

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Republic of Palau	Project Title:	Palau Public Utilities Corporation Reform
Lending/Financing Modality:	Policy-Based Lending	Department/Division:	PARD/PAEN

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
Poverty targeting: <input checked="" type="checkbox"/> General intervention <input type="checkbox"/> Individual or household (TI-H) <input type="checkbox"/> Geographic (TI-G) <input type="checkbox"/> Non-Income MDGs (TI M1, M2, etc.)
<p>Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy. The program is in line with the 2020 Palau National Master Development Plan^a for economic and social development priorities, including for capital improvements of the national water system and national power plant rehabilitation initiatives. It will also support achieving the Sustainable Development Goals (SDGs) for providing universal access to water and sanitation (SDG 6) and modern energy (SDG 7). The program is aligned with the Asian Development Bank (ADB) Pacific Approach, 2016–2020,^b which is ADB’s operational framework for the Pacific region and serves as the country partnership strategy for Palau and 10 other smaller Pacific developing member countries; and with the country operations business plan for 11 small Pacific island countries, 2020–2022.^c The Pacific Approach emphasizes the importance of reducing the cost of doing business by lowering the costs of connectivity and energy and creating a more enabling business environment. In addition, it emphasizes that ADB will continue to favor an integrated approach to providing urban infrastructure and services, including inclusive and equitable access to water supply, sanitation, and electricity.</p>
<p>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence</p> <p>1. Key poverty and social issues. The national poverty rate in Palau is 19.4%, which translates into 3,411 persons, or about 1,003 households given the average household size of 3.4 persons, living below the national poverty line.^d An additional 1,779 households had incomes just above the poverty line and were at risk of falling into poverty because of external shocks^e such as the coronavirus disease (COVID-19) pandemic.^f Income distribution is highly unequal, with the wealthiest 10% of all households receiving 38% of total household income, while the poorest 10% receive only 1% (footnote d). Increasing water and electricity tariffs carry a significant risk of pushing up the number of energy-poor households.^g Household energy poverty is high, as electricity, liquified petroleum gas, and kerosene expenditures account for 18% of poor and low-income households’ income.^h COVID-19 will potentially increase energy poverty as energy expenditures will account for a larger share of shrinking household incomes; for poor households, this means limiting electricity use, resulting in lower living standards.ⁱ Frequent water and power outages compound the poverty impact on household living standards and pose public health risks by restricting access to water.^j Palau is 100% electrified but supply is unreliable and unscheduled interruptions occur regularly.</p> <p>2. Beneficiaries. The program’s beneficiaries are the public, including most of Palau’s population; government agencies; and the private and public sectors, which will benefit from improved water and electricity services.</p> <p>3. Impact channels. The water and electricity supply is at risk, and ongoing disruptions hinder the social and economic development of households, especially the poor, who have lower incomes and cannot afford access to alternative energy sources (e.g., private generators, solar energy) or transportable water. The disruptive water supply also creates hygiene and public health risks. The program will provide improved access to modern, reliable, and affordable energy services—an essential prerequisite to promoting economic growth, reducing poverty, and ensuring the functioning of basic social services such as schools and health care. The program will also ensure that the private sector and businesses have reliable water and electricity services to maintain productivity and retain employees, which will contribute to reducing poverty and enhancing social stability.</p> <p>4. Other social and poverty issues. Other key poverty and social issues include the gender income gap, poor diet and obesity, and noncommunicable diseases. The program will directly and indirectly impact these issues by improving access to water and electricity. International and national development partners are working on other social and poverty issues.</p> <p>5. Design features. The design includes required policy actions to (i) reform tariffs, (ii) enhance the financial management capacity of Palau Public Utilities Corporation (PPUC), (iii) strengthen corporate governance and transparency of PPUC, and (iv) improve market access for private sector participation. In addition, technical assistance (TA) attached to the policy-based loan will support the implementation of reforms, including providing technical advice and capacity-building to the Ministry of Finance and PPUC.</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending:</p> <p>1. Impact channels of the policy reform(s). The main impact channels are improved and sustainable access to water and electricity, which will enhance the living standards of households; and improved operations and productivity of the public and private sectors, which will contribute to employment and income opportunities for households.</p> <p>2. Impacts of policy reform(s) on vulnerable groups. Without subsidies, water and electricity tariff increases can pose affordability risks for poor households. The lifeline subsidy is a government program established in 2015 for low-income households (threshold annual income up to \$11,744, or \$2,936 per household member). It allows subsidized free consumption of up to 150 kilowatt-hours of electricity and up to 5,000 gallons of water, which may not be fully used by poor households but which the median-income and wealthier households may employ.^k The COVID-19 crisis is leading to increased unemployment and decreased income for households; without subsidies, poor households may become further impoverished. On 27 April 2020, the government adopted the Coronavirus Relief One-Stop Shop (CROSS) Act, which opened an existing program to low-income</p>

