

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC71510

Project Name	Palau: ICT Sector Technical Assistance
Region	EAST ASIA AND PACIFIC
Country	Palau
Lending Instrument	IPF
Project ID	P160504
Borrower Name	Ministry of Finance
Implementing Agency	Ministry of Finance
Environment Category	C - Not Required
Date PID Prepared	25-Jan-2017
Estimated Date of Approval	15-Mar-2017
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. Palau is situated in the Micronesian group of islands in the northern Pacific with an estimated population of 21,291 (2015 World Development Indicators). Palau is the World Bank Group's third smallest member (only Tuvalu and Nauru have smaller populations). Palau receives substantial financial assistance from the United States through the provisions of the Compact of Free Association. An overarching challenge for Palau is to achieve self-sufficiency when financing under the Compact expires in 2024. Palau is an upper-middle income country with an Atlas gross national income per capita of \$12,180 (2015, World Development Indicators). External aid has made up an average of 25 percent of Palau's GDP over the last decade. The principal source of growth and revenues is tourism, followed by fishing. Annual tourism receipts amount to about 50 percent of GDP, more than twice the Pacific island average and among the highest in the world. Visitors from Taiwan, China, Japan and Korea account for the bulk of tourist arrivals. Real GDP grew by 9.4 percent in FY2015 (ending September 30) led by robust tourism and construction activity. Economic growth is expected at zero in FY2016 as tourist arrivals decline. Growth is projected to pick up to 5 percent in FY2017 as tourism activity recovers and robust construction activity continues. Palau's positive outlook is subject to substantial risks due to its reliance on tourism, grants and commodity imports.

Sectoral and Institutional Context

2. Palau's telecommunications sector comprises two principal service providers. The state-owned Palau National Communications Corporation (PNCC) provides fixed line services, GSM 900 mobile service and Internet access. The privately-owned Palau Telecom offers a WiFi Internet service. The Government of Palau recently established the Belau Submarine Cable Company (BSCC) as a state-owned enterprise, which will own and operate the new international fiber optic

submarine cable system that is being installed to link Palau to the global Internet. Until the fiber optic cable is ready for service, Palau will continue to rely on O3B satellite technology for international connectivity. The high cost and limited availability of international bandwidth has been a major constraint on the development of the sector.

3. The Government is undertaking reforms to its ICT sector to deliver better quality services, improve access and lower prices. Existing operators and new private sector entrants are expected to help grow the market and maximize the benefits of the new submarine cable system. The World Bank Technical Assistance Project (P132686) mobilized US\$0.6 million from the Pacific Region Infrastructure Facility (PRIF) and provided initial assistance focused on: (a) structuring and transactional arrangements for the proposed cable system and the formation of the BSCC; and (b) the preparation of new ICT sector legislation and subordinate regulatory framework. This grant has been fully exhausted and all outputs achieved. The BSCC was established by the Belau Submarine Cable Corporation Act and signed into law by the President of Palau on September 21, 2015. A draft suite of legislative and regulatory instruments has been prepared and is under review by the Government.

Relationship to CAS/CPS/CPF

4. Palau does not have a stand-alone CPF however a Regional Partnership Framework covering nine Pacific island countries including Palau is being developed. The RPF will draw on the World Bank Group's Systemic Country Diagnostic, Kiribati, Marshall Islands, Micronesia, Palau, Samoa, Tonga, Tuvalu, Vanuatu (February, 2016, Report No. 102803-EAP). The SCD identified the need to strengthen governance and the business environment as an enabler to support the development opportunities of Palau, which includes the need to maintain and develop economic infrastructure. The activity will provide technical assistance for reforms to Palau's ICT sector to promote improved delivery of quality services, improve access to services, and lower prices by promoting a competitive market and private sector participation. Existing operators and new entrants are expected to help grow Palau's telecommunications market. These objectives support the SCD's three pathways: (i) to exploit the limited economic opportunities; (ii) to foster access to economic opportunity; and (iii) to protect services for the poor.

II. Project Development Objective(s)

Proposed Development Objective(s)

5. The activity's development objective is to reduce the cost and increase the availability of ICT services in Palau.

Key Results

6. The key results are to:

- (a) Provide technical assistance to strengthen PNCC's capacity to operate effectively in a competitive market.
- (b) Analyze options to optimize the ownership, governance and operational arrangements of PNCC and BSCC, and to facilitate private sector investment in the ICT sector.
- (c) Analyze additional ICT infrastructure needs and possible financing to use the international submarine cable more effectively, and promote sector growth and development.

III. Preliminary Description

Concept Description

7. The project is intended to support the analysis of options to: (i) reposition the ownership, governance, management and operational arrangements of PNCC and BSCC; and (ii) attract new private sector led investment and promote effective competition. The focus is to maximize private sector involvement, while ensuring that the benefit(s) of competition and public investment in the ICT sector flows through to end-users (disaggregated to include analysis of potential gender impacts).

8. The following specific activities will be prioritized:

(a) **Strengthening PNCC:** Options for positioning PNCC to operate effectively in a competitive market, including: (i) commercial capacity to compete effectively with new entrants; (ii) technical capacity to operate in a competitive market, such as providing interconnection with its fixed and mobile networks; and (iii) financial sustainability, including capital adequacy and capacity to service its debts and maintain positive cashflow.

(b) **Repositioning PNCC and BSCC:** An economic, financial (including market due diligence) and legal analysis of the assets and liabilities of PNCC and BSCC is needed to determine optimal ownership arrangements, including any asset transfer(s), which minimize financial and operational risks to Government, promote future private sector investment and maximize long-term benefits for users of ICT services. This includes consideration of obligations owed to third parties, e.g., creditors (RUS), major suppliers (O3b), other unsecured creditors and staff.

(c) **Analyzing additional infrastructure needs and financing:** In anticipation of the new international fiber optic cable, a review of existing domestic infrastructure is needed along with a gaps analysis to determine the minimum bundle of assets required to utilize the international submarine cable effectively and promote sector growth and development. In particular, the potential for a new or upgraded terrestrial fiber ring will be analyzed, including financing, ownership and management options.

(d) **Operationalizing BSCC:** Support for the operationalization of BSCC to ensure financial sustainability and the robust supply of international and domestic wholesale connectivity services. A definitive asset plan, business plan, financing, staffing arrangements, etc., is needed and will be prepared. A critical focus will be on developing implementation arrangements which minimize cashflow risks for servicing third party financing commitments and promote utilization at the lowest cost. Options such as anchor IRU contracts over international and domestic fiber infrastructure will be analyzed.

(e) **Marketing the ICT sector to potential investors and international operators:** As part of the evaluation of sector assets and liabilities, support is needed to promote Palau as a destination for new private sector investment. Assistance will be provided to support marketing activities and attract new market entry by private sector operators, pursuant to arrangements aimed at minimizing the monopoly problem and the need for extensive ex post regulation. The desirability of bundling the market opportunity in Palau with other connected regional markets, such as FSM, will also be prioritized.

(f) **Implementing asset restructuring:** Support is needed to help the Government execute its decisions for repositioning PNCC and BSCC, including consequential divestitures and/or any asset transfers. Support to prepare legal instruments, work with stakeholders to review and finalize all

instruments (legislative, regulatory, governance, contractual, etc.) and to assist Government during any Congressional legislative reform processes will also be provided.

9. Government is focused on reorganizing the sector to minimize its exposure to competitive parts of the market that can be better served by the private sector, while ensuring that assets which have essential facility characteristics are held pursuant to arrangements which minimize monopoly risk and the costs of regulation. The Project will provide assistance to help identify and implement mechanisms to move the costs and risks associated with the Government's investments in core infrastructure, including e.g., the new cable system, to the private sector. Options to minimize the risk of free riding by new entrant private sector operators will also be assessed.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	0.7	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Free-standing Single Purpose Trust Fund			0.7

VI. Contact point

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