



# Report and Recommendation of the President to the Board of Directors

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Project Number: 48141-001  
November 2014

## Proposed Loan and Technical Assistance Grant Republic of Fiji: Transport Infrastructure Investment Sector Project

This document is being disclosed to the public prior to its consideration by ADB's Board of Directors in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 16 October 2014)

Currency unit	–	Fiji dollar/s (F\$)
F\$1.00	=	\$0.52
\$1.00	=	F\$1.93

## ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
FRA	–	Fiji Roads Authority
GGF	–	Green Growth Framework
km	–	kilometer
LIBOR	–	London interbank offered rate
MOF	–	Ministry of Finance
TA	–	technical assistance

## NOTE

In this report, “\$” refers to US dollars, unless otherwise stated.

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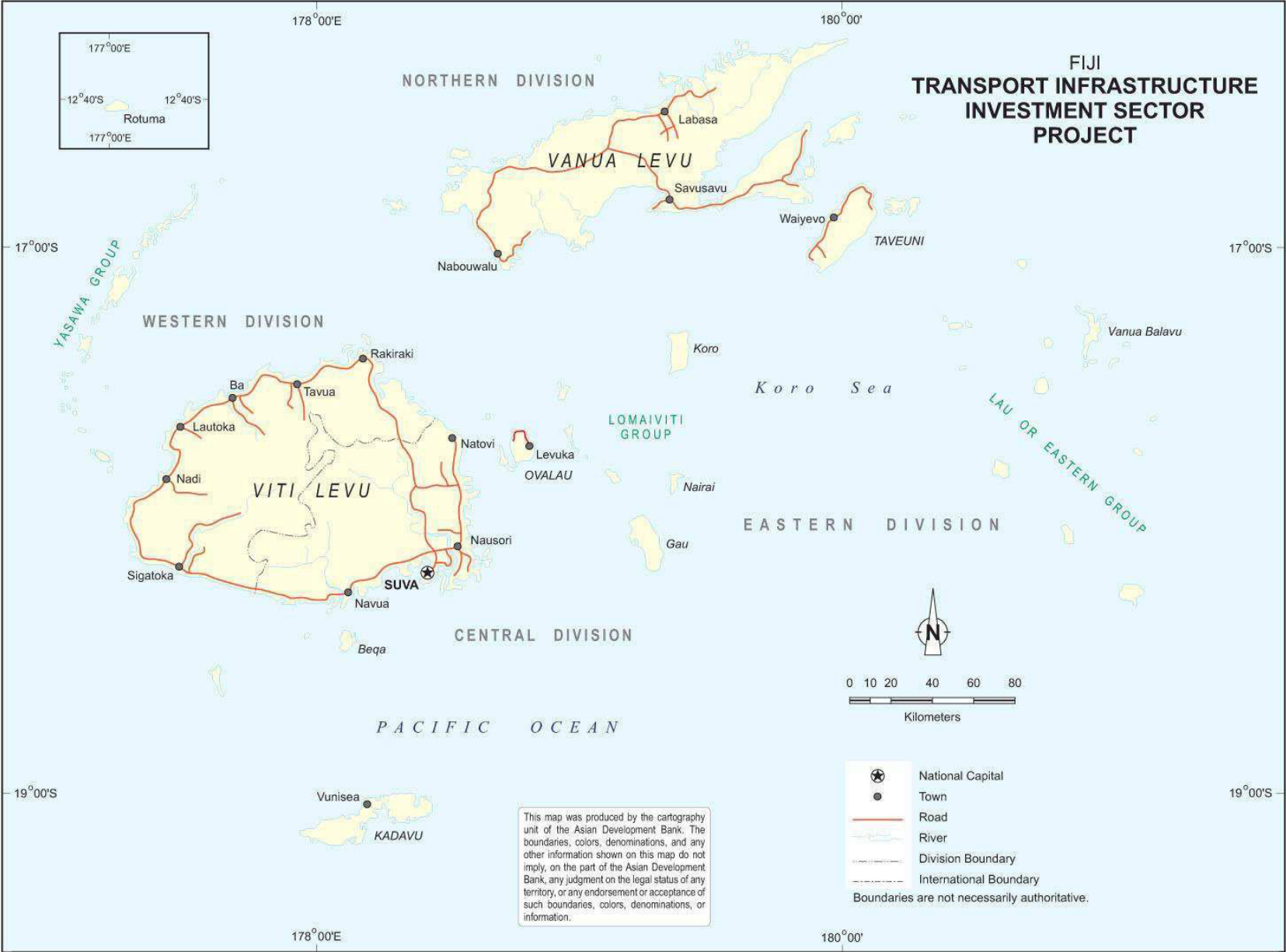
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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 48141-001</b>	
<b>Project Name</b>	Transport Infrastructure Investment Sector Project (formerly Bridge Replacement Project)	<b>Department /Division</b>	PARD/PATE
<b>Country Borrower</b>	Fiji, Republic of Fiji, Republic of	<b>Executing Agency</b>	Ministry of Finance
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Transport</b>	Road transport (non-urban)		70.00
	Transport policies and institutional development		0.70
	Water transport (non-urban)		30.00
		<b>Total</b>	<b>100.70</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	10.00
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	High
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Partnerships (PAR)	Implementation		
	Official cofinancing		
	Regional organizations		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	Yes	Rural	High
Geographic targeting (TI-G)	Yes	Urban	Low
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	<b>Environment: B Involuntary Resettlement: B Indigenous Peoples: C</b>		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>100.70</b>	
Sovereign Capacity development technical assistance: Technical Assistance Special Fund		0.70	
Sovereign Project loan: Ordinary capital resources		100.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>11.11</b>	
Government		11.11	
<b>Total</b>		<b>111.81</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of Fiji for the Transport Infrastructure Investment Sector Project. The report also describes proposed technical assistance (TA) for Strengthening Transport Coordination Capacity, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the TA.<sup>1</sup>