customers (including resident foreigners and those living in employment housing and barracks) who have been affected by COVID-19 through layoffs, furlough, cut hours, etc. (temporary until January 31, 2021). Considering the impact of COVID-19, the consumption threshold to qualify for subsidies shall be reviewed and possibly reduced under the program to make it accessible to a greater number of low-income and poor households. Tariffs shall be examined taking into account the fact that artificially low tariffs for all likely harm the poor.^l As electricity is not the only energy source for most households, higher electricity tariffs are not likely to significantly impact the expenditures of median and wealthier households; but for low-income and poor households, higher tariffs are a significant burden.^m

3. Systemic changes expected from policy reform(s). The policy reforms and measures on tariff change, on enhancing financial management, and on strengthening corporate governance and transparency (including corporate gender policies and strategies) will lead to systematic changes within PPUC. The reforms will improve PPUC's capacity and services, improve its market access for private sector participation, and promote gender equality in workplace.

II. PARTICIPATION AND EMPOWERING THE POOR

Participatory approaches and project activities. Key stakeholders were consulted in the program design including PPUC male and female staff on social and gender issues. Looking ahead, the tariff petition guidelines being developed under the program will be finalized through participatory approaches such as public hearings and awareness-raising events on tariff changes and the subsidy program.

M Information gathering and sharing M Consultation Collaboration Partnership

III. GENDER AND DEVELOPMENT Gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender element) NGE (no gender element)

A. Key issues. The Palau Constitution, National Code, and the 2018 National Gender Mainstreaming Policy highlight the importance of gender equality and equal opportunities. However, gender inequality in many aspects of women's and girls' lives continues to exist. Although women have high primary and secondary educational attainment,ⁿ this does not translate into paid employment, with only 41% of women engaged in paid employment, compared with about 60% of men. Women-headed households (34% of all Palauan households), have monthly average per capita incomes of only \$660, compared with \$800 for households headed by men, which equates to a gender income gap of 18%.^o Many women work (formally and informally) in tourism or tourism-related industries that have been heavily affected by COVID-19.^p For example, women comprise 94.4% of the workforce in the services sector. However, female employment is limited in technical roles in the energy sector and in water and sanitation. At PPUC, out of 294 employees, only 49 are women (17%); most are employed in administrative roles. Only 1 in 39 employed women are in technical roles, and only 1 in 11 are in management. Barriers to women's employment, particularly in science, technology, engineering and math (STEM), include limited access to training; societal norms concerning "acceptable" jobs for women; issues surrounding gender-blind recruitment and human-resources processes; childcare responsibilities; and a lack of universal parental leave (under the law only women working at government agencies are eligible for some maternity benefits). As women and girls are largely responsible for household tasks and childcare, frequent water and electricity outages have greater adverse effects on women—including increased time poverty and reduced ability to earn an income because of an increased workload.

B. Key actions.

Policy reforms will lead to benefits for women by improving PPUC's service delivery, providing quality electricity services, and ensuring that the most vulnerable (such as women-headed households) are able to access electricity. Proactive gender measures include ensuring that electricity tariff reforms meet the needs of women and girls. Given the gender wage gap (which is increasing as a result of measures to contain COVID-19) and existing vulnerabilities that women-headed households face, a clear and fit-for-purpose subsidy program for poor and low-income households is needed to better target those in most need. A targeted awareness-raising campaign on the subsidy program, eligibility criteria, and the process of applying for subsidized electricity consumption will also improve women's access to subsidies (as many women from poor or low-income households may not be aware of the program or eligibility criteria). In addition, proactive measures have been taken to promote gender equality within PPUC and to support employing more women in skilled, technical, and "nontraditional" roles and in management and leadership positions. The PPUC supervisory board has approved a corporate gender strategy (2020–2023) that focuses on increasing the number of women employed at PPUC, particularly in management and technical roles. The strategy calls for annual internships and scholarships for women in energy and STEM subjects; and commits to working with schools and communities to change social norms on women's work in STEM areas. In addition, the PPUC supervisory board has approved a new gender-sensitive Human Resource Procedure, which includes parental leave provisions for the first time (even though PPUC has no legal mandate to do so). The procedure includes formal provisions for flexible working hours, antibullying and anti-harassment (including sexual harassment) policies and redress mechanisms, and trainings for staff and management. Finally, the PPUC supervisory board has approved a code of corporate governance that includes a quota (30%) for women board members for the first time.

