

REGIONAL ISSUES

Compact of Free Association

Section 432 Review

Agreements Between the UNITED STATES OF AMERICA and PALAU

Signed at Honolulu September 3, 2010

with Appendices

and

Amendment to Agreement

Signed at Koror September 19, 2018



NOTE BY THE DEPARTMENT OF STATE

Pursuant to Public Law 89—497, approved July 8, 1966
(80 Stat. 271; 1 U.S.C. 113)—

“...the Treaties and Other International Acts Series issued under the authority of the Secretary of State shall be competent evidence . . . of the treaties, international agreements other than treaties, and proclamations by the President of such treaties and international agreements other than treaties, as the case may be, therein contained, in all the courts of law and equity and of maritime jurisdiction, and in all the tribunals and public offices of the United States, and of the several States, without any further proof or authentication thereof.”

PALAU

Regional Issues: Compact of Free Association Section 432 Review

*Agreement signed at Honolulu September 3, 2010,
with appendices; and
Amendment to agreement signed at Koror
September 19, 2018;
Entered into force September 19, 2018.*

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

In recognition of the ties that were developed between the United States of America and Palau during World War Two, and the subsequent half century of United States administration of Palau and the continuing close relationship between the Governments of the United States and Palau under the Compact of Free Association ("Compact"), following the fifteenth anniversary review of the relationship conducted pursuant to Section 432 of the Compact (which provides: "Upon the fifteenth and thirtieth and fortieth anniversaries of the effective date of this Compact, the Government of the United States and the Government of Palau shall formally review the terms of this Compact and its related agreements and shall consider the overall nature and development of their relationship. In these formal reviews, the governments shall consider the operating requirements of the Government of Palau and its progress in meeting the development objectives set forth in the plan referred to in Section 231(a). The governments commit themselves to take specific measures in relation to the findings of conclusions resulting from the review. Any alteration to the terms of this Compact or its related agreements shall be made by mutual agreement, the terms of this Compact and its related agreements shall remain in force until otherwise amended or terminated pursuant to Title Four of this Compact"), and in light of the desire of the United States of America and the Republic of Palau to deepen their relationship, now, therefore, the Government of the United States of America and the Government of the Republic of Palau agree as follows:

1. Compact Section 211(f) Fund

The Government of the United States of America (the "Government of the United States") shall contribute \$30.25 million to the Fund referred to in Section 211(f) of the Compact in accordance with the following schedule: \$3 million annually for ten years beginning with Fiscal Year 2013 through Fiscal Year 2022, and \$250,000 in Fiscal Year 2023.

2. Infrastructure Maintenance Fund

(a) The Government of the United States shall provide a grant of \$2 million annually from the beginning of Fiscal Year 2011 through Fiscal Year 2024 to create a trust fund (the "Infrastructure Maintenance Fund") to be used for the routine and periodic maintenance of major capital improvement projects financed by funds provided by the United States. The Government of the Republic of Palau (the "Government of Palau") will match the contributions made by the United States by making contributions of \$150,000 to the Infrastructure Maintenance Fund on a quarterly basis from the beginning of Fiscal Year 2011 through Fiscal Year 2024. Implementation of this subsection shall be carried out in accordance with the provisions of Appendix A to this Agreement.

(b) The \$3 million owed to the Government of the United States under paragraph 3(d) of Article V of the Agreement Concerning Special Programs Related to the Entry Into Force of the Compact of Free Association Between the Government of the United States and the Government of the Republic of Palau (the Guam Accords) done at Guam, May 26, 1989, plus accumulated interest, shall be paid into the Infrastructure Maintenance Fund. The \$3 million shall remain in the Infrastructure Maintenance Fund and not be expended for any purpose. All past and future income generated by the \$3 million shall be used exclusively for the routine maintenance of the Compact Road provided by the United States under Section 212 of the Compact.

3. Fiscal Consolidation Fund

The Government of the United States shall provide the Government of Palau \$5 million in Fiscal Year 2011 and \$5 million in Fiscal Year 2012 for deposit in an interest bearing account to be used to reduce government payment arrears of Palau. Implementation of this section shall be carried out in accordance with the provisions of Appendix B to this Agreement.