2. The proposed project will improve access to socioeconomic opportunities by supporting the government in upgrading and rehabilitating land and maritime transport infrastructure.<sup>2</sup> If approved, the project will be the first under full reengagement, following Fiji's successful democratic elections in 2014.

## II. THE PROJECT

### A. Rationale

3. Fiji is a South Pacific archipelagic nation of 110 inhabited islands with a land area of 18,300 square kilometers and a population of 860,000. Fiji is located 2,000–3,000 kilometers (km) from major metropolitan markets, and service delivery costs within the country are high because the population is dispersed. About 90% of the population lives on the three main islands of Viti Levu, Vanua Levu, and Taveuni.

4. Fiji requires adequate transport infrastructure to improve access to economic opportunities and services for rural populations, and to improve trade. Fiji is a middle-income country with a per capita income of \$4,618, and overall poverty in Fiji declined slightly between 2003 (39.8%) and 2009 (35.2%). However, a 2008 household income and expenditure survey estimated the poverty incidence to be 19% in urban areas and 43% in rural areas. More than half of Fiji's population live in rural communities, which are geographically isolated from provincial and national centers and served by rural transport infrastructure that is in poor condition. These factors limit rural economic opportunities and social services. The World Bank's 2014 Doing Business report ranked Fiji 111th out of 185 economies in the ease of trading across borders, which is a measure of the time and cost associated with the import or export of a standard shipment by sea transport.<sup>3</sup> Local transportation and handling accounted for 30% of costs, and about 16% of time, associated with imports and exports.

5. The road network is characterized by spine or circumferential main roads and feeder roads, with few alternative routes. It is prone to disruption by heavy rainfall and flooding, which is often exacerbated by tropical cyclones. Rural maritime infrastructure has been neglected and is in poor condition. Climate change predictions show increased frequency and intensity of heavy rainfall, and sea level rise.<sup>4</sup> Roads, bridges, and rural jetties need to be rehabilitated, with better environmental protection and to higher construction standards, to be resilient against extreme weather events and natural disasters. Disruption in transport connectivity constrains movement of people and goods, depresses productive rural activity, and impedes tourism growth. Further investment in the transport sector, focusing on vulnerable groups—including

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> The Asian Development Bank (ADB) provided project preparatory support through policy and advisory TA: ADB. 2013. *Technical Assistance Grant to the Republic of Fiji for Transport Sector Planning and Management*. Manila.

<sup>3</sup> International Bank for Reconstruction and Development. 2014. *Doing Business, Fiji*. Washington, DC.

<sup>4</sup> Pacific Climate Change Science Program. 2011. *Climate Change in the Pacific: Scientific Assessment and New Research*. Canberra.

rural communities, women, elderly, and youth—and considering climate resilience, will provide a foundation for inclusive growth by improving access to markets and services in rural areas.

6. Intermodal links are vital to link Fiji's dispersed communities, and enable people and goods to connect through road links to the main ports of Suva (the capital) and Lautoka, and to the landing ports for interisland domestic shipping and ferry services between Viti Levu, Vanua Levu, Ovalau, and Taveuni. Freight is transported between northwest and southeast Viti Levu either via ship (between ports in Lautoka and Suva), or by land along Queens Road. The international airport in Nadi is connected to the capital by the Queens Road and by domestic flights to and from Nausori airport. Roads to these airports are essential intermodal links.

7. The government has estimated that about F\$1.3 billion (\$702 million equivalent) in capital expenditures and F\$450 million (\$243 million equivalent) in maintenance expenditures are required for road and rural maritime infrastructure over 2014–2018.<sup>5</sup> This is more than double the annual average maintenance expenditures and triple the capital works expenditures over 2004–2013. These budget increases will require contributions from concessional financing dedicated to the sector, in addition to government support from general revenue sources.

