

Project Administration Manual

Project Number: 52129
May 2018

Kingdom of Tonga: Cyclone Gita Recovery Project

ABBREVIATIONS

ADB	–	Asian Development Bank
CEMP	–	contractor environmental management plan
EARF	–	environmental assessment and review framework
EMP	–	environmental management plan
ESU	–	environment and social unit
IEE	–	initial environmental examination
MNFP	–	Ministry of Finance and National Planning
MEIDECC	–	Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications
MFAT	–	Ministry of Foreign Affairs and Trade of New Zealand
MPE	–	Ministry of Public Enterprises
PAM	–	project administration manual
PCC	–	project coordination committee
PEFA	–	public expenditure and financial accountability
PFM	–	public financial management
PMU	–	project management unit
RP	–	resettlement plan
SPS	–	safeguard policy statement
TPL	–	Tonga Power Limited

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Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with the policies and procedures of the government and Asian Development Bank (ADB). The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Ministry of Finance and National Planning (MFNP) and Tonga Power Limited (TPL) are wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the recipient and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by MFNP and TPL of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At grant negotiations, the recipient and ADB shall agree to the PAM and ensure consistency with the grant agreement. Such agreement shall be reflected in the minutes of the grant negotiations. In the event of any discrepancy or contradiction between the PAM and grant agreement, the provisions of the grant agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP), changes in implementation arrangements are subject to agreement and approval pursuant to relevant government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval, they will be subsequently incorporated in the PAM.

I. PROJECT DESCRIPTION

1. The project will support the efforts of the Government of Tonga to reconstruct and climate- and disaster-proof the Nuku'alofa electricity network that was damaged by Tropical Cyclone Gita in February 2018.
2. The project is aligned with the following impacts: More reliable, safe, affordable and widely available energy services; and more reliable, safe and affordable buildings and structures to improve services and help lessen maintenance, save on energy usage and increase resilience to disasters.¹ The project will have the following outcome: reliable electricity supply in Nuku'alofa priority areas restored.
3. The project will have the following Output: Priority sections of Nuku'alofa electricity network rehabilitated and upgraded. The project will restore access to the electricity supply network and make it more resilient to extreme weather and disasters, by repairing these utilities and upgrading them to a higher disaster resilience standard. The project will rehabilitate the existing 11 kV overhead network and the existing low voltage overhead network using disaster resilience measures including modern aerial-bundled conductors; and install new 11/0.4 kV distribution transformers and new underground service cables to customer premises with new smart meters.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

Table 1: Project Readiness Activities

	April 2018	May 2018	June 2018	July 2018	Responsible Agency/ Government
Advance contracting actions	X	X	X		GOT
Establish project implementation arrangements	X	X			ADB and GOT
ADB Board approval			X		ADB
Grant signing			X		ADB and GOT
Government legal opinion provided			X		GOT
Government budget inclusion			X		GOT
Grant effectiveness			X		ADB

ADB = Asian Development Bank; GOT = Government of Tonga
Source: Asian Development Bank.

¹ Ministry of Finance and National Planning 2015. *Tonga Strategic Development Framework 2015-2025*. Nuku'alofa.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations: Roles and Responsibilities

Table 3: Project Management Roles and Responsibilities

Project Implementation Organizations	Management Roles and Responsibilities
Executing agency: MFNP	<ul style="list-style-type: none"> - Ensure project successfully managed and implemented - Coordinate with the implementing agency on the preparation of withdrawal applications and submit to ADB. - Review financial reports, including the annual audit report and financial statements, from the implementing agency and submit to ADB. - Provide implementation assistance to the PMU.
Specific Oversight Role: PCC: MFNP and MEIDECC (co-chairs), MPE, TPL, MFAT, ADB)	<ul style="list-style-type: none"> - Provide strategic direction, guidance and oversight of the project - Coordinate overall activities of the Nuku'alofa Network Upgrade Project - Provide policy oversight
Implementing agency: TPL	<p>TPL will be responsible for the day to day activities for the implementation of the project, and will:</p> <ul style="list-style-type: none"> - Ensure compliance with grant covenants. - Prepare quarterly reports. - Prepare withdrawal applications and annual audited project financial statements. - Ensure compliance with safeguards requirements. - Recruit required technical expertise, and project management and implementation consultants. - Prepare bid documents to comply with ADB requirements, evaluating bids, and awarding works, contract administration, and supervision. - Measure works carried out by contractors and certify payments. - Carry out safeguards and environmental assessments and project performance management - Carry out procurement of equipment and services for infrastructure investment activities. - Conduct Operations and Maintenance.
ADB	<ul style="list-style-type: none"> - Monitor and review overall implementation in consultation with the executing and implementing agencies, including project implementation schedule; actions required with reference to the summary poverty reduction and social strategy, safeguards, and monitoring reports; timeliness of budgetary allocations and counterpart funding; project expenditures; progress with procurement, disbursement, compliance with grant covenants; and likelihood of attaining project development objectives. - Conduct regular grant review missions. Overall coordination and advisory support.

ADB = Asian Development Bank, MFNP = Ministry of Finance and National Planning, MEIDECC = Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications, MFAT = Ministry of Foreign Affairs and Trade of New Zealand, MPE = Ministry of Public Enterprises, PCC = project coordinating committee, PMU = project management unit, TPL = Tonga Power Limited.

Source: Asian Development Bank.