4. Direct Economic Assistance

(a) In addition to the \$13.25 million in economic assistance provided to the Government of Palau by the Government of the United States in Fiscal Year 2010, and unless otherwise specified in this Agreement or in an Appendix to this Agreement, the Government of the United States shall provide the Government of Palau \$107.5 million in economic assistance as follows: \$13 million in Fiscal Year 2011; \$12.75 million in Fiscal Year 2012; \$12.5 million in Fiscal Year 2013; \$12 million in Fiscal Year 2014; \$11.5 million in Fiscal Year 2015; \$10 million in Fiscal Year 2016; \$8.5 million in Fiscal Year 2017; \$7.25 million in Fiscal Year 2018; \$6 million in Fiscal Year 2019; \$5 million in Fiscal Year 2020; \$4 million in Fiscal Year 2021; \$3 million in Fiscal Year 2022; and \$2 million in Fiscal Year 2023. The funds provided in any fiscal year under this subsection shall be provided in four (4) quarterly payments (thirty percent (30%) in the first quarter, thirty percent (30%) in the second quarter, twenty percent (20%) in the third quarter, and twenty percent (20%) in the fourth quarter) unless otherwise specified in this Agreement or in an Appendix to this Agreement.

(b) Notwithstanding the provisions of Compact section 211(f) and the Agreement Between the Government of the United States and the Government of Palau Regarding Economic Assistance Concluded Pursuant to Section 211(f) of the Compact of Free Association, with respect to Fiscal Years 2011 through Fiscal Year 2023 and except as otherwise agreed by the Government of the United States and the Government of Palau, the Government of Palau agrees not to exceed the following distributions from the Section 211(f) Fund: \$5 million annually beginning in Fiscal Year 2011 through Fiscal Year 2013; \$5.25 million in Fiscal Year 2014; \$5.5 million in Fiscal Year 2015; \$6.75 million in Fiscal Year 2016; \$8 million in Fiscal Year 2017; \$9 million in Fiscal Year 2018; \$10 million in Fiscal Year 2019; \$10.5 million in Fiscal Year 2020; \$11 million in Fiscal Year 2021; \$12 million in Fiscal Year 2022; and \$13 million in Fiscal Year 2023.

(c) No portion of the funds provided to the Government of Palau under this section, including the funds distributed from the Section 211(f) Fund, shall be used, directly or indirectly, to fund state

block grants, or the activities of the Office of the President of Palau, of the Olbiil Era Kelulau (the Palau National Congress), or of the Palau Judiciary. Annually, \$15 million of the funds provided to the Government of Palau under this section, including the funds distributed from the Section 211(f) Fund, shall be used exclusively for purposes related to education, health, and the administration of justice and public safety, recognizing that these funds are subject to the provisions of subsection 4(h) herein.

(d) In order to increase the long term economic stability of Palau and to maximize the benefits of the economic assistance provided by the Government of the United States, the Government of Palau shall undertake economic, legislative, financial, and management reforms, and shall give due consideration to reforms such as those described in the International Monetary Fund's (IMF) Country Report No. 08/162, Republic of Palau: Selected Issues and Statistical Appendix, (May 2008), and the Asian Development Bank's (ADB) Strategy and Program Assessment, Palau: Policies for Sustainable Growth, A Private Sector Assessment (July 2007) and any other similar subsequent and future reports and recommendations issued by the IMF, the ADB, and other credible institutions, organizations or professional firms. To the extent that anticipated fiscal and economic reforms require substantial financial resources to design, implement, or mitigate negative impacts, the Government of Palau may propose and the two governments may agree to the use of additional funds from the Section 211(f) Fund, provided that the two governments agree in writing that the additional withdrawals from the Section 211(f) Fund will not impair the ability of the fund to provide \$15 million annually from Fiscal Year 2024 through Fiscal Year 2044, and that the proposed reforms are a necessary and prudent use of the funds. Government to government communications shall be through diplomatic channels.