8. The Asian Development Bank (ADB) has previously advocated for the establishment of a roads authority; this was realized through the establishment of the Fiji Roads Authority (FRA) by the Fiji Roads Authority Decree 2012, and has contributed to more efficient service delivery. The FRA is responsible for maintaining and upgrading assets that currently consist of about 11,115 km of roads (including 1,483 km of sealed and 9,632 km of unsealed roads), 868 bridges, and 47 jetties. While FRA currently operates under a costly institutional setup that relies on foreign expertise, it has developed a strategy to increase local capacity;<sup>6</sup> the project will support these efforts by engaging local experts, guided and mentored by FRA's international experts, for day-to-day project supervision. It will also build the capacity of government staff to plan, select, and oversee implementation of transport infrastructure projects.

9. ADB has provided transport-related support to Fiji since 1980, and investments have generally achieved key objectives, despite some delays and cost overruns. ADB continued implementing transport projects during a period of limited engagement that began in 2006, including the Port Development Project, and the Third Road Upgrading Sector Project.<sup>7</sup> In 2009, ADB also approved additional financing for the Third Road Upgrading Sector Project, and an emergency loan to assist Fiji in response to devastating floods.<sup>8</sup> Lessons from previous engagements in the country relevant to the transport sector include the need for sustained support over the long term to foster private participation in infrastructure service delivery, and the importance of extensive preparation and implementation support to address capacity constraints.<sup>9</sup>

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<sup>5</sup> Ministry of Finance National Budget 2014, and Fiji Roads Authority Asset Management Plan, 2013 (draft).

<sup>6</sup> Fiji Roads Authority. 2014. *Operations Manual*. Suva.

<sup>7</sup> ADB. 1997. *Report and Recommendation of the President to the Board of Directors for a Proposed Loan to the Republic of Fiji for the Third Road Upgrading Project*. Manila; ADB. 2002. *Report and Recommendation of the President to the Board of Directors for a Proposed Loan to the Republic of Fiji for the Port Development Project*. Manila.

<sup>8</sup> ADB. 2009. *Report and Recommendation of the President to the Board of Directors for a Proposed Supplementary Loan to the Republic of Fiji for the Third Road Upgrading Project*. Manila; ADB. 2009. *Report and Recommendation of the President to the Board of Directors for a Proposed Loan to the Republic of Fiji for the Emergency Recovery Project*. Manila.

<sup>9</sup> The country partnership strategy transport sector summary assessment identifies opportunities for private sector participation in ports and airports, but recognizes that roads and rural jetties are publicly funded, with few opportunities for private sector investment.

10. The government's vision for Fiji is set out in the Roadmap for Democracy and Sustainable Socio-Economic Development, 2010–2014,<sup>10</sup> and is reiterated through the Green Growth Framework (GGF).<sup>11</sup> The GGF sets out policy direction for 10 thematic areas, which include resilience to climate change and disasters, sustainable transportation, and inclusive social development. ADB engagement will be guided by its country partnership strategy, 2014–2018, and country operations business plan, 2015–2017 for Fiji, both of which support the government's national strategies, and identify transport as a key sector for engagement.<sup>12</sup> The project will support the country partnership strategy in swiftly increasing ADB support in the transport sector following Fiji's 2014 elections, and help the country overcome its key development challenges. The project will finance repair, rehabilitation, and upgrading of transport infrastructure prioritized by an updated 20-Year National Transport Infrastructure Plan, based on the GGF, the Roadmap for Democracy and Sustainable Socio-Economic Development, and Public Sector Investment Program.<sup>13</sup>

11. The project will be implemented as a sector project, by financing a time slice of subprojects (comprising 30 km of roads, 30 bridges, and four jetties) prioritized by the updated 20-Year National Transport Infrastructure Plan, and selected in accordance with agreed subproject eligibility criteria and selection procedures.<sup>14</sup> The project will support strengthening of the institutional capacity of central and line agencies in prioritizing transport infrastructure investment, and reducing the backlog of maintenance of transport infrastructure. The project supports existing policy for the transport sector articulated through the National Transport Sector Plan (1993), which is being updated through ADB-supported TA (footnote 2).

12. The World Bank has expressed strong interest in cofinancing the project, and is expected to approve its cofinancing in early 2015; following that approval, the project scope will be enlarged to cover additional subprojects. The World Bank cofinancing is envisaged to be on a joint basis, with partial administration by ADB of the cofinancing. Common implementation frameworks covering safeguards, procurement, and financial management have been agreed in principle between ADB and the World Bank.

## B. Impact and Outcome

13. The impact of the project will be improved access to markets, employment opportunities, and social services. The outcome will be improved safety and resilience of land and maritime transport infrastructure.

