



Palau: Koror-Airai Sanitation Project

Project Name	Koror-Airai Sanitation Project								
Project Number	42439-013								
Country	Palau								
Project Status	Active								
Project Type / Modality of Assistance	Loan								
Source of Funding / Amount	<table border="1"><tr><td colspan="2">Loan 3060-PAL: Koror-Airai Sanitation Project</td></tr><tr><td>Ordinary capital resources</td><td>US\$ 26.90 million</td></tr><tr><td colspan="2">Loan 3061-PAL: Koror-Airai Sanitation Project</td></tr><tr><td>concessional ordinary capital resources lending / Asian Development Fund</td><td>US\$ 1.90 million</td></tr></table>	Loan 3060-PAL: Koror-Airai Sanitation Project		Ordinary capital resources	US\$ 26.90 million	Loan 3061-PAL: Koror-Airai Sanitation Project		concessional ordinary capital resources lending / Asian Development Fund	US\$ 1.90 million
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Strategic Agendas	Environmentally sustainable growth Inclusive economic growth								
Drivers of Change	Governance and capacity development								
Sector / Subsector	Water and other urban infrastructure and services - Urban sewerage								
Gender Equity and Mainstreaming	Effective gender mainstreaming								
Description	The project will provide priority sanitation infrastructure identified in the Koror_Airai Sanitation Master Plan (KASMP).								

Economic performance and prospects. In 2012, about 80% of Palau's population of 20,966 lived in Koror and Airai, and 118,754 tourists visited Palau and visitor arrivals to Palau increased by 3.6% over the first half of fiscal year (FY) 2013. Tourism accounted for roughly half of the nation's gross domestic product (GDP) of \$231.9 million in FY2012. The average tourist stay is 4 nights, equivalent to a population increase of 6%. Palau's economy has overcome the effects of the global financial and economic crises, posting GDP growth of 6.3% in FY2012, with growth forecast at 3.0% in both FY2013 and FY2014. Longer-term growth prospects are positive given the country's appeal to tourists from Japan, the Republic of Korea, and Taipei, China. To support tourism growth, the country's basic public infrastructure must be upgraded and maintained. Improved water and sewerage infrastructure and an additional 500 hotel rooms are needed to accommodate current and projected visitors.

Public finance and debt. The government is in a strong position to undertake long-term investments to upgrade infrastructure needed to sustain economic growth. It recorded a current account surplus (including grants) equivalent to 5.9% of GDP in FY2012. The International Monetary Fund (IMF) projects Palau's current account surplus to remain at this level through to FY2017. Strong growth in tourist arrivals underpins Palau's economic growth and rising current account surpluses, and is expected to continue. The IMF estimates the country's external debt as 34.5% of GDP in FY2012, comprising 11.9% official government debt, 17.9% public enterprise debt, and 4.7% other. With planned ADB and other loans, the country's external debt to GDP ratio is expected to rise to 48.9% by the end of 2013 (7.7% official government debt and 41.2% public enterprise debt) in nominal terms. This is below the 50% threshold for debt sustainability applied by the IMF for countries with strong policy environments (based on the ADB and World Bank country performance assessment scores) if considered in terms of present value (i.e., discounting future payments).

Sector management. Palau's phased sanitation master plan, the KASMP, is based on extensive stakeholder consultation. The government has adopted a new water resource management policy to manage national and state water resources and Palau's Parliament, the Obiil Era Kelulau (OEK), has approved legislation to regulate the abstraction of water from the nation's fresh water sources. Through the creation of the Palau Water and Sewer Corporation (PWSC) in September 2011, the Government has integrated water and sewerage services into a single state-owned enterprise responsible for the delivery of water supply and sewerage services. The Utilities Consolidation Act 2013, aimed at optimizing efficiency in the management and delivery of power, water and sewerage services, has consolidated the PWSC and the Palau Public Utilities Corporation. PPUC is now mandated to deliver electricity, water and sewerage services and the PPUC water and wastewater operations division has been established to manage and operate Palau's water and sewerage services. The Water Sector Improvement Program (WSIP) is supporting establishment of the PPUC Water and Wastewater Operations division. Implementation of the WSIP has been delayed in some areas, but all policy actions are now complete. The creation of the PPUC Water and Wastewater Operations division and its development as a commercial enterprise is a first step toward possible private sector engagement in future.

Sector financial stability. The government is implementing its policy to achieve full cost recovery for water supply and sewer services by the end of FY2015. The Water and Sewer Corporation Act 2010 and the Utilities Consolidation Act 2013 specify that tariffs must be set so that they recover all operation and maintenance costs, depreciation, and indebtedness. The tariff structure became effective in April 2011 and includes volumetric water and sewer tariffs for domestic and nondomestic connections. Tariff increases also improve demand side management to reduce an unsustainably high level of per capita water consumption. Lifeline blocks to protect the poor and vulnerable are set below the cost of delivery. By 2015, the monthly water bill for households in the 5th income quintile is estimated at 4.1% of monthly income. In 2011, the government spent \$3.8 million for water and sewerage services. The government aims to achieve the following targets by the end of FY2015: (i) government subsidies reduced from 74% (2011) to zero (ii) tariff collection efficiency improves from 92% (2011) to 95%, and (iii) nonrevenue treated water reduced from 43% (2010) to 25%.