(e) The Government of the United States and the Government of Palau shall establish, effective on the day this Agreement enters into force, an Advisory Group on Economic Reform (the "Advisory Group"). The purpose of the Advisory Group is to contribute to the long-term economic sustainability of Palau by recommending economic, financial, and management reforms. The Advisory Group shall be composed of five (5) members, two (2) of whom shall be designated by the President of Palau and two (2) of whom shall be designated by the Government of the United States, the fifth of whom shall be chosen by the Government of the United States from a list of not fewer than three (3) persons not residents of Palau submitted by the President of Palau. In the event the Government of the United States rejects the persons enumerated in the list submitted by the President of Palau, then the fifth member shall be chosen by the President of Palau from a list of not fewer than three (3) persons submitted by the Government of the United States. In making their designations, the President and the Government of the United States shall give consideration to the mix of expertise that would be most beneficial to the work of the Advisory Group. The Advisory Group will be chaired by a member chosen by the members from among their number. Its meetings will be held once a year in Palau and once a year in Hawaii, unless otherwise agreed by the members. Each government shall provide the necessary support for its designated representatives on the Advisory Group. Support for the fifth member shall be borne by the government that recommended the member. Unless otherwise agreed by the two governments the Advisory Group shall terminate at the end of Fiscal Year 2023.

(f) The Advisory Group shall recommend economic, financial and management reforms and the schedule on which the reforms should be implemented. The Advisory Group shall report annually not less than thirty (30) days prior to the annual bilateral economic consultations to be held on or about June 1 every year on the Government of Palau's progress in implementing reforms recommended by the Advisory Group or other reforms taken by the Government of Palau. The two governments are committed to these annual economic consultations being meaningful, substantive and comprehensive.

(g) The Government of Palau's progress in achieving reforms shall be reviewed at the annual bilateral economic consultations. Examples of significant progress in a fiscal year would be, but are not limited to: meaningful improvements in fiscal management, including the elimination and prevention of operating deficits; a meaningful reduction in the national operating budget from the previous fiscal year; a meaningful reduction in the number of government employees from the level the previous fiscal year; a meaningful reduction in the annual amount of the national operating budget dedicated to government salaries from the previous fiscal year; demonstrable reduction of government subsidization of utilities, and meaningful tax reform .

(h) If the Government of the United States determines after the annual bilateral economic consultations that the Government of Palau has not made significant progress in implementing meaningful reforms, then, after direct consultation with the President of Palau, the Government of the United States may, after ninety (90) days notice to the Government of Palau, delay payment of economic assistance under this section. The Government of the United States shall determine the amount of the economic assistance to be delayed. Any assistance delayed shall be held and released when the Government of the United States determines that Palau has made sufficient progress on the reforms.

5. Infrastructure Projects

The Government of the United States shall provide grants totaling \$40 million to the Government of Palau as follows: \$8 million annually in Fiscal Years 2011 through Fiscal Year 2013; \$6 million in Fiscal Year 2014; and \$5 million annually in Fiscal Years 2015 and 2016; towards one or more mutually agreed infrastructure projects in accordance with the provisions of Appendix C to this Agreement.

6. Reporting and Auditing

Palau shall resolve all deficiencies in the Annual Single Audit such that by 2018 no deficiency or recommendation dates from before Fiscal Year 2016. By the first day of the fourth quarter of each fiscal year or as soon as practicable thereafter, in the annual report it submits under Section 231(b) of the Compact, the Government of Palau shall report on the status and use of all funds provided under this Agreement. The status and use of all funds provided under this Agreement shall also be discussed in the annual bilateral economic consultations. The financial information relating to this funding shall conform to the standards of the Government Accounting Standards Board. All funds provided under this Agreement shall be subject to a financial and compliance audit and other requirements in accordance with the provisions of Appendix D to this Agreement.

7. Federal Programs and Services

The Government of the United States shall make available to Palau through Fiscal Year 2024, in accordance with and to the extent provided through amendments to the Federal Programs and Services Agreement Concluded Pursuant to Article II of Title Two and Section 232 of the Compact of Free Association, signed at Palau on January 10, 1986, the services and related programs covered in that agreement as amended herein. The amendments to that agreement constitute Appendix E to this Agreement.