B. Key Persons Involved in Implementation

Executing Agency

MFNP

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Asian Development Bank

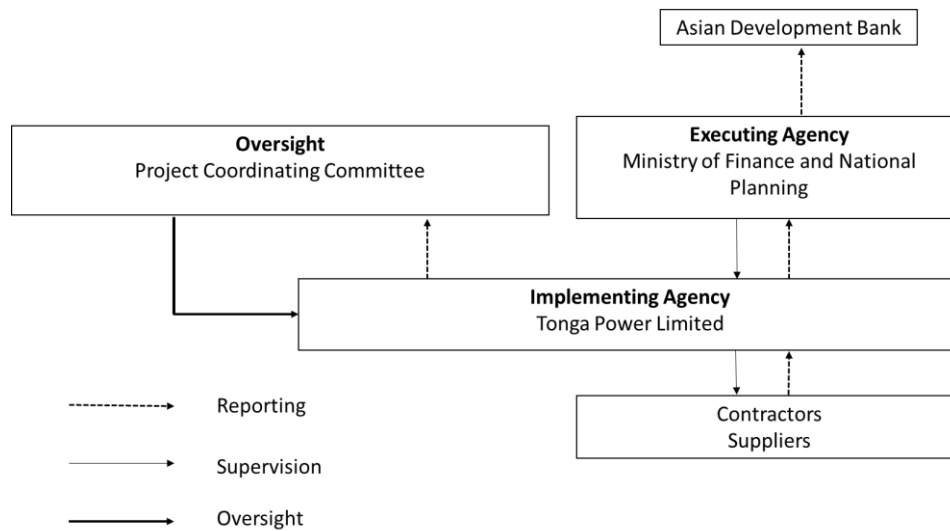
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C. Project Organization Structure



IV. COSTS AND FINANCING

4. ADB will provide a grant not exceeding \$6.80 million from ADB's Special Funds resources (Asian Development Fund) to finance materials and consultants for the reconstruction and upgrading of the Nuku'alofa network priority areas. The government will provide the equivalent of \$1.14 million as exemption for taxes and duties. TPL will provide the equivalent of \$1.48 million as in-kind contribution towards staff time for design, supervision and installation of works as well as management and administration of the project. The government will make the proceeds of the grants available to TPL under subsidiary financing agreement upon terms and conditions satisfactory to ADB.

5. The climate adaptation cost is estimated at \$994,000, or 9.4% of total project cost. This consists mainly of incremental material costs for the upgraded resilient network, which are estimated to be around 17% higher compared to materials for rehabilitation of the network to the existing climate- and disaster resilience standards. ADB will finance 90% of adaptation costs.

A. Cost Estimates Preparation and Revisions

6. The cost estimates were prepared by ADB based on information provided by TPL and MFNP.

B. Key Assumptions

7. The following key assumptions underpin the cost estimates and financing plan:

- (i) Price contingencies based on expected cumulative inflation over the implementation period are as follows:

Table 4: Escalation Rates for Price Contingency Calculation

Item	2018	2019	2020	2021	Average 2019-2020
Foreign rate of price inflation	1.5%	3.0%	1.5%	3.1%	2.3%
Domestic rate of price inflation	3.2%	5.4%	6.1%	7.3%	5.5%

Source: Asian Development Bank estimates.

C. Detailed Cost Estimates by Expenditure Category

Table 5. Detailed Cost Estimates by Expenditure Category

Item	\$'000			% of Total Base Cost
	Foreign Exchange	Local Currency (T\$)	Total Cost	
A. Investment Costs ^a				
1 Civil Works	0	257	257	3.02%
2 Equipment and materials	4,534	1,288	5,822	68.52%
3 Consultancy Services	157	0	157	1.85%
4 Taxes, duties and environment levy	0	1,140	1,140	13.42%
Subtotal (A)	4,691	2,685	7,376	86.81%
B. Recurrent Cost				
1 Salaries	0	1,000	1,000	11.77%
2 Office costs ^b	0	121	121	1.42%
Subtotal (B)	0	1,121	1,121	13.19%
Total Base Cost	4,691	3,806	8,497	100.0%
C. Contingencies				
1 Physical ^c	328	266	595	7.00%
2 Price ^d	106	221	362	3.84%
Subtotal (C)	434	487	921	10.84%
Total Project Cost (A+B+C)	5,125	4,293	9,418	110.84%

T\$ = Tongan Pa'anga

^a In April 2018 prices.^b In kind office costs, including audit fees.^c Computed at 7% for all categories.^d Computed at an average of 6% for local currency costs and 3% for foreign costs over the project implementation period (using ADB price escalation factors).

Source: Asian Development Bank estimates.

D. Allocation and Withdrawal of Grant Proceeds

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS			
	Item	Total Amount Allocated for ADB Financing (\$)	Basis for Withdrawal from the Grant Account
		Category	
1	Civil Works, equipment and materials, recurrent costs **	6,800,000	100% of total expenditure claimed*
	Total	6,800,000	

* Exclusive of taxes and duties imposed within the territory of the Recipient.

** No withdrawals shall be made from the Grant Account until the Subsidiary Financing Agreement, in a form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Recipient and Tonga Power Limited.