## C. Outputs

14. The project will have two outputs:
- (i) **Rehabilitated and climate-resilient land and maritime transport infrastructure.** The project will finance civil works to repair, rehabilitate, reconstruct, and upgrade existing roads, bridges, and rural jetties. It will also finance safety improvements on selected roads and bridges, which may include road safety furniture and streetlights, and gender-sensitive designs for improved

<sup>10</sup> Ministry of National Planning. 2009. *Roadmap for Democracy and Sustainable Socio-economic Development, 2010–2014*. Suva. An update to the road map is expected by 2015.

<sup>11</sup> Ministry of Strategic Planning, National Development, and Statistics. 2014. *Green Growth Framework*. Suva.

<sup>12</sup> ADB. 2014. *Country Operations Business Plan: Fiji, 2015–2017*. Manila.

<sup>13</sup> The 20-Year National Transport Infrastructure Plan will be an output of the ongoing policy and advisory TA (footnote 2).

<sup>14</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).



pedestrian access. Subprojects will be selected in accordance with the subproject selection criteria framework. Where possible, subprojects will be grouped geographically into suitably sized and cost-effective contract packages that will maximize local impact.

- (ii) **Efficient project management support and institutional strengthening.** A project supervision team will be established consisting of four FRA staff to oversee overall project implementation, selection of consulting services, procurement of civil works, accounting and financial management activities, safeguards monitoring and evaluation, and project reporting. Design and supervision consultants will be engaged to carry out subproject screening, feasibility studies, detailed design, procurement of civil works packages, construction supervision, and safeguards monitoring. The project will also support FRA in updating design and construction standards for roads and bridges to bring uniformity to road assets in Fiji, to incorporate climate change adaptation considerations for more climate-resilient road and maritime transport infrastructure, and to reflect current international standards for road geometry, pavement, drainage, and associated structures.

#### D. Investment and Financing Plans

15. The project is estimated to cost \$111.11 million (Table 1).<sup>15</sup>

**Table 1: Project Investment Plan**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Rehabilitated and climate-resilient land and maritime transport infrastructure	78.28
2. Efficient project management support and institutional strengthening	13.20
<b>Subtotal (A)</b>	<b>91.48</b>
<b>B. Contingencies<sup>c</sup></b>	<b>14.93</b>
<b>C. Financing Charges During Implementation<sup>d</sup></b>	<b>4.70</b>
<b>Total (A+B+C)</b>	<b>111.11</b>

<sup>a</sup> Includes taxes and duties of \$16.67 million equivalent to be financed from government resources through its counterpart cash contribution and from Asian Development Bank (ADB) loan resources. The government will provide in-kind contribution for land acquisition and annual audits.

<sup>b</sup> In mid-2014 prices. The amounts are indicative because subprojects will be selected during implementation.

<sup>c</sup> Physical contingencies estimated at 10% of base cost. Price contingencies computed at 1.6% on foreign exchange costs and 3.0% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Includes interest and commitment charges. Interest during construction for the ADB loan has been computed at the 5-year forward London interbank-offered rate plus a spread of 0.5%. Commitment charges for an ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

16. The government has requested a loan of \$100 million from ADB's ordinary capital resources to help finance the project. The loan will have a 20-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, and a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan), and such

<sup>15</sup> Civil works accounts for 66% of the total project cost, and consulting services accounts for 11% of the total project cost. The project will also finance land acquisition, salaries, project audits, contingencies, and financing charges during implementation.

other terms and conditions set forth in the draft loan and project agreements. The loan will finance civil works, consulting services, taxes and duties,<sup>16</sup> and financing charges during implementation.<sup>17</sup>

17. The government will finance the remaining project costs of \$11.11 million, including civil works, consulting services, taxes and duties, salaries, and contingencies. The financing plan is in Table 2.

**Table 2: Financing Plan**  
(\$ million)

<b>Source</b>	<b>Amount</b>	<b>Share of Total (%)</b>
Asian Development Bank		
Ordinary capital resources (loan)	100.00	90.0
Government of Fiji <sup>a</sup>	11.11	10.0
<b>Total</b>	<b>111.11</b>	<b>100.0</b>

<sup>a</sup> The government's counterpart contribution includes civil works, consulting services, taxes and duties, salaries, and contingencies. The government will provide in-kind contribution for land acquisition and annual audits. Source: Asian Development Bank estimates.

## E. Implementation Arrangements

18. The executing agency will be the Ministry of Finance (MOF) and the implementing agency will be FRA. The government will finance additional staff for FRA to establish the project supervision team. The additional staff will consist of a project manager, an accountant, an environmental safeguards manager, and a social safeguards manager. FRA will be responsible for subproject screening, feasibility studies, detailed design, procurement, and implementation. A project steering committee (chaired by MOF, and including FRA) will monitor project progress and provide guidance to the executing and implementing agencies.