8. Telecommunication Services

The Agreement Regarding the Provision of Telecommunication Services by the Government of the United States to Palau Concluded Pursuant to Section 131 of the Compact of Free Association, signed at Koror, Republic of Palau, January 10, 1986 and the Agreement Regarding the Operation of Telecommunication Services of the Government of the United States in Palau Concluded Pursuant to Section 132 of the Compact of Free Association, signed at Koror, Republic of Palau, January 10, 1986 are amended and these amended agreements constitute Appendix F to this Agreement.

9. Passport Requirement

Section 141 of Article IV of Title One of the Compact shall be construed and applied as if it read as follows:

“Section 141

(a) Any person in the following categories may be admitted to, lawfully engage in occupations, and establish residence as a nonimmigrant in the United States and its territories and possessions without regard to paragraphs (5) or (7)(B)(i)(II) of section 212(a) of the Immigration and Nationality Act, 8 U.S.C. § 1182(a)(5) or (a)(7)(B)(i)(II), provided that the passport presented to satisfy section 212(a)(7)(B)(i)(I) of such Act is a valid unexpired machine-readable passport that satisfies the internationally accepted standard for machine readability:

- (1) a person who, on September 30, 1994, was a citizen of the Trust Territory of the Pacific Islands, as defined in Title 53 of the Trust Territory Code in force on January 1, 1979, and has become and remains a citizen of Palau;
- (2) a person who acquires the citizenship of Palau, at birth, on or after the effective date of the Constitution of Palau; or
- (3) a naturalized citizen of Palau, who has been an actual resident of Palau for not less than five years after attaining such naturalization and who holds a certificate of actual residence.

Such persons shall be considered to have the permission of the Secretary of Homeland Security of the United States to accept employment in the United States.

- (b) The right of such persons to establish habitual residence in a territory or possession of the United States may, however, be subjected to non-discriminatory limitations provided for:
 - (1) in statutes or regulations of the United States; or
 - (2) in those statutes or regulations of the territory or possession concerned which are authorized by the laws of the United States.
- (c) Section 141(a) does not confer on a citizen of Palau the right to establish the residence necessary for naturalization under the Immigration and Nationality Act, or to petition for benefits for alien relatives under that Act. Section 141(a), however, shall not prevent a citizen of Palau from otherwise acquiring such rights or lawful permanent resident alien status in the United States."

10. Effective Date, Amendment, and Duration

- (a) This Agreement, including its Appendices, shall enter into force on the date of the last note of an exchange of diplomatic notes by which the Government of the United States and the Government of Palau inform each other that all internal procedures necessary for its entry into force have been fulfilled.
- (b) This Agreement may be amended at any time by the mutual written consent of the Government of the United States and the Government of Palau.
- (c) This Agreement shall remain in full force and effect until terminated by mutual written consent, or until termination of the Compact, whichever occurs first.

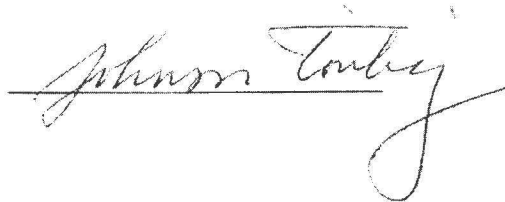
IN WITNESS WHEREOF, the undersigned, duly authorized by their respective Governments, have signed this Agreement.

DONE AT Honolulu, USA, in duplicate, this 3rd day of September, 2010, in the English language.

FOR THE GOVERNMENT
OF THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT
OF THE REPUBLIC OF PALAU:





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

APPENDIX A—INFRASTRUCTURE MAINTENANCE FUND

1. Subject to the terms of this Appendix, the Government of the United States shall provide the grants specified in section 2(a) of the Agreement between the United States of America and the Government of the Republic of Palau following the Compact of Free Association Section 432 Review (the "Agreement") to which this document is an appendix.
2. If, in a given Fiscal Year, the Government of Palau does not make the contributions agreed to in section 2(a) of the Agreement, economic assistance funds to be provided to Palau in the following fiscal year under section 4 of the Agreement will be redirected to the Infrastructure Maintenance Fund to make up the contributions owed by the Government of Palau.
3. Grant funds from the Government of the United States and Government of Palau contributions to the Infrastructure Maintenance Fund shall be deposited in an account established by the Government of Palau. Fiscal control and accounting procedures shall be sufficient to permit the preparation of required reports and to permit the tracing of funds to a level of expenditure adequate to establish that such funds have been used in compliance with this Appendix.
4. Palau shall report, at the annual bilateral economic consultations, the sources of its contributions to the Infrastructure Maintenance Fund.
5. The Infrastructure Maintenance Fund, and any interest accruing thereon, is to be used by the Government of Palau for the maintenance of United States financed capital improvement projects such as the road system (Compact Road) provided by the United States under Section 212 of the Compact and the capital improvements provided by the United States to the Airai International Airport. The Government of Palau may request in writing the use of the Infrastructure Maintenance Fund for maintenance of U.S. financed capital improvement projects other than these two, such as the U.S. financed capital improvements reflected in the Palau national hospital and schools. The Government of the United States shall give due consideration to any such request and shall endeavor to make a determination within sixty (60) days of receipt of the request. Although the primary purpose of the Infrastructure Maintenance Fund is to provide for routine and periodic maintenance, it may be used, when mutually agreed upon in writing, to mitigate damage and make emergency repairs to capital improvement projects funded by the United States.

6. The Government of Palau shall identify to the Government of the United States the Government of Palau official and office responsible for maintenance of the infrastructure with Fund monies. The official shall be responsible for activities necessary to plan and **implement** annual programs of maintenance of the Compact Road and the International Airport at Airai, and all other public infrastructure. The official shall be responsible for keeping each facility as nearly as possible in its original condition as constructed. The official shall develop an annual maintenance plan and related budget for reactive, preventive, repetitive, non-recurrent, and emergency-generated maintenance of the infrastructure specified in paragraph 5 and for all other public infrastructure. The plan will include descriptions and schedules of planned activities and shall identify the related costs. The plan for the infrastructure specified in paragraph 5 shall be submitted to the Government of the United States for its approval no less than sixty (60) days prior to the beginning of each fiscal year.
7. The Government of the United States will base its approval or disapproval of the plan for the infrastructure specified in paragraph 5 on its consideration of the effectiveness of the plan within the bounds of annual resources. Approval by the Government of the United States will be in the form of an annual grant which incorporates the approved maintenance plan and budget. Acceptance of the grant by the Government of the Republic of Palau will obligate the Government of Palau to the implementation of the annual maintenance plan and budget for the infrastructure specified in paragraph 5.
8. The grant, annual maintenance plan, and budget for the infrastructure specified in paragraph 5 may be amended by written mutual agreement.
9. Use of the Fund monies shall be subject to 43 Code of Federal Regulations 12 and all other applicable laws and regulations governing the use of grant funds provided by the Government of the United States. These funds may not be used for any purpose other than that for which they are offered.
10. Any grant funds remaining unexpended at the end of a fiscal year shall remain in the Infrastructure Maintenance Fund and may be included in subsequent annual maintenance plans and budgets.
11. Reporting Requirements:
 - (a) A Standard Form SF 425 (or successor form) and a narrative project status report shall be submitted quarterly.
 - (b) Reports are due within thirty (30) days of the end of each quarter. Final reports are due ninety (90) days after the expiration or termination of the award.
 - (c) All required plans and reports must be submitted to the U.S. Department of the Interior Office of Insular Affairs grant manager for the grant.