E. Detailed Cost Estimates by Financier

Table 6: Detailed Cost Estimate by Financier

Item	ADB ^a		TPL ^b		GOT ^c		Total Cost \$'000
	\$'000	% of Cost Category	\$'000	% of Cost Category	\$'000	% of Cost Category	
A. Investment Costs							
1. Civil Works	257	100.0%	-	0.0%	-	0.0%	257
2. Equipment and materials	5,265	90.4%	557	9.6%	0	0.0%	5,822
3. Consulting Services	-	0.0%	157	100.0%	-	0.0%	157
4. Taxes and Duties	-	0.0%	-	-	1,140	100.0%	1,140
Subtotal (A):	5,522	74.9%	714	9.7%	1,140	15.5%	7,376
B. Recurrent Costs							
1. Salaries ^d	530	53.0%	470	47.0%	-	0.0%	1,000
2. Office costs	-	0.0%	121	100.0%	-	0.0%	121
Subtotal (B):	530	47.3%	591	52.7%	-	0.0%	1,121
Total Base Cost	6,052	71.2%	1,305	15.4%	1,140	13.4%	8,497
C. Contingencies	748	81.2%	173	18.8%	-	0.0%	921
Total Project Cost (A+B+C)	6,800		1,478		1,140		9,418
% of Total Project Costs		72.2%		15.7%		12.1%	100.0%

ADB = Asian Development Bank; TPL = Tonga Power Limited; GOT = Government of Tonga; T\$ = Tongan Pa'anga.

^a The amounts disbursed by ADB for eligible expenditures under a cost category will be subject to the ceiling set by the allocation.

^b In-kind contribution to equipment, staff time and labor.

^c In-kind contribution in the form of exemption of taxes, duties and the environment levy.

^d Recurrent costs of \$530,000 under ADB represents incremental costs for TPL personnel remuneration related to civil works. Such costs will be claimed through force account works procedure.

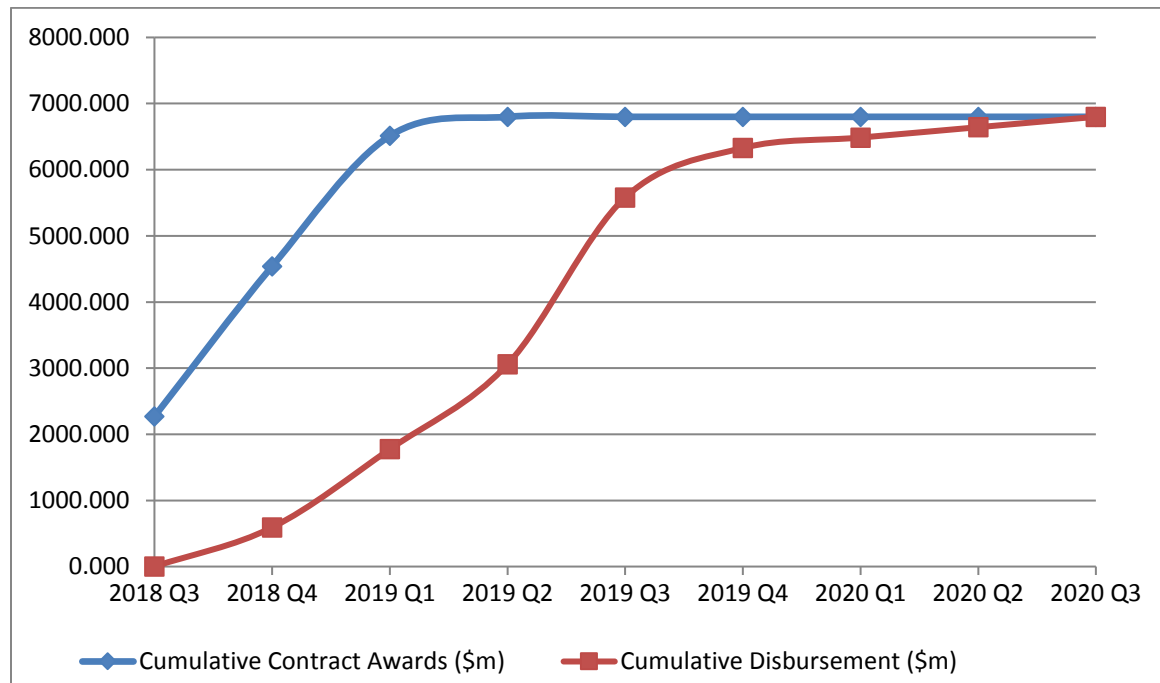
Source: Asian Development Bank.