19. To expedite implementation, advance procurement action and retroactive financing has been approved for (i) design and supervision consultants, who will be responsible for detailed design and construction supervision; and (ii) a civil works package that was confirmed by the government in October 2014 during its annual budget cycle. The government has been advised that approval by ADB of advance contracting and retroactive financing does not commit ADB to approve and finance the project.

20. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (footnote 14).

**Table 3: Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>
Implementation period	July 2015–June 2020
Estimated completion date	June 2020 (loan closing date: 31 December 2020)
<b>Management</b>	
(i) Oversight body	Project steering committee Ministry of Finance (chair) Fiji Roads Authority (member)
(ii) Executing agency	Ministry of Finance

<sup>16</sup> The taxes and duties do not represent an excessive share of the project investment plan, and will only be financed for ADB-financed expenditures. Financing of taxes and duties is material and relevant to the success of the project. The amount will be within the threshold identified during the country partnership strategy preparation process.

<sup>17</sup> The ADB loan may finance transportation and insurance costs.

Aspects	Arrangements		
(iii) Key implementing agency	Fiji Roads Authority, 32 staff		
(iv) Project supervision team	Fiji Roads Authority, four staff		
Procurement	International competitive bidding	4 contracts	\$78.28 million
Consulting services	QCBS (90:10) design and supervision consultants (package 1)	121 person-months (international) 175 person-months (national)	\$6.00 million
	QCBS (90:10) design and supervision consultants (package 2)	121 person-months (international) 175 person-months (national)	\$5.77 million
Retroactive financing and advance contracting	Retroactive financing: eligible expenditures incurred up to 12 months before the loan signing date, and not exceeding 20% of the loan amount. Advance contracting: (i) design and supervision consultants, and (ii) civil works		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, QCBS = quality- and cost-based selection.  
Source: Asian Development Bank estimates.

### III. TECHNICAL ASSISTANCE

21. The TA for Strengthening Transport Coordination Capacity will be provided to develop and implement a capacity development plan for MOF and the Ministry of Infrastructure and Transport to enhance staff capacity in planning, selecting, and overseeing infrastructure projects, including those implemented by FRA. Expected outputs will include strengthened ability of MOF and the Ministry of Infrastructure and Transport staff to review subproject selection and feasibility studies, and align national policy objectives with sector-specific strategies. The TA will build capacity of government staff in infrastructure planning, asset management, economic analysis, and safeguards.

22. The TA is estimated to cost \$800,000, of which \$700,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-others). The government will provide counterpart support in the form of counterpart staff, office space, administrative support, logistics, local transport, and other in-kind contribution. The value of government contribution is estimated to account for 12.5% of the total TA cost. ADB will engage an international consultant for the TA in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time), using individual consultant selection.

### IV. DUE DILIGENCE

#### A. Technical

23. Subproject selection criteria have been developed and are contained within the subproject eligibility criteria and selection procedure.<sup>18</sup> Subprojects will be guided by priority

<sup>18</sup> Subproject selection criteria and procedure are available in the Project Administration Manual (footnote 14).

investments in the 20-Year National Transport Infrastructure Plan. The project will support FRA in addressing the backlog of maintenance of the transport network by reducing the number of bridges and jetties rated *high priority* through appropriate repair, rehabilitation, or replacement measures.<sup>19</sup> Climate change risk screening was undertaken and the project's climate change risk was assessed as high. The engineering designs will consider increased rainfall resulting from projected climate change to enable for roads and bridges to withstand higher level floods, increased scouring of abutments, and slope stability hazards. Engineering designs for jetties will consider sea level rise. The project will prepare revised construction standards to incorporate climate change adaptation considerations for more climate-resilient road and maritime transport infrastructure, and to reflect current international standards for road geometry, pavement, drainage, and associated structures. The revised standards will be piloted under the project.

## **B. Economic Analysis**

24. An economic and financial analysis was carried out in accordance with ADB guidelines for a sample subproject on Upper Sigatoka Valley Road: Narata Bridge and Matewale Crossing. The analysis was undertaken by comparing the discounted costs and benefits under different scenarios during 2015–2044 in constant 2014 prices. Economic evaluation of bridges is most often carried out as part of a wider analysis of road improvement, as the bridge works contribute to the overall project benefits and costs. Evaluating the economics of individual bridge repairs, upgrading or replacement requires a detailed inspection of the transport service function provided by the bridge in question (or other forms of waterway crossing) and of the effects of repair or replacement options.

