given where they are currently concentrated in the pay scale (grades 8 to 13).

C. Legal and Operational Issues

6. The legal underpinnings for human resource management in Palau were established by the National Public Service System Act (RPL 1-37), and its many subsequent amendments. In 1997, the National Civil Service Board promulgated detailed rules and regulations to provide specificity to the provisions of RPL 1-37. Since then, a myriad of additional rules and regulations have been promulgated, and Executive Orders have been issued that collectively govern current human resource management practices. The mission reviewed these documents and has concluded that they are generally fit for purpose, although they can be difficult to interpret and reconcile without considerable effort.⁵ On the basis of interviews with members of the Cabinet and with the Director of the BHR, the mission recommends that:

- The ECC review current human resource processes and procedures and make recommendations to the President for their amendment within the confines permitted by existing statute.
- Executive Order 238 be amended to better meet Palau's needs.⁶ This could, for example, involve changing the weights used to score positions as well as adding—or eliminating—factors which determine position classification. For example, labor market scarcity could be added as an additional factor to enable the reclassification of positions for which Palau has the most difficulty recruiting and retaining qualified applicants.

7. To improve human resource management, the ECC may wish to recommend that a human resource officer be added to the organizational charts of some—or all—ministries. In smaller countries, centralizing human resources management within a single bureau, as is done in Palau, is appropriate. The problem this creates is that some tasks—such as the drafting of job descriptions for newly created positions—can only be performed by hiring managers who do not always understand human resource procedures. Enhancing human resource capacity in the ministries could be accomplished either by transferring positions (and staff) from the BHR or by creating new positions (and recruiting new staff). For smaller ministries, the human resource officer could reasonably be expected to perform additional duties beyond human resource management, as determined by the Minister.

8. Further progress is needed with advertising vacancies online. At the time of writing, there are 16 openings on the government employment opportunities website, which is an improvement over what the last mission observed.⁷ However, many vacancies for essential positions, such as nurses and police officers, are still not listed on this website. Only one teacher vacancy appears.

⁴ This Executive Order, signed in 2006, establishes the current position classification system (i.e., the process by which positions are assigned to grades in the government wage table).

⁵ As is the case in many countries.

⁶ The existing procedures seemingly originate from the US Office for Personnel Management.

⁷ One opening is for two positions; <https://selfservice399838.tdr.tylerhosting.cloud/ess/EmploymentOpportunities/> consulted on May 29, 2024.

II. Next Steps

9. The ECC reconvened on June 3, 2024. This was the ECC's first meeting in the absence of the mission and these meetings should continue in a regular fashion.

10. FAD is prepared to continue its program of capacity development through follow-up missions, desk support, virtual meetings, and the preparation of briefings and documents. This support could include (i) working with the ECC to develop its medium-term strategy for managing government employment and compensation; (ii) working with the ECC and the BHR to improve upon existing processes and procedures for job classification and recruitment; and (iii) further training on forecasting to enable the Ministry of Finance to estimate the fiscal impact of proposed changes in employment and compensation policies.