F. Detailed Cost Estimates by Year

Table 7: Detailed Cost Estimate by Year

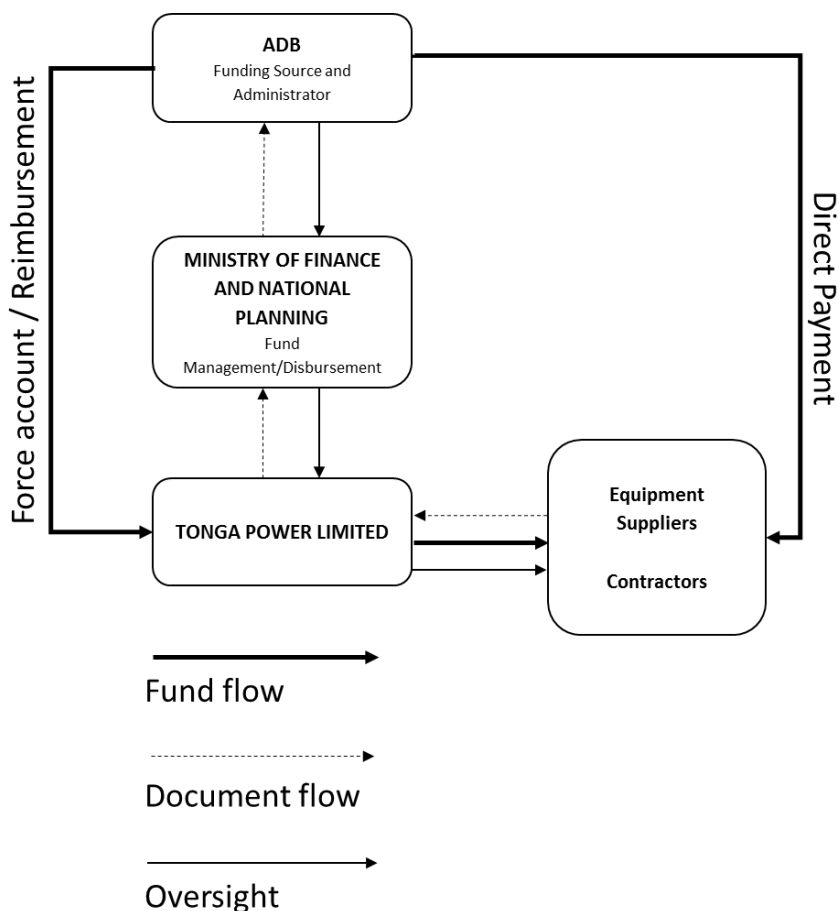
Item	2018	2019	2020	Total Cost
	\$'000	\$'000	\$'000	\$'000
A. Investment Costs				
1. Civil Works ^a	0	129	129	257
2. Equipment ^a	1084	4738	0	5822
3. Consulting services	0	120	37	157
4. Taxes and Duties	212	928	0	1140
Subtotal (A)	1296	5914	166	7376
B. Recurrent Costs				
1. Salaries	0	700	300	1000
2. Office costs	31	60	30	121
Subtotal (B)	31	760	330	1121
Total Base Cost	1327	6674	496	8497
C. Contingencies	144	723	54	921
Total Project Cost (A+B+C)	1,471	7,398	549	9,418

G. Contract and Disbursement S-Curve



Source: Asian Development Bank estimates.

H. Fund Flow Diagram



V. FINANCIAL MANAGEMENT

8. Tonga has made solid progress in improving public financial management (PFM) since achieving internal self-governance in 1984, particularly in government financial accounting and reporting. Tonga's Public Financial Management Act 2002 (amended 2010) and the Public Finance Administration Regulations 1984 provide a comprehensive legislative framework for effective financial management and reporting.² The 2014 Public Expenditure and Financial Accountability (PEFA)³ self-assessment, the latest assessment to date, shows significant improvement in Tonga's PFM systems since the first PEFA assessment in 2007. Improvements have been made to: (i) corporate planning, (ii) medium-term budgeting, (iii) streamlining the level of budget delegations to Government agencies, (iv) the establishment of the Revenue Committee to strengthen administration and policy coordination following the 2011 review of Tonga's taxation regime, (v) the chart of accounts was updated, (vi) the "no new borrowing" policy until public debt levels are sustainable was adopted, (vii) the public procurement system was regularized and international best practice regulations adopted, (viii) annual and in-year financial reports are provided to Cabinet, Parliament, and to the general public, and (ix) the internal audit division is operating. These reforms have not only improved Tonga's PEFA ratings—among the ten Pacific

² ADB. 2013. *Tonga Social and Economic Report*. Manila.

³ Government of Tonga. 2014. *Public Financial Management Performance Report*. Nuku'alofa.

Island Countries that have completed PFM system reviews using the PEFA assessments, Tonga had the most number of high ratings of (“A” or “B”) compared to the rest of the Pacific—but its quality of policy and institutional ratings (measured through the biennial country performance assessments) and assessment of national systems ratings (a prerequisite for Australian budget support) have improved markedly as well.

9. Still, the government recognizes that there is more to be done to achieve a PFM system that helps promote macroeconomic stability, create an environment conducive for private sector growth, ensure the optimal use of Tonga’s productive resources, enhance accountability and good governance, and directly contribute to improving standard of living of Tongans. High priority reforms for the government between 2014–2019 include improving the macroeconomic framework for budget formulation; the upgrade of the financial accounting SunSystems, Tonga’s Integrated Financial Management Information System; and completion of ongoing work to produce a “Whole-of-Government” financial report that includes the financial statements of Tonga’s state-owned enterprises. ADB and other development partners such as the World Bank and the International Monetary Fund’s Pacific Financial Technical Assistance Center are providing support for reform implementation through technical assistance, policy dialogue, and annual budget support operations.

A. Financial Management Assessment

10. A financial management assessment was conducted in April 2018 for the project, in accordance with ADB’s Guidelines for the Financial Management and Analysis of Projects and the Financial Due Diligence: A Methodology Note. The assessment considered MFNP as the Executing Agency and TPL as the Implementing Agency and considered the capacity of TPL, including funds-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements. The financial management capacity of MFNP, based on the PEFA assessment, is considered adequate. It is concluded that the overall pre-mitigation financial management risk of MFNP and TPL is moderate. As TPL have the capacity and experience from other ADB projects, it is proposed that Statement of Expenditures (SOE) procedure be used. The government of Tonga, MFNP and TPL have agreed to implement an action plan as key measures to address the deficiencies.