25. The sample subproject demonstrated significant unquantified benefits, including (i) improved reliability for short-distance, nonmotorized traffic; (ii) improved safety for both vehicles and pedestrians of two-lane bridges with footpaths, as compared to narrow single-lane bridge decks; (iii) improved reliability of bridges in the valley, which may induce additional agricultural production; and (iv) reduced upstream damming effects due to higher-level structures, thereby reducing costs of flood damage to crops and buildings adjacent to the river. For these reasons, a threshold economic internal rate of return (EIRR) of 10% was used. For Narata Bridge, the EIRR of the preferred option (replacing the existing single-lane bridge with a raised two-lane structure bridge) is 11.1%. In the case of the Matewale Crossing, replacing the existing deteriorated Irish crossing with a new Irish crossing was found to be the only economically viable option, with an EIRR of 38%. The results were tested under adverse scenarios to check sensitivity and were found to be robust.

## **C. Governance**

26. A financial management assessment was prepared in accordance with ADB guidelines.<sup>20</sup> The financial management assessment considered FRA in its role as the implementing agency, and MOF in its role as the executing agency. Fiji has an effective and well-functioning public services sector, supported by a developed private sector with available national expertise in accounting and financial management. No major county level issues are apparent. The financial management assessment confirms that FRA has sufficient financial management arrangements to handle the project. Due to governance and accountability issues,

<sup>19</sup> *High priority* refers to FRA's prioritization rating for a bridge or jetty's condition, which indicates deficiencies in its serviceability, including but are not limited to, its structural integrity, vulnerability to adverse weather events, and/or user safety issues.

<sup>20</sup> ADB. 2005. *Guidelines for the Financial Management and Analysis of Projects*. Manila; ADB. 2008. *Financial Due Diligence: A Methodology Note*. Manila.

and the risk associated with the restoration of democracy, inherent risk was assessed as moderate. Control risk was rated as *medium*. Although FRA has established financial management procedures and accounting and reporting systems, as well as access to professional services to meet ADB's financial management requirements, there were major findings from internal audits, and qualified audit opinions were issued by the external auditors.

27. FRA 2014 Operations Manual (footnote 6) defines accounting and financial management processes and procedures that require FRA to abide by the terms and conditions stipulated in every loan agreement between ADB and the government. FRA is supported by KPMG for financial and internal audit services, and are audited annually by the auditor general.<sup>21</sup> Currently, the accounts department does not have the main responsibility for preparing withdrawal applications. FRA may lack resources to meet the anticipated increased workload resulting from the project, and project management support and institutional strengthening will be provided to ensure adequate financial management capacity within FRA.

28. A project procurement assessment was prepared in accordance with ADB guidelines.<sup>22</sup> The Fiji Road Authority Decree 2012 provides that the provisions of the Fiji Procurement Regulations 2010 shall not apply to FRA, and requires FRA to establish and implement its own procurement process and plan and to ensure that all goods and services are procured in accordance with its plan. The plan is articulated in the FRA Operations Manual. The project procurement risk is assessed as moderate. The FRA Operations Manual provides that all ADB-financed projects shall follow ADB's Procurement Guidelines (2013, as amended from time to time) for the procurement of goods and works, and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time) for the recruitment of consulting services.

29. ADB's Anticorruption Policy (1998, as amended to date) was explained to, and discussed with, the government and MOF. The specific policy requirements and supplementary measures are described in the project administration manual (footnote 14).

#### **D. Poverty and Social**

30. The primary project beneficiaries are (i) rural and village communities in the hinterland near roads and bridges, (ii) coastal and island residents in remote areas, (iii) farmers producing cash crops, (iv) district and provincial traders, and (v) commercial industries such as tourism and the sugar industry. Benefits to rural communities and vulnerable groups include improved connectivity to service hubs, access to agricultural markets, shorter travel times, improved access to employment, and reduced accident rates.

31. The project is classified as effective gender mainstreaming. A gender action plan has been prepared to ensure that engineering designs address the needs of women for safe road travel to access social services and markets. Selected bridge designs will include pedestrian access with guard rails and footpaths. The project will encourage women's participation in labor-based construction activities where culturally appropriate, provide equal pay for equal work between men and women, and ensure income restoration measures to assist those who have lost assets or access to land. Both women and men will be represented in community consultations and decision-making committees where culturally appropriate, and awareness will be raised to mitigate the potential spread of sexually transmitted infections and HIV during construction phases.

<sup>21</sup> KPMG is a company that provides professional services for audit, tax, and advisory.

<sup>22</sup> ADB. 2014. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*. Manila.

## E. Safeguards

32. **Environment (category B).** ADB and the World Bank have agreed on a common approach to safeguards based on Fiji's safeguards requirements, and strengthened by ADB's Safeguards Policy Statement (2009) and World Bank safeguards policies. For the environment, the project is classified as category B. Category A subprojects will not be eligible for financing under the project. An environmental and social management framework has been prepared to ensure that the project complies with ADB's Safeguard Policy Statement and Fiji national laws.<sup>23</sup> An environmental impact assessment was prepared for the sample subproject.<sup>24</sup> The subproject impacts are site-specific, largely confined to the construction stage, and can be mitigated readily. The project will be implemented by the project supervision team to be established in FRA, which will be supported by design and supervision consultants; the project supervision team and the supporting consultants will include safeguard specialists responsible for implementing the environmental and social management framework and monitoring compliance.

33. **Involuntary resettlement (category B).** The project is classified as category B for involuntary resettlement. The project is not expected to involve any physical displacement. It will require acquisition of land for road widening or realignment, and temporary access during construction; the impacts are not expected to be significant. A land acquisition and resettlement framework and a land acquisition and resettlement plan have been prepared for the project.<sup>25</sup> Consultations have been undertaken during project preparation, and further consultations will be undertaken during implementation. The land acquisition and resettlement plan will be updated or finalized during detailed design, and compensation will be provided to affected persons before the start of civil works at the respective subproject sites. The project will establish a grievance redress mechanism to resolve grievances of affected persons. FRA will (i) appoint a focal person for land issues; (ii) establish social safeguard capacity within the project supervision team, including social safeguard specialists; and (iii) coordinate with the iTaukei Land Trust Board and the Department of Lands to implement the project's land acquisition and resettlement activities.

34. **Indigenous peoples (category C).** The project has been classified category C for indigenous peoples in accordance with ADB's Safeguard Policy Statement. The project is not expected to impact vulnerable group of indigenous people. The iTaukei (Melanesians) comprise the majority of the country's population and are likely the majority population and project beneficiaries in the project areas. While a separate indigenous peoples plan is not required, the project will be implemented in a participatory manner. FRA, in coordination with relevant government agencies, will organize adequate consultations with the affected local communities and ensure that there is a broad local community support of the proposed subprojects. The project's stakeholder consultation strategy and participation plan will include detailed consultation measures. The detailed feasibility reports will include a summary of consultation activities and confirmation of the broad community support of the subproject.

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<sup>23</sup> The environmental and social management framework is equivalent to ADB's environmental assessment and review framework. Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

<sup>24</sup> The environmental impact assessment (EIA) is equivalent to ADB's initial environmental examination. The EIA is consistent with the procedure established by the Environmental Management Act 2005 administered by Fiji's Department of Environment, and includes additional elements to comply with ADB's Safeguard Policy Statement. Initial Environment Examination (accessible from the list of linked documents in Appendix 2)

<sup>25</sup> The land acquisition and resettlement framework is equivalent to ADB's resettlement framework. The land acquisition and resettlement plan is equivalent to ADB's resettlement plan. Resettlement Framework (accessible from the list of linked documents in Appendix 2); Resettlement Plan (accessible from the list of linked documents in Appendix 2).

## F. Risks and Mitigating Measures

35. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.<sup>26</sup> The integrated benefits and impacts are expected to outweigh the costs.

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Subprojects are not selected in accordance with government priorities and are politically driven	Subprojects must be selected according to the priorities of the 20-Year National Transport Infrastructure Plan.
FRA may lack capacity to implement the project	FRA will establish a project supervision team staffed by local experts. They will be supported by FRA's international experts, and design and supervision consultants to be financed under the project.
Project implementation delays due to delayed subproject preparation	FRA will use its existing engineering consultants to carry out subproject screening, feasibility studies, and detailed design for a subproject in accordance with the agreed subproject selection criteria.
Recruitment of consultants and procurement of civil works are not in accordance with ADB's guidelines	ADB prior review is required for recruitment and procurement activities.
Accounting and auditing requirements are not met	FRA will recruit a dedicated accountant and will maintain separate project accounts.

ADB = Asian Development Bank, FRA = Fiji Roads Authority.

Source: Asian Development Bank.

## V. ASSURANCES

36. The government and MOF have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.

37. The government and MOF have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements.

## VI. RECOMMENDATION

38. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$100,000,000 to the Republic of Fiji for the Transport Infrastructure Investment Sector Project, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 20 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao  
President

11 November 2014

<sup>26</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Improved access to markets, employment opportunities, and social services</p>	<p><b>By 2022:</b> Increase in household income in selected subproject areas (target and baseline to be established during subproject selection)</p> <p>Increase in utilization of healthcare services in selected subproject areas (target and baseline to be established during subproject selection)</p>	<p>Household income and expenditure surveys</p> <p>Monitoring and evaluation surveys at baseline, inception, midterm, completion, and project evaluation</p>	<p><b>Assumption</b></p> <p>Private sector, communities, and households respond to improved access to health, education, and economic opportunities</p> <p><b>Risk</b></p> <p>Severe natural disasters affect infrastructure and service delivery</p>
<p><b>Outcome</b> Improved safety and resilience of land and maritime transport infrastructure</p>	<p><b>By 2020:</b> Number of bridges requiring high priority attention reduced by 30% (2014 baseline: 100)<sup>a</sup></p> <p>Number of jetties requiring high priority attention reduced by 20% (2014 baseline: 20)<sup>a</sup></p> <p>At least two subproject designs are informed by revised standards with climate resilience and safety considerations (2014 baseline: 0)</p>	<p>Project quarterly progress and completion reports</p>	<p><b>Assumptions</b></p> <p>Government remains committed to implementing public sector investment program and updated 20-Year National Transport Infrastructure Plan</p> <p>Revised design and construction standards are completed on time</p> <p><b>Risk</b></p> <p>Government budget allocations for investment, maintenance, and service delivery do not meet needs identified in sector plans</p>
<p><b>Outputs</b></p> <p>1. Rehabilitated and climate-resilient land and maritime transport infrastructure</p>	<p><b>By 2020:</b></p> <p>30 kilometers of main, municipal, and rural roads rehabilitated</p> <p>30 bridges rehabilitated or reconstructed with gender-sensitive designs that improve all weather pedestrian access to waterways</p>	<p>Project quarterly progress and completion reports</p> <p>FRA annual reports</p> <p>FRA asset management system</p>	<p><b>Assumption</b></p> <p>Adequate counterpart and development partner financing is available</p>



Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	Four rural jetties rehabilitated or reconstructed		
2. Efficient project management support and institutional strengthening	<p><b>By 2020 (baseline year: 2015):</b></p> <p>Project meets annual contract award targets</p> <p>Project meets annual disbursement targets</p> <p>Design and construction standards revised to incorporate climate change adaptation considerations, and to reflect current international standards for road geometry, pavement, drainage, and associated structures (2015 baseline: None)</p>	<p>Ministry of Finance budget and expenditures</p> <p>FRA annual reports</p> <p>Project progress and completion reports</p> <p>Updated FRA asset management system</p>	<p><b>Assumptions</b></p> <p>Institutional organization of government transport agencies remains consistent</p> <p>Sufficient capacity of government to recruit consultants on time and manage them effectively</p>
<p><b>Activities with Milestones</b></p> <p><b>1. Rehabilitated and climate-resilient land and maritime transport infrastructure</b></p> <p>1.1 Government approves rolling work program and priority subproject list for noncore subprojects (Q1–Q2 2015)</p> <p>1.2 Phase 1 subproject selection and feasibility studies (Q3 2015–Q1 2016)</p> <p>1.3 Phase 1 subproject detailed design and bidding documents preparation (Q2–Q4 2016)</p> <p>1.4 Bidding of phase 1 subprojects (Q1–Q2 2017)</p> <p>1.5 Award and implementation of phase 1 subproject (Q3 2017–Q4 2018)</p> <p>1.6 Phase 2 subproject selection and feasibility studies (Q2–Q4 2016)</p> <p>1.7 Phase 2 subproject detailed design and bidding document preparation (Q1–Q3 2017)</p> <p>1.8 Bidding of phase 2 subprojects (Q4 2017–Q1 2018)</p> <p>1.9 Award and implementation of phase 2 subprojects (Q2 2018–Q1 2020)</p> <p><b>2. Efficient project management support and institutional strengthening</b></p> <p>2.1 Draft revised design and construction standards (Q3 2015–Q3 2016)</p> <p>2.2 Pilot revised design and construction standards on selected phase 1 subproject (Q3 2016–Q1 2017)</p>		<p><b>Inputs</b></p> <p><b>ADB loan</b></p> <p><b>Ordinary capital resources: \$100.00 million</b></p> <p><b>Technical Assistance Special Fund (TASF-others): \$700,000</b></p> <p><b>Government: \$11.11 million</b></p> <p>Note: The government will provide counterpart support in the form of counterpart staff, office space, administrative support, logistics, local transport, and other in-kind contribution.</p>	

<b>Activities with Milestones</b>	
2.3 Recruitment of phase 1 design and supervision consultants (Q4 2014–Q2 2015)	
2.4 Recruitment of phase 2 design and supervision consultants (Q3 2015–Q1 2016)	

ADB = Asian Development Bank, FRA = Fiji Roads Authority, Q = quarter.

<sup>a</sup> "High priority" refers to FRA's prioritization rating for a bridge or jetty's condition, which indicates deficiencies in its serviceability, including but not limited to, its structural integrity, vulnerability to adverse weather events, and/or user safety issues.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=48141-001-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Transport
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Attached Technical Assistance
8. Economic and Financial Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Initial Environmental Examination
13. Environmental Assessment and Review Framework
14. Resettlement Plan
15. Resettlement Framework
16. Risk Assessment and Risk Management Plan

### **Supplementary Documents**

17. Economic and Distribution Analysis
18. Procurement Assessment