Gender action plan Other actions or measures No action or measure

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement Safeguard Category: A B C FI

1. Key impacts. The project will not cause any involuntary resettlement impacts.

2. Strategy to address the impacts. NA	
3. Plan or other Actions.	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan
<input type="checkbox"/> Resettlement framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
<input checked="" type="checkbox"/> No action	
B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
The project will not have impact on Indigenous People.	
1. Key impacts. No impact is identified. No Indigenous People live in the project area. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Strategy to address the impacts. NA	
3. Plan or other actions.	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan
<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<input type="checkbox"/> Social impact matrix	
<input checked="" type="checkbox"/> No action	
V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market	
1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).	
<input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> L core labor standards	
2. Labor market impact. There will be no impact to the labor market. PPUC will ensure core labor standards.	
B. Affordability. The subsidy program is designed to make water and electricity services affordable for the poor.	
C. Communicable Diseases and Other Social Risks	
1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):	
<input type="checkbox"/> NA: Communicable diseases <input type="checkbox"/> NA: Human trafficking <input type="checkbox"/> NA: Others (please specify) _____	
2. Risks to people in project area. The program will not entail civil works or other activities that would require mass mobilization of labor and create possible communicable disease or other social risks. PPUC will adhere to Occupational Health and Safety standards and acceptable workplace behavior in the workplace for its employees and contractors.	
VI. MONITORING AND EVALUATION	
1. Targets and indicators: The design and monitoring framework (DMF) for the program includes performance target indicators to facilitate monitoring of social development and gender equality activities.	
2. Required human resources: A project management unit will be set up under PPUC. The attached TA and consultants will support PPUC in implementing the program and ensuring that it complies with PPUC's corporate gender strategy (2020–2023).	
3. Information in the project administration manual: The project administration manual stipulates that PPUC should monitor and report on the program's compliance with the corporate gender strategy's gender equality actions and relevant target indicators in the DMF.	
4. Monitoring tools. The project performance monitoring framework includes semiannual progress reports, midterm reports, and project completion reports to evaluate the project's social impact and gender equity.	

^a Palau National Master Plan Task Force. 1996. Palau 2020: National Master Development Plan. Koror.

^b ADB. 2016. Pacific Approach, 2016–2020. Manila.

^c ADB. 2019. Country Operations Business Plan: 11 Small Pacific Island Countries 2020–2022. Manila. The project was requested by the Government of Palau and proposed for ADB's country operations business plan for Palau, 2021–2023.

^d Government of Palau, MOF. 2014. *2014 Household Income and Expenditure Survey*. Koror; and Government of Palau, Office of Planning and Statistics. 2015. *Census of Population, Housing and Agriculture for the Republic of Palau*. Koror.

^e Palau Bureau of Budget and Planning. 2019. Pathway to 2030. 1st Voluntary National Review on the SDGs June 2019. Koror.

^f Preliminary assessments indicate a 23% decline in gross domestic product over the next 2 fiscal years.

^g The causes of energy poverty are mainly due to low income of households, high/growing energy prices, and inefficient energy performance of buildings in terms of thermal insulation systems. EU Energy Poverty 2017.

^h Government of Palau, MOF. 2014. 2014 Household Income and Expenditure Survey. Koror.

ⁱ Palau 2018 Urban Household Electrical Appliances, Lights, and End-use Survey, 25 September 2019. Bureau for Policy and Program Support, UNDP Pacific Office. Many households use gas (75%), kerosene (13%), and other fossil fuel as their primary cooking fuel. About 56% of respondent households in Palau have not used air conditioners.

^j World Health Organization. 2011. *Guidelines for Drinking-water Quality Fourth Edition*. Geneva.

^k In Palau, 50% of households (an estimated 2,357 of 4,713 households) had median incomes of \$13,200 or more annually in 2014 Household Income and Expenditure Survey (footnote 8).

^l Organisation for Economic Co-operation and Development. 2009. *Managing Water for All: An OECD Perspective on Pricing and Financing – Key Messages for Policy Makers* ©.

^m Bureau for Policy and Programme Support. *Palau 2018 Urban Household Electrical Appliances, Lights, and End-use Survey*. 25 September 2019. UNDP Pacific Office. Most (75%) households use a gas stove as the main means of cooking and have indoor kitchens (91%). About 13% of households (mostly poor) use kerosene or other fossil fuel for cooking.

ⁿ Footnote 5. About 46% of women have post-secondary educations, compared with 37% of men.

^o Footnote 8: *Gender Profile*; Palau Statistical Yearbook 2018

^p Gender Equality and the Sustainable Development Goals in Asia and the Pacific. Baseline and pathways for transformative change by 2030. June 2018.