11. Key findings of the financial management assessment undertaken on TPL are as described in Table 8:

Table 8: Summary of Financial Management Assessment of TPL

Particulars	Conclusion
1. Implementing entity	TPL is currently an implementing agency for 2 ongoing ADB-funded projects and is well-versed with ADB's disbursements, financial reporting and auditing requirements.
2. Funds Flow Arrangement	Funds flow arrangements are reliable, predictable and secure. TPL has the capacity to implement the proposed project.
3. Staffing	The existing organization structure of TPL's Finance Department which is headed by the General Manager Finance and consists of 45 staff (including the outer island offices), is considered adequate. A PMU for the project will be setup and will include a new project manager and a new dedicated project accountant.
4. Accounting Policies and Procedures	TPL has defined policies and procedures in place for accounting, budgeting, and auditing activities and maintains records of its fixed assets, with annual physical inspections, including for inventory.
5. Internal Audit	TPL also has adequate internal controls and the Board outsources internal audit to different audit firms, depending on scope and expertise.
6. External Audit	TPL's external auditor is KPMG. PWC was TPL's previous external auditor.
7. Reporting and Monitoring	TPL's financial statements are prepared in accordance with IFRS, Company Act 1995 and Public Enterprises Act 2002.
8. Information systems	TPL's financial management system is computerized, which suits the project requirements.

ADB = Asian Development Bank, IFRS = international financial reporting standards, KPMG = Klynveld Peat Marwick Goerdeler, PMU = project management unit, PWC = Price Waterhouse Coopers.

12. The results of the internal control and risk assessment are summarized in Table 4. Financial management risks need to be considered and updated throughout the life of the investment program. Risk mitigation measures shall also be updated accordingly.

Table 9: Financial Management, Internal Control and Risk Assessment

Risk	Risk Assessment*	Mitigation Measures
A. Inherent Risk		
1. Country-specific risks	M	
2. Entity-specific risks – the roles of TPL and the PMU for the ADB-funded project are to be clearly defined.	M	A PMU organisation structure has been defined and will be implemented, with TORs developed for PMU staff.
Overall Inherent Risk	M	
B. Project Risk		
1. Implementing Entity – the project could face a capital cost overrun	M	Adequate physical and price contingencies have been provided in the cost estimates.
2. Funds Flow – foreign exchange risk	M	11% of the grant proceeds remain unallocated as reserve for foreign exchange risks.
3. Staffing - a new project accountant is to be recruited.	M	Training will be provided to the new project accountant on ADB's disbursements, financial reporting and auditing requirements.
4. Accounting Policies and Procedures	N	
5. Internal Audit	N	

Risk	Risk Assessment*	Mitigation Measures
6. External Audit – auditor is new to ADB-funded projects.	N	During project review missions, ADB can also meet with the external auditor, to ensure that ADB’s auditing requirements are complied with.
7. Reporting and Monitoring – TPL is one of the IAs under the 2 ongoing ADB-funded projects and MFNP is responsible for consolidating the APFSs. Under the proposed project, TPL will be the only implementing agency.	M	Training will be provided to TPL on ADB’s financial reporting and auditing requirements.
8. Information Systems	N	
Overall Project Risk	M	
Overall (Combined) Risk	M	

M = Moderate, N = Negligible or Low.

Table 10: Proposed Action Plan

Issue	Action	Timeline
1. The roles of TPL as a whole and the PMU for the ADB-funded project are to be clearly defined.	A PMU organisation structure has been defined and is to be implemented, with TORs developed for PMU staff.	Before recruitment of PMU staff
2. New Project Manager and new Project Accountant	ADB to train new staff on disbursements, financial reporting and auditing requirements	Soon after recruitment
3. ADB’s financial reporting and auditing requirements	ADB review mission to meet with TPL’s external auditor to discuss ADB’s requirements to ensure compliance	During 1 st project review mission
4. Automated project financial statements	Continue discussion with TPL’s Finance Department to incorporate project accounts in the Technology One software	During 1 st project review mission

ADB = Asian Development Bank, = PMU = project management unit, TOR = terms of reference, TPL = Tonga Power Limited.

B. Disbursement

13. The grant proceeds will be disbursed in accordance with ADB’s *Loan Disbursement Handbook* (2017, as amended from time to time)⁴, and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.⁵ Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

14. Direct payment and reimbursement disbursement procedures will be used for civil works and equipment and materials. Force account works (under reimbursement procedure) will be used for recurrent costs (incremental costs for TPL personnel remuneration, including line workers). TPL will be responsible for (i) collecting and retaining supporting documents; (ii) preparing direct payment and reimbursement withdrawal applications and disbursement projections; and (ii) requesting for budgetary allocations for counterpart funds. MFNP will be responsible for reviewing and approving TPL’s withdrawal applications.

⁴ The handbook is available electronically from the ADB website (<http://www.adb.org/documents/loan-disbursement-handbook>)

⁵ Disbursement eLearning. http://wpqr4.adb.org/disbursement_elearning

15. MFNP is the executing agency for 5 ongoing ADB projects in Tonga: (i) G0256-TON: Tonga-Fiji Submarine Cable; (ii) G0264/G0265-TON: Nuku'alofa Urban Development Sector Project; (iii) G0347/G0348/G0444/G0445/G0446/G0528/L3509-TON: Outer Island Renewable Energy Project; (iv) G0378-TON: Climate Resilience Sector Project; and (v) G0389/G0390-TON: Cyclone Ian Recovery Project. On the other hand, TPL is an implementing agency for 2 ongoing ADB projects in Tonga: (i) G0347/G0348/G0444/G0445/G0446/G0528/L3509-TON: Outer Island Renewable Energy Project; and (ii) G0389/G0390-TON: Cyclone Ian Recovery Project.

16. ADB's Client Portal for Disbursements (CPD)⁶ system was rolled-out to Tonga in July 2016 and training was provided to MFNP and TPL staff. MFNP's authorized signatories and TPL's project accountant for both ongoing projects, are well-versed with ADB's CPD system, as they have been using system since July 2016. TPL's project accountant works closely with MFNP's authorized signatories on the withdrawal applications, so that they are correct and submitted to ADB in a timely manner.

