



## Concept Paper

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Project Number: 54151-001  
May 2020

# Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 and Technical Assistance Grant Republic of Palau: Palau Public Utilities Corporation Reform Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

The currency unit of Palau is the United States dollar.

## ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
FY	–	fiscal year
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
PBL	–	policy-based loan
PEA	–	Palau Energy Authority
PPA	–	power purchase agreement
PPUC	–	Palau Public Utilities Corporation
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the Government of Palau and its agencies ends on 30 September. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2020 ends on 30 September 2020.
- (ii) In this report, "\$" refers to United States dollars.

<b>Vice-President</b>	Ahmed Saeed, Operations 2
<b>Director General</b>	Leah Gutierrez, Pacific Department (PARD)
<b>Director</b>	Olly Norojono, Energy Division (PAEN), PARD
<b>Team leader</b>	Rafayil Abbasov, Finance Specialist (Energy), PAEN, PARD
<b>Team members</b>	Cynthia Ambe, Operations Assistant, PAEN, PARD Stephen Blaik, Principal Urban Development Specialist, Urban Development, Water Supply and Sanitation Division, PARD Faith Joy Buentipo, Senior Operations Assistant, PAEN, PARD Taniela Faletau, Safeguards Specialist, Portfolio, Results and Quality Control Unit, PARD Alfonsa Koshiba, Senior Country Officer, Office of the Director General, PARD Teresita Leono, Associate Project Officer, PAEN, PARD Mairi Macrae, Social Development Specialist (Gender and Development), Social Sectors and Public Sector Management Division (PASP), PARD Rommel Rabanal, Public Sector Economist, PASP, PARD Melinda Tun, Counsel, Office of the General Counsel
<b>Peer reviewer</b>	Kee-Yung Nam, Principal Energy Economist, Sustainable Development and Climate Change Department

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 54151-001	
<b>Project Name</b>	Palau Public Utilities Corporation Reform Program (Subprogram 1)	<b>Department/Division</b>	PARD/PAEN
<b>Country</b>	Palau, Republic of	<b>Executing Agency</b>	Ministry of Finance
<b>Borrower</b>	Palau		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54151-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=54151-001-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54151-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=54151-001-PortAtaGlance</a>		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Energy</b>	Energy sector development and institutional reform		5.00
		<b>Total</b>	<b>5.00</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information<sup>1</sup></b>	
✓ Accelerating progress in gender equality		GHG reductions (tons per annum)	0
✓ Strengthening governance and institutional capacity		Climate Change impact on the Project	Low
		<b>ADB Financing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 8.3		Some gender elements (SGE)	✓
SDG 9.1			
		<b>Poverty Targeting</b>	
		General Intervention on Poverty	✓
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	<b>Environment:</b> C	<b>Involuntary Resettlement:</b> C	<b>Indigenous Peoples:</b> C
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>5.00</b>	
Sovereign Programmatic Approach Policy-Based Lending (Concessional Loan): Ordinary capital resources		5.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>5.00</b>	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-6) in the amount of \$400,000.			
<b>Currency of ADB Financing:</b> US Dollar			

<sup>1</sup> The project reduces greenhouse gas emissions. However, it does not fall under the eligibility criteria for climate mitigation finance as defined by the joint multilateral development bank methodology on tracking climate finance, which notes that not all activities that reduce greenhouse gases in the short term are eligible to be counted towards climate mitigation finance. Accordingly, greenfield fossil fuel projects are excluded, and climate mitigation finance is considered zero.

## I. THE PROPOSAL

1. The proposed Palau Public Utilities Corporation Reform Program aims to strengthen the corporate governance and financial management of Palau's electricity and water utility company, the Palau Public Utilities Corporation (PPUC), and improve the electricity market by supporting tariff reforms. The programmatic approach is proposed through a policy-based loan (PBL) to finance two subprograms scheduled for consideration by the Board of Directors of the Asian Development Bank (ADB) in 2020 and 2022. The programmatic approach will (i) confirm the sequencing of reforms in coordination with the International Monetary Fund (IMF) and other partners, and (ii) ensure long-term continued engagement as the reforms are numerous and require several years to implement and yield results. The proposed technical assistance (TA) attached to the PBL will support the implementation of reforms, including providing technical advice and capacity-building support to the Ministry of Finance (MOF) and the PPUC. The program is consistent with the objectives of ADB's Pacific Approach, 2016–2020, which 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.<sup>1</sup>

## II. PROGRAM AND RATIONALE

### A. Background and Development Constraints

2. **Macroeconomic context.** Palau comprises 340 islands with a population of about 18,400 (in 2018), almost 80% of whom live in Koror and Airai states. Development grants under Palau's Compact of Free Association with the United States, expected to expire in fiscal year (FY) 2024, contributed substantially to a per capita gross domestic product (GDP) of \$15,982 in FY2018. Palau depends critically on tourism revenues, which contribute almost 55% of annual GDP and the services sector, which employs three-quarters of the country's formal workforce. However, reduced flight connections have led to a steady decline in tourist arrivals from a peak of nearly 170,000 in FY2015 to fewer than 90,000 in FY2019. The tourism downturn has translated into weakness in the broader economy, with alternating years of low growth and economic contraction. Despite this, Palau has maintained annual fiscal surpluses averaging the equivalent of 2.2% of GDP during FY2016–FY2019, extending an impressive period of solid fiscal management that has resulted in annual surpluses since FY2011. Public debt, estimated at the equivalent of about 32% of GDP in FY2019, also remains sustainable.<sup>2</sup>

3. To prevent the transmission of coronavirus disease (COVID-19), Palau, like other Pacific nations, instituted a travel ban. With no tourist arrivals expected for at least a few months, Palau's economy is projected to contract by 5% in FY2020, translating into revenue shortfalls and tight liquidity amid rising health expenditure needs, which could result in deferment of investments in critical infrastructure. Hence, COVID-19 has become a new risk to Palau's utilities sector, causing (i) a drastic decline in demand for electricity, water supply, and sewerage; and (ii) a widening gap in liquidity to sustain infrastructure. The government does not have the resources to protect its energy, water and sanitation sectors from the impacts of COVID-19. With the risk of a global recession, utility reforms are vital to the security and reliability of the supply of electricity, water,

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<sup>1</sup> ADB. 2016. *Pacific Approach, 2016–2020*. Manila. The project was requested by the Government of Palau and proposed for ADB's country operations business plan for Palau, 2021–2023.

<sup>2</sup> IMF. 2019. *Republic of Palau—2018 Article IV Consultation. IMF Country Report No.19/43*. Washington, DC.

and sewerage services that are essential to sustain Palau's public goods and the health of the population.

4. **Palau Public Utilities Corporation losses and widening liquidity gap.** Incorporated in 1993, the PPUC is a state-owned utility for the generation, transmission, and distribution of power; and supply of water and sewage services.<sup>3</sup> The Palau Energy Administration (PEA) determines the PPUC's tariffs based on a cost-recovery methodology.<sup>4</sup> In FY2016, the PPUC had almost achieved its target of full cost recovery as total revenue had risen to over 90% of total operating expenses. However, in 2017, Palau's Parliament froze electricity, water, and sewerage tariffs because of consumers' concerns about service cost and quality.<sup>5</sup> As a result of the stalling of tariff revisions and inadequacy of subsidies, the PPUC has incurred significant losses and has insufficient revenue to cover operation and maintenance and debt repayments.<sup>6</sup> Operational inefficiencies and electricity network losses amplify the liquidity deficit.<sup>7</sup> In 2018, the power grid losses were almost 20% and collection for billed electricity was less than 70%. This put PPUC in a negative spiral of limited investments and increasingly poor efficiency, making system losses a recurring cause of circular debt. Without reforms, the PPUC may become insolvent by FY2021 unless the government allows tariff adjustments or provides financial support.

5. **Weak performance management and absence of targets.** In 2019, the PPUC recorded a cash deficit of almost 20% of revenue and failed to implement its capital and maintenance program postponing all infrastructure upgrades. The utility has been unable to complete its revenue-enhancement measures and only 24% of electricity billing is provided through advance metering infrastructure. Poor liquidity and an absence of efficiency targets led to an increase in the average age of arrears in the power sector from 55 days to more than 120 days. More than half of accumulated debt for power is for water and sewerage operations to be paid by the government under community service obligations. The government has not been able to pay in full because of budget constraints and funding limitations.

6. **Poor corporate governance and transparency.** Despite attempts to corporatize the PPUC by merging water and electricity operations in 2013, the PPUC lacks corporate-style management and independent decision-making to maximize its revenue and liquidity. The resulting lack of creditworthiness limits the PPUC's access to financing, making it reliant on ad hoc state subsidies. With limited investments, the PPUC does not meet loss reduction benchmark and targets. Reliance on state capital has 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. The PEA is mandated to review the PPUC's performance, but it lacks the resources to adequately monitor PPUC activities and access to its operational and financial data.<sup>8</sup>

7. **Outdated investment planning and budgeting.** With traditional thermal generation comprising 97% of the energy mix, the PPUC depends on imported fuel and is exposed to

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<sup>3</sup> Government of Palau. 2013. *The Utilities Consolidation Act RPPL No. 9-04 2013*. <http://extwprlegs1.fao.org/docs/pdf/pau147615.pdf>.

<sup>4</sup> PEA reviews PPUC tariffs but makes a recommendation for energy tariffs only. Water and sewage service tariffs are confirmed by the Palau government.

<sup>5</sup> Government of Palau. February 2018. *House Bill #10-51-3S*.

<sup>6</sup> To offset losses for operation, fuel, and loan repayments, the PPUC needs to raise capital or increase the average electricity tariff at least by 35% in FY2021. It needs a one-time tariff increase of 19% by the end of FY2020 just to meet the fuel costs for power generation.

<sup>7</sup> Water and sewerage provide less than 20% of the PPUC's gross revenues and have much less impact on the liquidity gap than its power operation. The PPUC's water and sewerage accounts are legally separated from its power operation and cannot benefit from electricity subsidies.

<sup>8</sup> The PPUC does not disclose any performance or financial data on its website.

international market volatility. Its power generation is operated below efficiency levels and lacks preventative maintenance to reduce fuel consumption and ensure reliable generation. With fuel cost making up more than 65% of total expenses, renewable energy is key to reducing electricity costs. However, because of weak and fragmented planning and lack of liquidity, the PPUC power grid has not been augmented as required to enable Palau to meet its renewable energy target of 45% by 2025. Therefore, the PPUC needs to improve its financial management and credit quality to help it access the \$60 million required to do so.

8. **Government reform agenda.** The government prioritizes (i) tariff reforms to introduce market-driven incentives for the PPUC's sustainability, and (ii) leveraging private investments to meet the country's renewable energy target. The government agreed on the PPUC's financial recovery plan to restore liquidity and profitability by 2022. The plan aims to enhance the PPUC's financial management, reform tariffs, and scale up renewable energy. The National Energy Master Plan (2019) emphasizes efficiency and the transition from diesel generation to renewable energy by introducing long-term concessions and power purchase agreements (PPAs) for private investments in renewable energy. While PPAs are instrumental for hedging developers' risks in Palau, the financial distress of the PPUC is a key source of the country's risk. The PPUC's underperformance and liquidity deficit adversely impact the country's quasi-fiscal deficit because the government's contingent liability associated with PPA subsidies to keep the PPUC solvent costs about 1% of GDP.<sup>9</sup>

## B. Policy Reform and ADB's Value Addition

9. The government recognizes the critical link between economic growth and the urgent need for utility reforms to sustain the PPUC's financial viability and the country's energy security.<sup>10</sup> Improved governance and performance in the utility sector will have far-reaching effects on the day-to-day lives of Palau's citizens and the business sector. With the adverse impacts of COVID-19, sector reforms—including rationalized tariffs and subsidies, good governance, and financial management—are essential to ensure the PPUC's positive contribution to the economic efficiency, competitiveness, and security of utility services. As the off-taker, the PPUC's sustainability is a prerequisite for private investment in renewable generation. With the expected increase in renewable generation replacing expensive and inefficient diesel generation, the PPUC will be able to reduce the cost of its electricity and phase out subsidies.

10. ADB's program is aligned with the government's strategic action plan that requires reliability of the energy supply based on an adequate regulation, tariffs and rationalized support underpinning the PPUC's financial viability and ability to maintain its assets. All subprograms will support reforms in the following three areas, and subprogram 1 will establish enabling frameworks for implementation in subprogram 2.

11. **Reform area 1: Tariffs reforms managed.** Subprogram 1 will include the preparation of guidelines for electricity tariffs petition and the PPUC's electricity tariff petition approval. Based on the tariff petition, rationalized annual subsidies to the PPUC will be approved by PEA. Subprogram 1 will also include consideration of a gender and poverty policy analysis. Policy actions under subprogram 2 will further build on these reforms toward (i) approval of phased adjustments in electricity tariffs and balancing subsidies to the PPUC; and (ii) a tariff petitions for

<sup>9</sup> IMF. 2018. *Article IV Review Mission to Republic of Palau*. Washington, DC.

<sup>10</sup> Government of Palau. 2019. *Palau Energy Roadmap*. Ngerulmud; and Government of Palau. 2015. *State Owned Enterprise Policy Statement, 2015*. Ngerulmud.

water and sewerage, which will consider appropriate subsidies for vulnerable households, including households headed by women.

**12. Reform area 2: Palau Public Utilities Corporation financial management enhanced.** Subprogram 1 will support the PPUC in initiating measures to restore its liquidity by approving (i) PPUC’s annual revenue required model, (ii) capital investment plan for 2021–2023, and (iii) revenue enhancement actions. Policy actions under subprogram 2 will further build on these reforms by (i) developing the revenue required model, investment planning, and revenue-enhancement actions in the water operations; and (ii) initiating steps to restructure the PPUC’s expensive commercial debt and develop a sustainable debt management policy.

**13. Reform area 3: Palau Public Utilities Corporation corporate governance and transparency strengthened.** A key policy priority for the government is to enhance the PPUC’s governance and transparency. This policy will form the basis for separating political and commercial decision-making at the PPUC under subprogram 1 by approving (i) a new code of corporate governance based on the *OECD Guidelines on Corporate Governance of State-Owned Enterprises*; <sup>11</sup> (ii) procedures for capital investment, risk, and compliance management; (iii) performance reporting, integrity, and disclosure procedures; (iv) a PPUC gender strategy and gender-sensitive human resources procedures; and (v) publishing the PPUC’s key operational and financial performance information on its website. Subprogram 2 will further strengthen the PPUC’s corporate governance and transparency and develop implementation plan.

**14. Program modality and ADB value addition.** Proposed reforms will require a long-term horizon to be implemented effectively. The government has requested a programmatic approach comprising two subprograms to support the PPUC’s reforms in 2020–2022, consistent with national objectives.<sup>12</sup> ADB has been a major reform partner and has built a strong relationship with the PPUC through project engagement in the water and sanitation subsectors, allowing ADB to play an important role in identifying tariff and corporate reforms.<sup>13</sup> The program will complement and underpin ADB’s proposed project loans and support during 2020–2022 for (i) power grid enhancement,<sup>14</sup> (ii) disaster-resilient clean energy financing,<sup>15</sup> and (iii) public–private partnership transaction advisory services for renewable energy.<sup>16</sup> This lending program and ADB’s overall energy sector strategy are also designed to support the PPUC’s investment plan and the government’s target for 45% renewable generation by 2025.

**15. Lessons.** Lessons from the ADB-supported Water Sector Improvement Program suggest that (i) allocating more resources to mitigate the implementation risk of complex reforms remains a concern in Palau, which faces shortages and/or high turnover of qualified staff; and (ii) the program design requires more comprehensive (tariff and nontariff) mechanisms to ensure that agreed policy reforms can be implemented in a changing political environment.<sup>17</sup> Previous policy-based operations in the Pacific also show that (i) strong government ownership is critical to achieving results; (ii) sustained policy dialogue and coordination with development partners are important to advance reforms; and (iii) coordinated TA projects, provided in parallel with budget

<sup>11</sup> Organisation for Economic Co-operation and Development. 2015. *OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015 Edition*. Paris.

<sup>12</sup> Government of Palau. 2019. *Palau Energy Roadmap*. Ngerulmud; Government of Palau. 2010. *National Energy Policy*. Ngerulmud; and Government of Palau. 2009. *Strategic Action Plan*. Ngerulmud.

<sup>13</sup> ADB. 2017. *Completion Report: Water Sector Improvement Program in Palau*. Manila.

<sup>14</sup> ADB. Palau: Grid Upgrade for Renewable Integration Project. (for processing)

<sup>15</sup> ADB. 2020. *Project Concept Paper: Proposed Grant and Technical Assistance Grant to Palau for Disaster Resilient Clean Energy Financing*. Manila.

<sup>16</sup> ADB. Palau: Independent Power Producer Transaction Advisory Service. Unpublished.

<sup>17</sup> ADB 2017. *Completion Report: Water Sector Improvement Program in Palau*. Manila.

support programs, are crucial to implement the reform agenda. ADB will seek to capitalize on diagnostic and analytical works under past and ongoing projects and will progress consultatively on identified policy reforms. Given the MOF's past successful engagement on ADB projects, where it demonstrated convening power and the capacity to push PPUC reforms, the MOF will lead the implementation of the proposed program.

### **C. Impacts of the Reform**

16. Palau government intends to enhance the PPUC's sustainability, including recovering its full cost of business and capital.<sup>18</sup> As the off-taker, a financially healthy PPUC is a prerequisite for private investment in renewable generation, and reducing the cost of the utility by replacing expensive and inefficient diesel generation. The impacts of the reforms will be financial sustainability and enhanced performance of the PPUC achieved. The outcome of the program will be PPUC's financial sustainability improved. The reform areas will be tariff reforms, PPUC financial management and sustainability, and PPUC corporate governance and transparency.

### **D. Development Financing Needs and Budget Support**

17. The COVID-19 pandemic is expected to have large impact on Palau's economy resulting in high projected fiscal deficits of up to \$32 million (13% of GDP) in FY2020 and \$37 million (17%) in FY2021, even with annual receipts of external grants amounting to the equivalent of about 12% of annual GDP.<sup>19</sup> To effectively support the government's increasing development financing needs and the cost of implementing utility reform, loan finance of the equivalent of \$10 million from ADB's ordinary capital resources are planned for 2020–2022. The proposed financing will be disbursed in two subprograms of \$5 million each. The government will incur significant adjustment costs from the reforms, including (i) tariff adjustments to levels that reflect costs, budgeting arrears, and curtailment of subsidies; (ii) costs associated with implementing PPUC corporate governance and financial management; and (iii) financing of infrastructure, institutional, and sector improvements.

### **E. Implementation Arrangements**

18. The MOF will be the executing agency and will be responsible for the overall program monitoring and reporting. The PEA and the PPUC will be the implementing agencies. The proposed small-scale TA will prepare subprogram 1 and provide requisite analytical support to implement the policy actions. The proceeds of the PBL will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

## **III. TECHNICAL ASSISTANCE**

19. Transaction TA of \$400,000 from ADB's Technical Assistance Special Fund (TASF 6) is proposed to be attached to the loan to help implement the policy actions under the program.

## **IV. DUE DILIGENCE REQUIRED**

20. Due diligence for the program will include (i) a sector assessment focusing on specific policy measures to be taken; (ii) economic analysis; (iii) a risk assessment and a risk management plan; (iv) program impact assessment; (v) fiduciary system assessment; and (vi) poverty, social, and gender analysis. The program is expected to be classified category C for environment and

<sup>18</sup> Government of Palau. 2015. *State Owned Enterprise Policy Statement, 2015*. Ngerulmud.

<sup>19</sup> Graduate School USA. 2020. Assessing the Impact of COVID-19 on the Palauan Economy. *EconMAP Technical Note*. Koror (March).

social safeguards.<sup>20</sup> No physical or economic displacement is anticipated from the proposed prior policy actions. Subprogram 1 is expected to be classified *some gender elements* as it includes the development of a gender strategy for the PPUC and the inclusion of a gender-sensitive mandate and targets in the PPUC's human resources policy. Due diligence will explore possibilities for further proactive gender actions. ADB will request an IMF assessment letter.

## V. PROCESSING PLAN

### A. Risk Categorization

21. All subprograms are *low risk* because (i) the amount of the PBL (\$10 million) does not exceed the \$50 million loan threshold; (ii) the MOF has executed externally financed operations (including two ADB PBLs);<sup>21</sup> (iii) the proposed safeguard categorization is not A; and (iv) there is no significant integrity concern, climate risk, policy waiver, or high-level technology.

### B. Resource Requirements

22. The program will be processed by ADB staff with expertise in the reform of state-owned enterprises and the energy and water sectors. Staff will dedicate a total of about 6 person-months to processing. The assessment of the reforms' economic and financial viability will require 8 person-months of consulting services. A transaction TA of \$225,000 from ADB's Technical Assistance Special Fund (TASF 6) is attached to the concept paper for approval to support in the preparation of the proposed PBL.

### C. Processing Schedule

23. The major milestones up to loan effectiveness are as follows.

#### Proposed Processing Schedule

Milestones	Expected Completion Date
Concept clearance	May 2020
Fact-finding mission	June 2020
Staff review meeting	August 2020
Loan negotiations	September 2020
ADB Board of Directors consideration	October 2020
Loan signing and effectiveness	November 2020

Source: Asian Development Bank.

## VI. KEY ISSUES

24. The key issues are (i) the reforms as proposed in ADB's program are substantial and close coordination between multiple government agencies required to ensure they understand and meet all requirements as scheduled;<sup>22</sup> and (ii) the government will need to diligently comply with all the first subprogram policy actions before Board consideration of the program. The project team will engage closely with ADB's governance thematic group.

<sup>20</sup> Initial Poverty and Social Analysis (accessible from the list of linked documents in Appendix 3).

<sup>21</sup> ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to the Republic of Palau for the Disaster Resilience Program*. Manila; and ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Republic of Palau for the Water Sector Improvement Program*. Manila.

<sup>22</sup> Palau's presidential election is scheduled in 2020 and delay in project's schedule might occur.

## DESIGN AND MONITORING FRAMEWORK

<b>Country's Overarching Development Objectives</b>			
Palau state-owned enterprise sustainability, including recovering its full cost of business and capital, achieved (Palau State Owned Enterprise Policy Statement, 2015) <sup>a</sup> Financial sustainability and enhanced performance of PPUC achieved (Palau National Energy Policy 2010) <sup>b</sup> Reliability and resiliency of energy supply based on adequate regulatory framework and tariff regime (Palau Strategic Action Plan 2009) <sup>c</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<b>Effect of the Reform</b> PPUC's financial sustainability improved	By 2022: a. Volume of outstanding receivables (stock and flow) reduced (baselines and targets to be established)  b. Transmission and distribution losses reduced (baselines and targets to be established)  c. Cost-recovery tariff operationalized (2019 baseline: Tariff increase prohibited)	a. PPUC annual report  b. Palau Energy Administration annual report	Reforms stall because of a change in government following the 2020 elections.
<b>Reform Areas under Subprograms 1 and 2</b> 1. Tariffs reforms managed  2. PPUC financial management enhanced  3. PPUC corporate governance and transparency strengthened	<b>Indicative Policy Actions<sup>d</sup></b>  1.1 Guidelines for electricity tariff petition approved by July 2020 (2020 baseline: Not applicable)  1.2 PPUC electricity tariff petition submitted by PPUC management board by July 2020 (2020 baseline: Not applicable)  2.1 Annual revenue required model and capital investment plan for 2021–2023 approved by July 2020 (2020 baseline: Not applicable)  2.2 PPUC revenue enhancement action plan approved by July 2020 (2020 baseline: Not applicable)  3.1 PPUC code of corporate governance based on <i>OECD Guidelines for Corporate Governance of State-Owned Enterprises</i> approved by July 2020 (2020 baseline: Not applicable)  3.2. Capital investment, risk, and compliance management	1.1–1.2 Palau Energy Authority annual report  2.1–2.2 PPUC annual report  3.1–3.4 PPUC annual report	The legislative process is slow and faces resistance from vested interests.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>procedures approved by July 2020 (2020 baseline: Not applicable)</p> <p>3.3 Performance reporting, integrity, and disclosure procedures approved by July 2020 (2020 baseline: Not applicable)</p> <p>3.4 PPUC gender strategy and gender-sensitive human resources procedures approved by July 2020 (2020 baseline: Not applicable)</p> <p>3.5 PPUC's key operational and financial performance information published on its website by July 2020 (Baseline: Not applicable)</p>		
<p><b>Budget Support</b></p> <p>Asian Development Bank: Subprogram 1: \$5 million (concessional ordinary capital resources loan)  Subprogram 2: Indicatively \$5 million (concessional ordinary capital resources loan)  Technical assistance: \$400,000 Technical Assistance Special Fund (TASF 6)</p>			

OECD = Organisation for Economic Co-operation and Development, PPUC = Palau Public Utilities Corporation.

<sup>a</sup> Government of Palau. 2015. *State Owned Enterprise Policy Statement, 2015*. Ngerulmud.

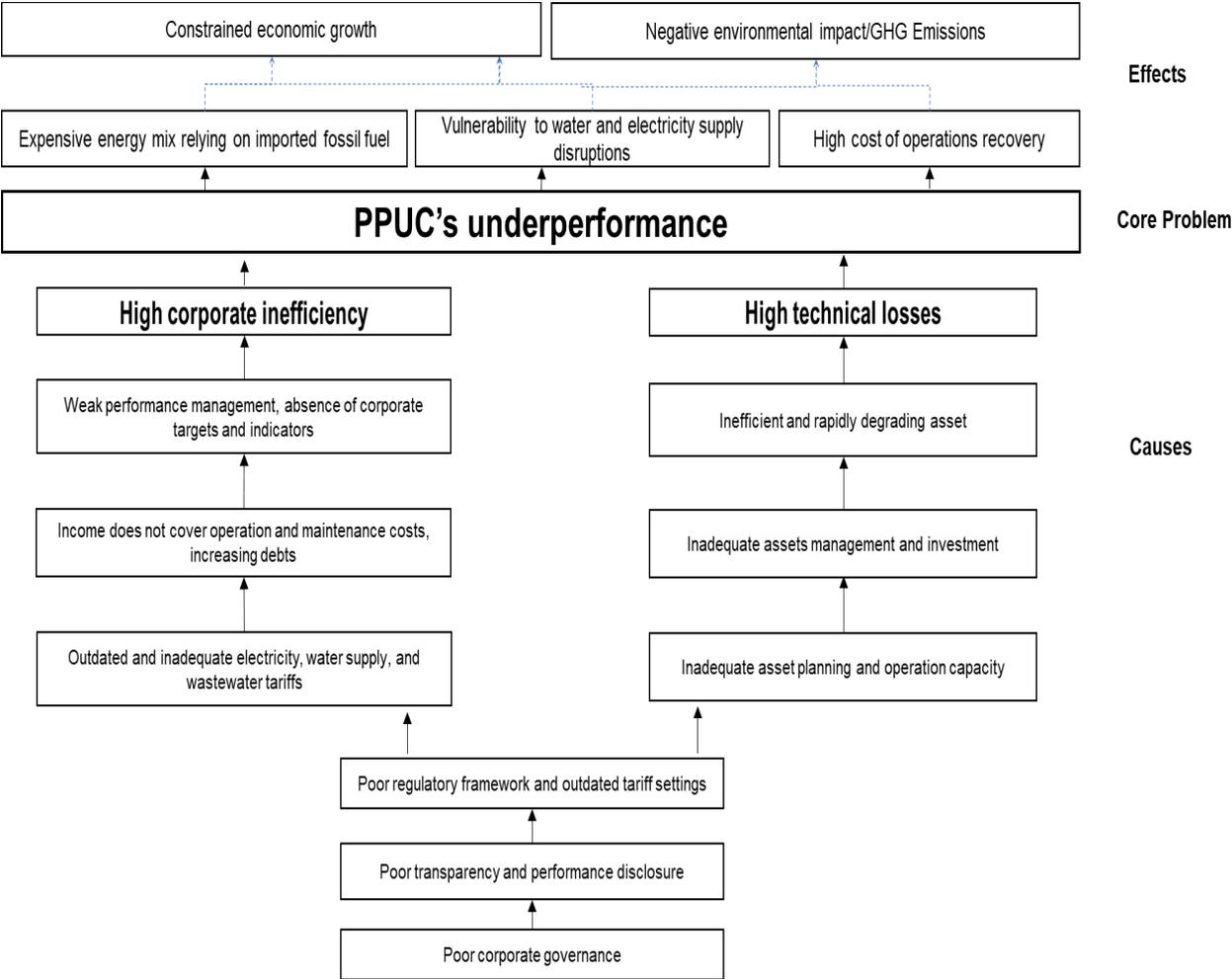
<sup>b</sup> Government of Palau. 2010. *Palau National Energy Policy 2010*. Ngerulmud.

<sup>c</sup> Government of Palau. 2009. *Palau Strategic Action Plan 2009*. Ngerulmud.

<sup>d</sup> Subprogram 1 actions will be further refined through dialogue during program processing and due diligence work. Specific policy actions to be supported under the three reform areas of subprograms 2 will also be developed further during program processing, and actions will focus on implementation and completion of measures initiated in subprogram 1.

Source: Asian Development Bank.

### PROBLEM TREE



GHG = greenhouse gas, PPUC = Palau Public Utilities Corporation

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=54151-001-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Small-Scale Transaction Technical Assistance