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

APPENDIX B—FISCAL CONSOLIDATION FUND

1. Subject to the terms of this Appendix, the Government of the United States shall provide the Government of Palau the amounts specified in section 3 of the Agreement of the United States of America and the Government of the Republic of Palau following the Compact of Free Association Section 432 Review (the "Agreement") to which this document is an appendix. Until disbursed, these funds will be deposited in an interest bearing account and the interest generated shall also be used to reduce Palau's government payment arrears in accordance with the provisions of this Appendix.
2. The purpose of these funds is to allow the Government of Palau to discharge the level of debts accumulated prior to September 30, 2009. None of the principal or interest accrued on these funds may be disbursed to discharge a debt until the governments agree upon a specific list of debts to be paid with each annual contribution. The funds may not be used to pay off debt owed to another government, to pay an international organization, or to pay off debts which are the subject of current or pending litigation. Unless agreed to in writing by the Government of the United States, the funds may not be used to pay any entity owned or controlled by any member of the government, elected or appointed; to pay any entity owned or controlled by any member of the immediate family of any member of the government; to pay any entity from which a member of the government derives income; or to pay any creditor if the creditor owes money to the Government of Palau unless arrangements are made immediately to offset amounts owed to the Government of Palau from the funds made available to the creditor. Debts owed to U.S. creditors must receive priority. All debts to be paid with these funds must be properly documented as legitimate debts of the Republic of Palau using generally accepted accounting principles. The total amount of the debt to be paid shall not exceed the general fund deficit established by the Single Audit Report as of September 30, 2009.
3. The Government of Palau shall report quarterly to the Government of the United States on the use of these funds until they are expended and, until expended, the status and use of these funds shall be a regular agenda item for annual bilateral economic consultations to be held around June 1 of every year. If eligible debts do not amount to \$10 million, upon the request of the Government of Palau, the funds remaining after payment of the eligible debts shall be added to the amounts provided for infrastructure projects in section 5 of the Agreement.

AGREEMENT BETWEEN THE
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FOLLOWING THE COMPACT OF FREE ASSOCIATION
SECTION 432 REVIEW

APPENDIX C—INFRASTRUCTURE PROJECTS

1. Subject to the terms of this Appendix, the Government of the United States shall provide grants towards one or more mutually agreed infrastructure projects as specified in section 5 of the Agreement of the United States of America and the Government of the Republic of Palau following the Compact of Free Association Section 432 Review (the “Agreement”) to which this document is an appendix. These infrastructure grants shall be subject to 43 Code of Federal Regulations 12 and all other applicable laws and regulations governing the use of grant funds provided by the Government of the United States. Grant funds may not be used for any purpose other than that for which they are offered.
2. Payment of grant funds shall be made as reimbursement of actual or accrued expenditures, using a format provided by the Government of the United States or as mutually agreed.
3. Prior to requesting reimbursement or payment, the Government of Palau shall, as applicable, provide the following documentation to the Government of the United States:
 - (a) Evidence of title, leasehold agreement, or other legal authority for use of the land upon which the capital improvement project(s) is (are) to be constructed.
 - (b) A detailed project budget for each infrastructure project. The budget shall include a breakdown of costs (in-house and contract) for planning, engineering and design, real estate, supervision and administration, construction, and construction management and inspection. The Government of Palau and the Government of the United States shall mutually agree to the format of this submission.
 - (c) A scope of work that describes the work to be performed and the schedule from planning through completion of construction. A certified professional engineer or architect shall sign both the scope of work and budget for each construction project.
4. Prior to disbursing funds requested to reimburse for actual project construction, the Government of the United States may review construction plans and specifications, any revised detailed cost estimate, and a detailed construction schedule.
5. All grant monies shall remain available until expended, unless otherwise provided in this Appendix.

6. Failure to comply with objectives, terms and conditions, or reporting requirements may result in the suspension of grant payments until the deficiency is corrected.

7. **Reporting Requirements:**

(a) A Standard Form SF 425 (or successor form) and a narrative project status report shall be submitted quarterly.

(b) Reports are due within thirty (30) days of the end of each quarter. Final reports are due ninety (90) days after the expiration or termination of the award.

(c) All required documents and reports must be submitted to the U.S. Department of the Interior Office of Insular Affairs grant manager for the grant.