Sewer system condition and capability. Koror's centralized sewerage system services more than 80% of the population. The sewerage network comprises 40 kilometers of gravity mains, 13 kilometers of force (pumped) mains, 48 pump stations, and a sewage treatment plant (STP) located on the island of Malakal. For the most part, the commercial sector of the city is located at the crest of the ridge and the residential hamlets stretch down to the coast. Sewage is pumped up to the ridge and flows to the STP. Two other islands, connected by causeways, are part of the network. The sewer network and STP is over 30 years old. While the STP and some pump stations have been refurbished in the last 10 years, these have not been maintained or operated as designed.

Adverse effects of insufficient sewer capacity. The degraded condition, limited capacity of the Koror sewerage network, and rapid development and unsuitable soils for septic tanks in Arai are causing environmental and health issues with serious impacts on the economy: (i) Environmental issues. With limited flushing within Palau's lagoons, sewage overflows result in a buildup of waste, which damages the fragile marine and mangrove ecosystem. The government has placed swimming bans in some areas near tourist hotels and local swimming spots; (ii) Health issues. The failure of the sewer system is placing the health of Palau's citizens at risk. From 1 April 2011 to 31 March 2012, Koror had 862 cases of gastroenteritis. Fifty percent of these occurred in the last quarter of 2011 when sewerage overflows were the greatest. Development of a much more serious waterborne disease, such as cholera, is a risk; (iii) Impact on the economy. The potential economic costs of the failures in the sewerage system include (i) direct and indirect health cost; (ii) overflow clean-up costs; and (iii) potential loss of tourism revenue associated with the impact of a serious disease outbreak. The long-term reputational risk to Palau's tourism industry from a major disease outbreak could be significant.

Government policy and strategy. The country's development plans are encapsulated in the Medium-Term Development Strategy. Two of the five priority actions are to (i) position Palau as the island of choice for environmentally conscious visitors and realize higher income from tourism; and (ii) make critical investments in sanitation, water, and power and prioritize maintenance. The ADB country partnership strategy 2009_2013 for Palau directly supports these priority actions, which are also consistent with priorities set in ADB's Strategy 2020 and the Pacific Approach. The project is identified in the country partnership strategy and responds to the ADB sector assessment.

Sustainability of sector reforms. ADB is supporting an integrated response to improving water and sanitation services in Palau. The WSIP has been supporting institution building and PPUC water and wastewater operations, especially in the areas of board operations, utility management, utility operation management, and financial management.

Impact

The environment and public health are improved in Koror and Airai.

Project Outcome

Description of Outcome	Improved delivery of sanitation services by PPUC.
Progress Toward Outcome	Significant measurable implementation progress has been achieved.

Implementation Progress

Description of Project Outputs	Effective, efficient, and sustainable sewage collection systems in Koror and Airai. Sewage treatment and disposal meets Palau's environmental standards. Safe and hygienic public toilet facilities in Koror are available. Effective project management.
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Status of Implementation Progress (Outputs, Activities, and Issues)	Not yet due. Not yet due. Not yet due. Not yet due. Not yet due. Not yet due. Not yet due. Not yet due. Not yet due. Not yet due. Not yet due. Not yet due.
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Geographical Location

Safeguard Categories

Environment	B
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects	The Government and PPUC are complying with the loan covenants and assurances and no corrective actions are required to maintain compliance.
Involuntary Resettlement	The Government and PPUC are complying with the loan covenants and assurances and no corrective actions are required to maintain compliance.
Indigenous Peoples	The Government and PPUC are complying with the loan covenants and assurances and no corrective actions are required to maintain compliance.

Stakeholder Communication, Participation, and Consultation

During Project Design	The Government and PPUC are complying with the loan covenants and assurances and no corrective actions are required to maintain compliance.
During Project Implementation	The Government and PPUC are complying with the loan covenants and assurances and no corrective actions are required to maintain compliance.

Responsible Staff

Responsible ADB Officer	Blaik, Stephen
Responsible ADB Department	Pacific Department
Responsible ADB Division	Urban, Social Development & Public Management Division, PARD
Executing Agencies	<i>Ministry of Finance 3rd Floor, Executive Bldg, ROP Capitol Ngerulmud, Melekeok State, P.O. Box 6011 Koror, PW 96940, Republic of Palau</i>

Timetable

Concept Clearance	20 Nov 2009
Fact Finding	18 May 2012 to 08 Jun 2012
MRM	03 Jul 2012
Approval	19 Nov 2013
Last Review Mission	-
Last PDS Update	27 Sep 2016

Loan 3060-PAL

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
19 Nov 2013	28 Mar 2014	08 May 2014	31 Aug 2022	-	-

Financing Plan			Loan Utilization			
	Total (Amount in US\$ million)		Date	ADB	Others	Net Percentage
Project Cost	28.10		Cumulative Contract Awards			
ADB	26.90		19 Nov 2013	22.00	0.00	82%
Counterpart	1.20		Cumulative Disbursements			
Cofinancing	0.00		19 Nov 2013	5.05	0.00	19%

Loan 3061-PAL

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
19 Nov 2013	28 Mar 2014	08 May 2014	31 Aug 2022	-	-

Financing Plan			Loan Utilization			
	Total (Amount in US\$ million)		Date	ADB	Others	Net Percentage
Project Cost	1.90		Cumulative Contract Awards			
ADB	1.90		19 Nov 2013	1.42	0.00	81%
Counterpart	0.00		Cumulative Disbursements			
Cofinancing	0.00		19 Nov 2013	1.03	0.00	59%

Project Page	https://www.adb.org/projects/42439-013/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=42439-013
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