17. The SOE procedure may be used for reimbursement of eligible expenditures.⁷ The ceiling of the SOE procedure is the equivalent of \$100,000.00 per individual payment. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. Reimbursement of individual payments in excess of the SOE ceiling should be supported by full documentation when submitting the withdrawal application to ADB.

18. Before the submission of the first withdrawal application, the government should submit to ADB sufficient evidence of the authority of the persons who will sign the WAs on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is stipulated in the *Loan Disbursement Handbook* (2017, as amended from time to time). Individual payments below such amount should be paid by the MFNP and/or TPL and subsequently claimed to ADB through reimbursement, unless otherwise accepted by ADB. The recipient should ensure sufficient category and contract balances before requesting disbursements. Use of ADB's CPD system is encouraged for submission of withdrawal applications to ADB.

C. Accounting

19. TPL will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project following accrual-based accounting following the International Financial Reporting Standards or the equivalent of national standards. TPL and MFNP will prepare consolidated project financial statements in accordance with the government's accounting laws and regulations which are consistent with international accounting principles and practices.

D. Auditing and Public Disclosure

20. MFNP will cause the detailed consolidated project financial statements to be audited in accordance with International Standards on Auditing, by an independent auditor acceptable to ADB. The audited project financial statements together with the auditor's opinion will be presented

⁶ The CPD facilitates online submission of WA to ADB, resulting in faster disbursement. The forms to be completed by the recipient are available online at <https://www.adb.org/documents/client-portal-disbursements-guide>.

⁷ SOE form is available in Appendix 7B of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

in the English language to ADB within 6 months from the end of the fiscal year by the MFNP.

21. TPL's audited entity financial statements, together with the auditor's report and management letter, will be submitted in the English language to ADB within 1 month after their approval by the relevant authority.

22. The audit report for the project financial statements will include a management letter and auditor's opinions, which cover (i) whether the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether the proceeds of the grant were used only for the purpose(s) of the project; and (iii) whether the government of Tonga or MFNP was in compliance with the financial covenants contained in the legal agreements (where applicable).

23. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

24. The government, MFNP and TPL have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.⁸ ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the recipient), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

25. Public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements, will be guided by ADB's Public Communications Policy 2011.⁹ After the review, ADB will disclose the audited project financial statements and the opinion of the auditors on the project financial statements no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.¹⁰

⁸ ADB's approach and procedures regarding delayed submission of audited project financial statements:

- (i) When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (a) the audit documents are overdue; and (b) if they are not received within the next 6 months, requests for new contract awards and disbursement such as new replenishment of advance accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- (ii) When audited project financial statements are not received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of advance accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (a) inform the executing agency of ADB's actions; and (b) advise that the grant may be suspended if the audit documents are not received within the next 6 months.
- (iii) When audited project financial statements are not received within 12 months after the due date, ADB may suspend the grant.

⁹ Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

¹⁰ This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting

26. All advance contracting will be undertaken in conformity with ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). The issuance of invitations to bid under advance contracting will be subject to ADB approval. The recipient, MFNP and TPL have been advised that approval of advance contracting does not commit ADB to finance the project.

B. Procurement of Goods, Works, and Consulting Services

27. All procurement will be undertaken in accordance with the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). TPL will use their own labor force for works to restore access to and build back better the electrical supply network, Force Account will be used for the incremental labor cost associated with carrying out civil works required on the project.

28. Given the need to proceed with the works without undue delay, direct contracting has been identified as the most suitable modality for the procurement of equipment and materials. TPL is currently conducting a number of international competitive procurement actions for equipment and materials linked to a similar project funded by MFAT (under the Nuku'alofa Network Upgrade Project). TPL has confirmed that this equipment and associated materials are of the same specification to that required under this project. It is intended that direct contracts will be placed with firms awarded orders following this competitive procurement action.

29. Approval by ADB to undertake direct contracting will be subject to:

- a. Ex-post due diligence, by ADB, of the results of the TPL-led (MFAT funded) procurement actions that are proposed by TPL to be utilized for direct contracting, to ensure alignment with the guiding ADB procurement principles of Economy, Efficiency, Fairness, Transparency, Quality and Value for Money. TPL shall provide all pre-qualification, bidding and tender evaluation documentation, requested by ADB, to facilitate this review;
- b. Satisfaction of ADB eligibility criteria of the selected firms;
- c. Compliance of firms with ADB Anti-Corruption policy and Integrity Principles and Guidelines (both as amended from time to time);
- d. Acceptance, by firms, of standard ADB contract conditions; and
- e. Demonstration of the competitiveness of prices received. TPL will be expected to benchmark prices received from bidders under this project against similar procurement transactions previously undertaken in Tonga.

30. Should the transactions not meet the requirements stated above, a change in implementation arrangements may be necessary.

31. It is expected that the utilization of the results of a competitive process in this manner will (i) reduce costs through economy of scale, (ii) shorten the time of procurement, (iii) reduce the administrative burden on TPL, (iv) facilitate standardized installation of equipment, and (v) in the case of the pine poles, reduce transport time. An 18-month procurement plan indicating contract packages is in Section C.

32. Shopping may be used for procurement of works worth less than \$300,000. TPL will follow national labor regulations and are expected to offer equal opportunities to women.¹¹

33. The government shall not award any works contract which involves impact on indigenous people. In the event that works in respect of any facility site are later determined to potentially involve any impacts on indigenous people, as determined under the ADB Safeguard Policy Statement (SPS), no works contract shall be awarded until the government has prepared and submitted to ADB a final indigenous people plan and obtained ADB's clearance.

34. The government shall not award and shall not permit the project EA to award any works contract under the project which involves environmental impacts until:

- (i) MEIDECC has granted the final approval of the initial environmental examination (IEEs) updated for the relevant facility sites; and
- (ii) the government has incorporated the relevant provisions from the updated environmental management plans (EMPs) into the works contracts.

35. TPL has a functioning procurement unit and has successfully undertaken procurement of similar goods for other ADB funded projects (e.g. Outer Island Renewable Energy Project (OIREP) project ref 43452). Procurement of goods, works and related services under the project will be processed through TPL with oversight by ADB as per the requirements stated above.

¹¹ Checklists for actions required to contract consultants by method available in e-Handbook on Project Implementation at: <http://www.adb.org/documents/handbooks/project-implementation/>

C. Procurement Plan

1. Goods and Works Contracts Estimated to Cost \$1 Million or More

36. The following table lists goods and works contracts for which the procurement activity is either ongoing or expected to commence within the next 18 months.

Package Number ⁵	General Description	Estimated Value (\$ million)	Procurement Method	Review [Prior / Post/Post (Sampling)]	Bidding Procedure	Advertisement Date (quarter/year)	Comments ⁷
DC-TPL-01	Conductors	\$1.7	Direct Contracting	Prior	1S1E	Q2	Bidding Docs: Goods
DC-TPL-02	Other electrical hardware	\$1.6	Direct Contracting	Prior	1S1E	Q2 2018	Firms identified based on outcome of TPL competitive Tender using MFAT funds, subject to compliance with requirements stated in the PAM. Contracts may be merged if single supplier wins contract to provide all materials
DC-TPL-03	Poles	\$1.3	Direct Contracting	Prior	1S1E	Q2 2018	Bidding Docs: Goods Firm identified based on outcome of TPL competitive Tender using MFAT funds, subject to compliance with requirements stated in the PAM.

**2. Goods and Works Contracts Estimated to Cost Less than \$1 Million
and Consulting Services Contracts Less than \$100,000 (Smaller Value Contracts)**

37. The following table groups smaller-value goods, works and consulting services contracts for which the activity is either ongoing or expected to commence within the next 18 months.

Goods and Works								
Package Number⁵	General Description	Estimated Value (\$ '000)	Number of Contracts	Procurement Method	Review [Prior / Post/Post (Sampling)]	Bidding Procedure⁶	Advertise ment Date (quarter/ year)	Comments⁷
SHO-TPL-01	Service line trenching	\$260	1	Shopping	Post	N/A	Q2 2018	
DC-TPL-04	Line truck	\$260	1	Direct Contracting	Prior	1S1E	Q2 2018	Bidding Docs: Goods Firms identified based on outcome of TPL competitive Tender using MFAT funds, subject to compliance with requirements stated in the PAM.
DC-TPL-05	Bucket truck	\$260	1	Direct Contracting	Prior	1S1E	Q2 2018	
DC-TPL-06	UTE	\$40	1	Direct Contracting	Prior	1S1E	Q2 2018	
DC-TPL-07	Digger	\$40	1	Direct Contracting	Prior	1S1E	Q2 2018	
DC-TPL-08	Tools and PPE	\$100	1	Direct Contracting	Prior	1S1E	Q2 2018	
FAW-TPL-01	TPL Staff labour	\$530	1	Force Account				TPL costs to implement the project activities

VII. SAFEGUARDS

38. This project, and all project activities to be financed by ADB and government, will be subject to ADB Safeguard Policy Statement (2009) (SPS).¹² The project is classified as Category B for environment and Category C on involuntary resettlement and indigenous persons. An Environmental Assessment and Review Framework (EARF) has been prepared to describe the safeguards requirements for the project. An initial environmental examination (IEE) will be prepared during project implementation. The environment and social unit (ESU), comprised of a safeguards specialist and other project personnel within the TPL project management unit (PMU) will be directly responsible for all safeguards related matters. The project will assist in building the capacity of ESU including providing regular trainings and coaching sessions to undertake effective resettlement and environment management planning and implementation and improve the quality of safeguards monitoring.

39. **Environment.** The project is classified as category B for environment. The disaster response nature of this project entails that the specific IEE will be prepared during early implementation. It is expected that project outputs will have only small, temporary, and localized adverse impacts on the environment, which can be readily managed by proposed mitigation measures in the environmental assessment and review framework¹³ and subsequent IEE.

40. TPL will have overall responsibility for the project's compliance with environment safeguard requirements. The established PMU ESU team based in TPL with capacity building support from ADB under the project will be responsible for producing the IEE and EMP, and facilitate and supervise the implementation of the EMP which will include (i) revising the construction section of the EMP and ensuring its integration along with other safeguards provisions into the bid and contract documents; (ii) providing induction to contractors on EMP requirements during construction and reviewing and approving the contractor environmental management plans (CEMPs); (iii) as required, supporting contractors in implementing the CEMPs and monitoring requirements; (iv) undertaking compliance monitoring of CEMP implementation; (v) preparing the necessary environmental assessment of candidate subprojects to be prepared during project implementation; and (vi) preparing monitoring reports and other reports as required.