AGREEMENT BETWEEN THE
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SECTION 432 REVIEW

APPENDIX D—AUDIT STANDARDS AND RESPONSIBILITIES

1. The Government of Palau shall perform a financial and compliance audit, within the meaning of the Single Audit Act, as amended (31 U.S.C. 7501 et seq.), of the uses of the funding provided pursuant to 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 (the "Agreement") for each fiscal year during which the Agreement is in effect. The results of these Audits shall be available not later than the beginning of the fourth fiscal quarter following the end of the fiscal year under review, as required by the Single Audit Act. The costs of these audits are to be borne by the Government of Palau, and may be a recognized expense to funds provided under section 4 of the Agreement. If the Government of the Republic of Palau does not endeavor to perform a Single Audit in any given fiscal year, economic assistance funds to be provided to Palau in the following fiscal year under section 4 of the Agreement shall be redirected to pay for the required Single Audit.
2. In conducting the audits required under this Appendix, the auditors shall take into account relevant laws and regulations of the United States and Palau, including U.S. laws and regulations on the conduct of audits, and Palauan laws and regulations which relate in a material, substantial or direct way to financial statements and operations of the Government of Palau.
3. The authority of the Government of the United States set forth this Appendix shall continue for at least three (3) years after the last Grant or element of assistance by the Government of the United States under this Agreement has been provided and expended.
4. Audit officials or agents of the Government of the United States may perform audits on the use of all funding provided pursuant to this Agreement, including grants and other assistance provided to the Government of Palau. The Government of the United States is responsible for all costs attendant to the discharge of this authority.
5. Audit officials from the Government of the United States are the officials and employees of the Government of the United States who are responsible for the discharge of its audit responsibilities, including those of the Comptroller General of the United States and any Inspector General of an agency of the Government of the United States with programs operating in or otherwise serving the Republic of Palau. While present in the Republic of Palau for the purposes of this Appendix, audit officials from the Government of the United States shall be immune from civil and criminal process relating to words spoken or written and all acts performed by them in their official capacity and falling within their

functions, except insofar as such immunity may be expressly waived by the Government of the United States. The Comptroller General and his duly authorized representatives, and other audit officials from the Government of the United States, shall not be liable to arrest or detention pending trial, except in the case of a grave crime and pursuant to a decision by a competent judicial authority, and such persons shall enjoy immunity from seizure of personal property, immigration restrictions, and laws relating to alien registration, fingerprinting, and the registration of foreign agents. Such persons shall enjoy the same taxation exemptions as are set forth in Article 34 of the Vienna Convention on Diplomatic Relations. The privileges, exemptions and immunities accorded under this paragraph are not for the personal benefit of the individuals concerned but are to safeguard the independent exercise of their official functions. Without prejudice to those privileges, exemptions and immunities, it is the duty of all such persons to respect the laws and regulations of the Government of the Republic of Palau.

6. Audit officials from the Government of the United States shall provide the Government of Palau with advance notice of the specific dates and nature of their visits prior to entering the Republic of Palau and shall show verifiable identification to officials of the Government of Palau when seeking access to records. In the performance of their responsibilities under this Agreement, audit officials from the Government of the United States shall have due regard for the laws of the Republic of Palau and the duties and responsibilities of the officials of the Government of Palau. Officials of the Government of Palau shall cooperate fully to the extent practicable with the United States audit officials to enable the full discharge of their responsibilities.
7. The Comptroller General of the United States, and officials of the United States Government Accountability Office acting on his or her behalf, shall have coextensive authority with the executive branch of the Government of the United States as provided by this Appendix. The audit officials from the executive branch of the Government of the United States shall avoid duplication between their audit programs and those of the United States Government Accountability Office. The Government of Palau shall cooperate fully to the extent practicable with the Comptroller General of the United States in the conduct of such Audits as the Comptroller General of the United States determines necessary in accordance with this Appendix to enable the full discharge of his responsibilities.
8. The Government of Palau shall provide audit officials from the Government of the United States with access, without cost and during normal working hours, to all records, documents, working papers, automated data, and files which are relevant to the uses of funding received pursuant to the Agreement by the Government of Palau. To the extent that such information is contained in confidential official documents, the Government of Palau shall undertake to extract information that is not of a confidential nature and make it available to the audit officials from the Government of the United States in the same manner as other relevant information or to provide such information from other sources.

