



# Palau: Palau Public Utilities Corporation Reform

Project Name	Palau Public Utilities Corporation Reform				
Project Number	54151-002				
Country / Economy	Palau				
Project Status	Closed				
Project Type / Modality of Assistance	Technical Assistance				
Source of Funding / Amount	<table border="1"><tr><td>TA 9978-PAL: Palau Public Utilities Corporation Reform</td><td></td></tr><tr><td>Technical Assistance Special Fund</td><td>US\$ 225,000.00</td></tr></table>	TA 9978-PAL: Palau Public Utilities Corporation Reform		Technical Assistance Special Fund	US\$ 225,000.00
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Operational Priorities	OP2: Accelerating progress in gender equality OP6: Strengthening governance and institutional capacity				
Sector / Subsector	Energy / Energy sector development and institutional reform				
Gender	Some gender elements				
Description	<p>The TA aims to develop corporate reform plan, which will help the government to recover PPUC financial sustainability transforming into a financially independent entity with enhanced governance and economic incentives to run efficiently, including implementation of its capital investment program. Supporting the government's efforts on improving energy sector sustainability, provide an opportunity to capitalize ADB energy reform capacity, and support consistent with ADB's Energy Policy and ADB Strategy 2030 (Pillar 1 strengthening governance and institutional capacity).</p> <p>TA major outputs: (i) PPUC financial sustainability assessed; (ii) PPUC corporate governance plan established and (iii) Social, poverty and gender due diligence completed.</p>				
Project Rationale and Linkage to Country/Regional Strategy	<p>Development context and energy. Palau comprises some 340 islands with a population of about 18,400 (in 2018) and almost 80% of the population lives in Koror and Airai. Development grants under Palau's Compact of Free Association with the United States, expected to expire in fiscal year (FY) 2024, contributed to a per capita gross domestic product (GDP) of \$15,982 in FY2018. Palau depends critically on tourism revenues that contributes almost 55% of annual GDP and services sector employing three-quarters of the country's formal workforce. To prevent the spread of COVID-19 in the region, Palau similar to other Pacific DMCs has applied restrictive travel bans that negatively impacted the country's revenue and liquidity to sustain its economic development and capital investments in critical infrastructure. COVID-19 has become a new downside risk to energy sector that will be facing two headwinds: drastic decline in power demand and widening gap in liquidity to sustain its infrastructure. The government does not have any contingency plan to protect its energy sector. With potential global recession risk, energy reforms and contingency plan in Palau is vital as security and reliability of supply remains important to sustain the country's public goods and health of population.</p> <p>Energy losses and widening liquidity gap. Incorporated in 1993, the Palau Public Utilities Corporation (PPUC) is a utility corporation owned by the government primarily for (i) generation, transmission and distribution of power; and (ii) supply of water and sewage services. PPUC's power, water and sewage service tariffs are determined based on cost recovery methodology and cost of service. However, since 2017, the quality of methodology was compromised by prohibition of tariff adjustments for electricity and water by the Parliament of Palau. The stalled tariff revisions and limited government subsidies led to significant losses by PPUC and insufficient revenues to cover the operating and maintenance (O&amp;M) costs, capital expenses and loan repayments. Operational inefficiencies and electricity network losses amplify liquidity deficit. In 2018, the transmission and distribution losses were close to 20% of supply and collection for billed electricity was below 70%. This puts PPUC in a negative spiral of limited investments and increasingly poor efficiency, making system losses a recurring cause of circular debt.</p> <p>Weak performance management, absence of targets and indicators. In 2019, the PPUC had a record level of cash deficit (almost 20% of revenue) and failed to plan its capital program postponing all modernization of its critical infrastructure. Poor liquidity management and absence of efficiency targets led to increase in days sales outstanding from 55 to over 120 days. Over half of accumulated bad debt for power is for water and sewage operations to be paid by the government under community service obligations. Furthermore, PPUC has not been able to complete its revenue management measures and only 24% of billed electricity is done via advance metering infrastructure.</p> <p>Poor corporate governance and transparency. Despite attempts to corporatize PPUC by merging water and electricity in 1993, the PPUC remains weak with accumulated losses over \$5 million in FY2019. PPUC lacks corporate-style management and independent decision making to maximize its revenue and liquidity. The resulting lack of creditworthiness limits financing options and has made PPUC primarily reliant on limited sovereign financing for capital projects. With limited investments, PPUC does not meet transmission and distribution benchmark loss reduction and collection targets determined by PEA. Reliance on sovereign financing has also led to heavy public sector influence on PPUC governance and quality of disclosure as board and management positions are held mainly by government affiliated personnel with inadequate sector experience. PEA is assigned for annual performance review of PPUC, but it also lacks resources to ensure high quality of performance disclosure.</p> <p>Outdated investment planning and budgeting. With traditional thermal generation over 97% of the energy mix, PPUC is heavily dependent on imported fuel and market volatility. PPUC's generation fleet is operated below efficiency and lacking scheduled O&amp;M to reduce fuel consumption and reliability of supply. With fuel cost above 70% of total expenses, renewable energy will be key to reducing electricity costs in the mid to long run. However, due to weak and fragmented planning, investment constraints and lack of liquidity, the expansion of transmission and distribution system has not been augmented to meet with the country's renewable energy target of 45% by 2025. With estimated \$150 million required for transmission and distribution, PPUC needs to revamp its financial management, enhancing its credit quality to access private investments.</p> <p>Government reform agenda. The government recognizes the urgency of energy and tariff reforms to introduce market-driven incentives necessary for PPUC's sustainability and leveraging private sector investments to meet the country's renewable energy target of 45% by 2024. The government prioritized PPUC's financial recovery plan to restore liquidity and profitability by 2021. The plan aims to: (i) enhance PPUC financial management, (ii) tariff reforms, and (iii) scale up renewable energy. Palau National Energy Master Plan (2019) emphasizes efficiency and transition from diesel generation to renewable energy introducing long-term concessions and guaranteed power purchase agreements (PPAs) for private investments in renewable energy. While PPAs are instrumental for hedging major risks of developers in Palau, the PPUC distressed financial position is a key source of the country's fiscal risk. PPUC underperformance and liquidity deficit will adversely impact the country's quasi-fiscal deficit costing about 1% of GDP, i.e. the government's contingent liability associated with cost of direct PPA subsidies and capital injection to bail out the public utility.</p>				
Impact					
<b>Project Outcome</b>					
Description of Outcome					
Progress Toward Outcome					
<b>Implementation Progress</b>					
Description of Project Outputs					

Geographical Location	Nation-wide
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### Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

### Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer	Abbasov, Rafayil
Responsible ADB Department	Pacific Department
Responsible ADB Division	Energy Division, PARD
Executing Agencies	Asian Development Bank Palau Public Utilities Corporation

### Timetable

Concept Clearance	-
Fact Finding	-
MRM	-
Approval	13 May 2020
Last Review Mission	-
Last PDS Update	13 May 2020

## TAÂ 9978-PAL

### Milestones

Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
13 May 2020	-	13 May 2020	20 Feb 2021	-	01 Mar 2021

### Financing Plan/TA Utilization

ADB	Cofinancing	Counterpart				Total	Cumulative Disbursements	
		Gov	Beneficiaries	Project Sponsor	Others		Date	Amount
225,000.00	0.00	0.00	0.00	0.00	0.00	225,000.00	17 Jun 2022	106,712.59

Project Page	<a href="https://www.adb.org/projects/54151-002/main">https://www.adb.org/projects/54151-002/main</a>
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