

POTENTIAL SAFEGUARDS IMPACTS OF POLICY REFORMS

Outputs	Subprogram 2 Policy Actions to be completed by April 2022	Safeguards Impact	Mitigation Measures
<p>1. Tariff reforms managed</p>	<p>2.1. Palau National Congress (Olbiil era Kelulau) approved legislative amendments which came into effect on 24 March 2022 to expand PEWA’s mandate to include oversight over WWO tariff settings and regulations. Document required: Approval of a bill to amend PEA mandate by OEK.</p> <p>2.2. PEWA approved regulations for setting cost recovery WWO tariffs for PPUC, including subsidy and awareness raising procedures for poor and low-income households (including female headed households) helping consumers to be able to plan utility expenses, which became effective on 6 April 2022. Document required: Regulation for WWO tariffs by approved PEA.</p> <p>2.3. PEWA approved the guidelines for WWO tariff petition, including subsidy and awareness raising to create a transparent and predictable petition process for PPUC, which became effective on 6 April 2022. Document required: Guidelines for WWO tariff petition approved by PEA.</p> <p>2.4. PPUC Board approved WWO tariff petition to restore PPUC WWO financial sustainability through cost recovery tariff and submitted it to PEWA on 7 April 2022. Document required: PPUC Board resolution on WWO tariff petition.</p>	<p>There are no direct involuntary resettlement, indigenous peoples, or environmental impacts for any of the policy actions.</p> <p>Policy actions, however, will have indirect positive impacts in improving the financial stability and operational performance of PPUC. This will bring both incremental as well as non-incremental benefits to consumers in Palau. Incremental benefits arise from additional consumption of electricity by both existing and new customers connected to the national grid, while non-incremental benefits emanate from more affordable and cheaper electricity supply by renewable generation replacing fossil generation in the country and reduced cost of providing back-up power generators.</p>	<p>No mitigation measures required for any of the policy actions. Nevertheless, safeguards covenants will be included in the loan agreement to ensure that loan proceeds are not used for any program activities that will have environmental, indigenous peoples and involuntary resettlement impacts or any activities on the prohibited investment activities list. If involuntary resettlement, indigenous peoples, or environmental impacts will be unavoidable, the government will comply with ADB SPS (2009) and pertinent government laws.</p>
<p>2. PPUC financial management enhanced</p>	<p>2.5. PPUC’s Board approved PPUC’s annual revenue required model for WWO financial planning for FY 2022-2024 which became effective on January 2022. Document required: PPUC Board approval resolution on PPUC annual revenue projections for 2022-2024</p> <p>2.6. PPUC’s Board approved PPUC’s revenue enhancement action plan on 27 January 2022 to restore sustainability in WWO operations which will commence implementation from FY2023. Document required: PPUC Board approval for revenue enhancement action plan for WWO in 2022.</p> <p>2.7. PPUC’s Board approved PPUC’s business analytics procedure that provides detailed guidance on cost allocation and analysis and its performance disclosure framework for electricity and WWO effective from 18 August 2021, to enhance quality of management decisions and resource</p>	<p>In addition, the policy actions under Subprogram 2 will be able to (i) support Palau government’s plans to further enhance financial management and gender-sensitive corporate governance in WWO and EPO in PPUC, (ii) incorporate provisions on gender diversity in PPUC’s SCI, annual key performance indicator targets and in the remaining cross-sectoral reforms in reform areas 2 and 3; and (iii) a programmatic capacity development procedure approved by PPUC Board that actively trains and promotes</p>	

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	<p>planning. Document required: PPUC Board approval resolution on PPUC's business analytics and performance disclosure framework for EPO and WWO.</p>	<p>women in technical and management roles.</p>	
<p>3. PPUC corporate governance and transparency strengthened</p>	<p>2.8. MOF commenced implementation of SOE performance monitoring policy and procedures for SOEs, (including PPUC) effective from 20 October 2021 to undertake performance and operations monitoring of SOEs Document required: Executive Order on SOE including performance monitoring and procedures approved by President.</p> <p>2.9. PPUC's board approved PPUC statement of corporate intent in August 2021 which sets out its corporate, operational, and financial sustainability goals for FY2021-2024, with annual KPI targets including the increase in the number of women in management and technical roles, and delivery of programmatic capacity building (with targets for training to women). Document required: PPUC's Board resolution on approved PPUC's corporate intent and KPI targets (including gender diversity).</p> <p>2.10. PPUC's Board approved PPUC's sustainable debt management procedure effective from August 2021 which sets formal targets for capital structure and debt ceilings consistent with SCI approved by the PPUC board to enhance corporate resilience to external shocks. Document required: PPUC's Board resolution on approved PPUC's sustainable debt management procedures.</p> <p>2.11. PPUC's board approved procedures for PPUC's board nomination and integrity and PPUC staff capacity development and training procedures and budget including training targets for women effective from August 2021. Document required: PPUC's Board resolution on approved board nomination and integrity procedures.</p>		
<p>4. Market access for energy sector participation by the private sector improved</p>	<p>2.12. PPUC board approved the least-cost generation and transmission enhancement plan on 28 February 2022 for the period from FY2022–2025 to phase out depreciated assets and prioritize renewable energy evacuation. Document required: PPUC Board resolution on approved long term least cost generation and transmission enhancement plan for 2021–2025.</p> <p>2.13. MOF approved disclosure procedures for new PPPs (including energy and water sectors) effective from 3 September 2021 to manage sovereign fiscal risks through</p>		

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	enhanced transparency of PPP transactions and disclosure of key terms and conditions. Document required: PPP transparency and disclosure procedures approved by MOF.		

ADB = Asian Development Bank, EPO = energy power operation, KPI = key performance indicator, MOF = Ministry of Finance, OEK = Olbiil Era Kelulau, PEA = Palau Energy Administration, PEWA = Palau Energy and Water Administration, PPP = public-private partnership, PPUC = Palau Public Utilities Corporation, SCI = statement of corporate intent, SOE = state-owned enterprise, SPS = safeguard policy statement, WWO = water and wastewater operation.

Source: Asian Development Bank.