9. In order to reduce the level of interference in the daily operation of the activities of the Government of Palau, audit officials from the Government of the United States shall, to the extent practicable, inform the Government of Palau of their need for information, including the type of information and its relation to their annual audit schedule. To the extent practicable, the Government of Palau shall make available the information requested by audit officials from the Government of the United States relevant to Audits and available in a manner consistent with generally accepted accounting procedures that allows for the distinction of the Grants, assistance, and payments provided by the Government of the United States from any other funds of the Government of Palau. Such information shall be used and returned as quickly as accurate audit testing and surveying allow.
10. The Government of Palau shall maintain records, documents, working papers, automated data, files, and other information regarding each such Grant or other assistance for at least three (3) years after such Grant or assistance was provided.
11. Audit organizations and officials from the Government of the United States, including the Comptroller General of the United States and his duly authorized representatives, shall provide the Government of Palau with at least thirty (30) days to review and comment on draft audit reports prior to the release of the reports. The comments of the Government of Palau shall be included, in full, in the final audit reports. Should a draft audit report be revised based on the comments of the Government of Palau, the Government of Palau shall have an additional period to review and comment on the report prior to its release.

**AGREEMENT
BETWEEN
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TO AMEND THE AGREEMENT BETWEEN THE GOVERNMENT OF
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THE REPUBLIC OF PALAU FOLLOWING THE COMPACT OF FREE
ASSOCIATION SECTION 432 REVIEW**

The Government of the United States of America and the Government of the Republic of Palau hereby agree to amend 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, signed at Honolulu on September 3, 2010 (the "Compact Review Agreement") as follows:

Section 1 is replaced in its entirety by the following:

"The Government of the United States of America (the "Government of the United States") shall contribute \$65.25 million to the Fund referred to in Section 211(f) of the Compact in accordance with the following schedule: \$65.25 million as soon as practicable following the entry into force of this Agreement as hereby amended."

Section 2(a) is replaced in its entirety by the following:

"The Government of the United States shall provide a grant of \$2 million annually from Fiscal Year 2018, or as soon as practicable following this Agreement's entry into force, through Fiscal Year 2024 to create a trust fund (the "Infrastructure Maintenance Fund") to be used for the routine and periodic maintenance of major capital improvement projects financed by funds provided by the Government of the United States. The Government of the Republic of Palau (the "Government of Palau") will match the contributions made by the Government of the United States by making contributions of: \$150,000 to the Infrastructure Maintenance Fund on a quarterly basis from the beginning of Fiscal Year 2019 through Fiscal Year 2024. Implementation of this subsection shall be carried out in accordance with the provision of Appendix A to this agreement."

Section 3 is replaced in its entirety by the following:

"The Government of the United States shall provide the Government of Palau with no funds for deposit in an interest bearing account to be used to reduce government payment arrears of Palau."

Section 4(a) is replaced in its entirety by the following:

"In addition to the \$107.644 million in economic assistance provided to the Government of Palau by the Government of the United States in Fiscal Years 2010 through 2018, and unless otherwise specified in this Agreement, as amended, or in an Appendix to this Agreement, the Government of the United States shall provide the Government of Palau with \$22.106 million as follows: \$22.106 in Fiscal Year 2018, or as soon as practicable following this Agreement's entry into force."

Section 4(b) is replaced in its entirety by the following:

"With respect to Fiscal Years 2018 through 2023, and except as otherwise agreed by the Government of the United States and the Government of Palau, the Government of Palau agrees not to exceed the annual Section 211(f) Fund distributions established in the provisions of Compact section 211(f) and the Agreement Between the Government of the United States and the Government of Palau Regarding Economic Assistance Concluded Pursuant to Section 211(f) of the Compact of Free Association."

Section 5 is replaced in its entirety by the following:

"The Government of the United States shall make available \$20 million as soon as practicable following the entry into force of this Agreement, as amended, for grants to the Government of Palau for one or more mutually agreed upon infrastructure projects in accordance with the provisions of Appendix C to this Agreement, as amended."

This Agreement shall enter into force on the date the Compact Review Agreement enters into force.

This Agreement shall remain in full force and effect until terminated by mutual written consent, or until termination of the Compact Review Agreement, whichever occurs first.

IN WITNESS THEREOF, the undersigned, duly authorized by their respective governments, have signed this Agreement.

Done at Koror on 19 September 2018, in duplicate, in the English language.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE
REPUBLIC OF PALAU:

