



# Palau: Water Sector Improvement Program

Project Name	Water Sector Improvement Program								
Project Number	44031-013								
Country / Economy	Palau								
Project Status	Closed								
Project Type / Modality of Assistance	Loan								
Source of Funding / Amount	<table><tr><td colspan="2">Loan 2691-PAL: Water Sector Improvement Program</td></tr><tr><td>Ordinary capital resources</td><td>US\$ 12.60 million</td></tr><tr><td colspan="2">Loan 2692-PAL: Water Sector Improvement Program</td></tr><tr><td>Asian Development Fund</td><td>US\$ 3.40 million</td></tr></table>	Loan 2691-PAL: Water Sector Improvement Program		Ordinary capital resources	US\$ 12.60 million	Loan 2692-PAL: Water Sector Improvement Program		Asian Development Fund	US\$ 3.40 million
Loan 2691-PAL: Water Sector Improvement Program									
Ordinary capital resources	US\$ 12.60 million								
Loan 2692-PAL: Water Sector Improvement Program									
Asian Development Fund	US\$ 3.40 million								
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth								
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development								
Sector / Subsector	Water and other urban infrastructure and services / Urban policy, institutional and capacity development								
Gender	Some gender elements								
Description									
Project Rationale and Linkage to Country/Regional Strategy	<p>Low water tariffs and high water consumption. Water tariffs in Palau are low by international standards. Average household expenditure for water by the residents of Koror and Airai is about 1% of average monthly household income, compared with the international norm of 5%. Sanitation services in Palau are provided free of charge. The low water tariffs do not encourage prudent water consumption of treated water. Consumption is estimated at 169 gallons per person a day, or more than 5 times greater than in Asian countries.</p> <p>High subsidies. The water and sanitation sector is the only utility service in Palau that operates with high subsidies. Power and telecommunications services have already been corporatized and attract no government subsidies. Only 20% of the total operational cost of providing water and sanitation services is recovered through water charges, with the balance subsidized by the Government of Palau (government). The government's budget support for the delivery of water and sanitation services for FY2010 of \$2.4 million or 1.2% of gross domestic product (GDP) is similar to the government's FY2010 projected fiscal deficit. Water subsidies are not targeted to the poor and disproportionately benefit wealthier Palauans. The government's objective is to eliminate subsidies in the sector by increasing charges to reflect the full cost of supplying these services. This will help the government achieve its medium-term fiscal target of a 5% reduction in expenditure over the next 5 years, consistent with the International Monetary Fund's recommendations.</p> <p>Water shortage may hinder tourism growth. Current demand projections show that without intervention, demand will exceed supply by 1.4 million gallons per day by 2020. Demand growth will be primarily driven by increasing tourist arrivals. Tourism is the largest private sector component of the economy, accounting for almost half of the country's GDP. Tourist arrivals already exceed 80,000 per year, or four times the national population and are projected to grow by an average of 4.4% per annum over the next 10 years. The resident population of Koror and Airai is projected to grow by 0.5% per annum. Yields from water sources for the Koror-Airai water supply are insufficient to meet current demand during periods of prolonged drought, expected to intensify due to climate change. Improving the climate resilience of the water supply would require the construction of a large reservoir at an estimated cost exceeding \$25 million, which is not financially viable.</p> <p>However, efficiency improvements - including demand-side management and reduction of nonrevenue water - are expected to remove the projected supply gap without adversely impacting tourism growth and associated private sector development.</p> <p>Fragmented responsibilities within the sector. The Koror-Airai water supply system provides treated water to approximately 77% of Palau's population living in Koror and Airai states. The Koror-Airai water supply system is operated and maintained by the Bureau of Public Works (BPW), a division of the Ministry of Public Infrastructure, Industry and Commerce (MPIIC). BPW also operates and maintains separate systems in 14 states on behalf of the state governments. Multiple agencies are responsible for water supply and sewerage service delivery, with no agreed plan or central coordination. The capital infrastructure project unit of MPIIC is responsible for the design and development of infrastructure. The BPW is responsible for water supply and sewerage treatment. The Ministry of Finance (MOF), Division of Utility Collections, is responsible for billing and payment collection. Currently, no agency is responsible for tariff setting, infrastructure investment, and planning. No budget is provided for capital expenditure, as all public water infrastructure development since the Palau's independence in 1994 has been financed by grants. The water sector maintenance budget is approximately 1.7% of the value of the assets, which is below the international norm of 2%. Many of the assets have exceeded their design life, and thus have no book value.</p> <p>Inefficient operations and management. Operations are inefficient and losses are high, with nonrevenue water at 43% of production. Collection rates have historically been poor, at 60%-65% of billing. Management and organizational planning is limited. Maintenance is underfunded, and not all needed technical skills are available. There is scope to improve performance within the sector, but this will require an overhaul of current operations and management and the introduction of a capacity building program. Water and sewerage flow metering to improve maintenance and leak detection, adjustment of the pricing of water and sewerage, and remedial programs will also improve efficiency.</p> <p>Inadequate legal and regulatory framework. Current legislation is outdated and requires updating and consolidation to empower a new water and sewerage authority, particularly in the areas of water abstraction and sewerage disposal, obligations for natural resource management, and rights of a utility to undertake its duties and functions as a water and sewerage services provider.</p> <p>Legislative changes need to reflect the government's commitment to reform in the water and sanitation sector, recognizing that tariff reform in the sector is critical to reduce demand and provide a reliable, full cost-recovery service (footnote 6). This commitment is articulated in the Medium-Term Development Strategy (MTDS) 2009-2014, which was developed to support implementation of the National Master Development Plan. The program supports the MTDS goals and actions by (i) investing in the water and sanitation sector, (ii) moving state-owned enterprises toward full cost recovery, and (iii) reducing government expenditure by eliminating subsidies. The Palau country partnership strategy, 2009-2013 supports the goals and actions of the government's MTDS and includes technical and financial support for sewerage sector planning, improving water resource management, and water and sanitation sector infrastructure development.</p>								
Impact	Sustainable water and sewerage services								
<b>Project Outcome</b>									
Description of Outcome	The impact of the Program will be sustainable water and sewerage services as the Program will enable the demand for water and sewerage services to be met.								
Progress Toward Outcome									

Implementation Progress	
Description of Project Outputs	1. Legal and policy framework for water sector improvement is in place. 2. Improved services delivered by an independent PWSC 3. Full cost recovery achieved in the water and sewerage sector
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide
Safeguard Categories	
Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C
Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	
Business Opportunities	
Consulting Services	To be determined by the Government.
Procurement	To be determined by the Government.
Responsible ADB Officer	Blaik, Stephen
Responsible ADB Department	Pacific Department
Responsible ADB Division	Urban, Social Development & Public Management Division, PARD
Executing Agencies	Ministry of Finance 3rd Floor, Executive Bldg, ROP Capitol Ngerulmud, Melekeok State, P.O. Box 6011 Koror, PW 96940, Republic of Palau
Timetable	
Concept Clearance	09 Feb 2011
Fact Finding	06 Aug 2010 to 09 Feb 2011
MRM	09 Feb 2011
Approval	09 Nov 2010
Last Review Mission	-
PDS Creation Date	17 Aug 2010
Last PDS Update	30 Sep 2013

## Loan 2691-PAL

Milestones						
Approval	Signing Date	Effectivity Date	Closing			
			Original	Revised	Actual	
09 Nov 2010	06 Oct 2011	05 Dec 2011	28 Feb 2015	-	02 Apr 2014	

Financing Plan			Loan Utilization			
	Total (Amount in US\$ million)		Date	ADB	Others	Net Percentage
Project Cost	13.80		Cumulative Contract Awards			
ADB	12.60		17 Jun 2022	12.60	0.00	100%
Counterpart	1.20		Cumulative Disbursements			
Cofinancing	0.00		17 Jun 2022	12.60	0.00	100%

## Loan 2692-PAL

Milestones
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Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
09 Nov 2010	06 Oct 2011	05 Dec 2011	28 Feb 2015	-	02 Apr 2014

Financing Plan			Loan Utilization			
	Total (Amount in US\$ million)		Date	ADB	Others	Net Percentage
Project Cost	3.40	Cumulative Contract Awards				
ADB	3.40	17 Jun 2022	3.47	0.00	100%	
Counterpart	0.00	Cumulative Disbursements				
Cofinancing	0.00	17 Jun 2022	3.47	0.00	100%	

Project Page	<a href="https://www.adb.org/projects/44031-013/main">https://www.adb.org/projects/44031-013/main</a>
Request for Information	<a href="http://www.adb.org/forms/request-information-form?subject=44031-013">http://www.adb.org/forms/request-information-form?subject=44031-013</a>
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