41. **Involuntary Resettlement.** The project is classified as category C for involuntary resettlement following ADB SPS. Involuntary resettlement impacts during implementation will be further assessed and category revisited if the need arises. Involuntary Resettlement Guidelines has been prepared to strengthen the safeguards management of the project.¹⁴

42. TPL will be responsible for the day-to-day management of the project including resettlement safeguards under the established PMU ESU with targeted safeguards capacity building assistance from the project. In case of any unanticipated land acquisition and resettlement, TPL will ensure to undertake all the necessary actions in compliance with ADB SPS such as preparation of resettlement plan (RP); sufficient budgetary provisions are made for timely RP implementation and compensation and entitlements under the RP are fully provided to affected persons prior to the possession of the site and commencement of civil works under relevant outputs.

¹² Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>

¹³ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix XX).

¹⁴ Involuntary Resettlement Guidelines (supplementary document)

43. **Indigenous peoples.** The project is classified as Category C for indigenous peoples. The project is not expected to impact any distinct and vulnerable group of indigenous peoples as defined under ADB's SPS. The beneficiaries in the project sites are part of mainstream Polynesian society and are not discriminated upon due to their language, skin color, or traditional practices. All project outputs will be delivered in a culturally appropriate and participatory manner.

44. **Prohibited investment activities.** Pursuant to ADB's Safeguard Policy Statement (2009), ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement (2009).

VIII. GENDER AND SOCIAL DIMENSIONS

45. The project is categorized as some gender elements. Trainings to increase gender sensitivity awareness, including detecting and preventing (or referring) cases of sexual harassment, gender-based violence and other problems that may emerge during project implementation and trainings on power budget management and asset management maintenance will be provided among concerned government staff and contractors. Community meetings and consultations during project implementation to update on the project's progress and identify socio-economic and environmental impacts during construction will ensure women's active participation to determine specific issues affecting them and propose effective mitigating measures. TPL's active recruitment of women line workers in other outer islands will be replicated in this project should there be a need for additional workers. The proposed ESU within the TPL PMU will be responsible for the project's gender and social activities with capacity building support provided by the project.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

A. Project Design and Monitoring Framework

Impacts the Project is Aligned with More reliable and safe energy services (Tonga Strategic Development Framework 2015–2025) ^a More reliable and safe buildings and structures to improve services and maintenance, save on energy usage, and increase resilience to disasters (Tonga Strategic Development Framework 2015–2025) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Reliable electricity supply in Nuku'alofa priority areas restored.	By June 2020: a. 1,736 customer connections with reliable and disaster-resilient service ^b 2017 baseline: 0 b. Average number of faults in regular months reduced by 50% 2017 baseline: average 66 faults per month c. Technical losses reduced to 5% 2017 baseline: 22%	a. Project progress reports b. NNUP progress reports	Future tropical cyclones or other natural hazards more frequent or intense
Output	By June 2020:		
Priority sections of Nuku'alofa electricity network rehabilitated and upgraded.	a. 16 km of HV network rehabilitated and upgraded 2017 baseline: 0 b. 35 HV/LV transformers installed 2017 baseline: 0 c. 58 km of LV network rehabilitated and upgraded 2017 baseline: 0 d. 1,736 customer connections climate- and disaster-proofed ^b 2017 baseline: 0 e. At least 30% women's participation in at least two community consultations on project progress and updates during implementation, potential socioeconomic and environmental impacts during construction, and proposed mitigating measures. 2017 baseline: 0 f. 197 TPL staff (150 men and 47 women) with increased knowledge on gender sensitivity and respect at	Project progress reports	Poor coordination between executing and implementing agencies, and the agencies with oversight roles.

	work; and minimum of 50 concerned TPL staff and contractors, including at least 30% women, with increased knowledge on power budget management and asset management maintenance. 2017 baseline: 0		
<p>Key Activities with Milestones</p> <p>Priority sections of Nuku'alofa electricity network rehabilitated and upgraded.</p> <ol style="list-style-type: none"> 1. Preparation of bidding documents (by July 2018) 2. Completion of due diligence—safeguards and economic and financial assessments (by September 2018) 3. Evaluation of bids and award of contracts (by October 2018) 4. Manufacturing and delivery of materials (by May 2019) 5. Construction (by June 2020) 			
<p>Project Management Activities</p> <p>Establishment of project management unit by August 2018</p>			
<p>Inputs</p> <p>ADB: \$6.8 million (grant)</p> <p>TPL: \$1.5 million</p> <p>Government: \$1.1 million</p>			

ADB = Asian Development Bank, HV = high voltage, km = kilometer, LV = low voltage, NNUP = Nuku'alofa Network Upgrade Project, TPL = Tonga Power Limited.

^a Ministry of Finance and National Planning. 2015. *Tonga Strategic Development Framework 2015–2025*. Nuku'alofa.

^b This will comprise existing households and businesses. Sex-disaggregated data on the households will be collected prior to project completion.

Source: Asian Development Bank.

B. Monitoring

46. **Project performance monitoring.** Within 6 months of the grant effectiveness, TPL will establish a project performance and monitoring system. ADB and the government will agree on a set of indicators for monitoring and to evaluate to what extent the project is achieving its goals and purposes. These indicators will be refined and monitored during project implementation. The indicators will include data for monitoring economic development, socioeconomic development, environmental impact, and institutional development. Monitoring and evaluation will be based on sex-disaggregated data for social and poverty impact indicators. TPL shall monitor and evaluate the indicators according to the agreed framework on a quarterly basis to determine the efficiency and effectiveness of the project. In addition, MFNP will oversee and monitor overall implementation of the project. Disaggregated baseline data for output and outcome indicators gathered by TPL during project processing will be updated and reported quarterly through the MFNP quarterly progress reports and after each ADB review mission. These quarterly reports will provide information necessary to update ADB's project performance reporting system.¹⁵

47. **Compliance monitoring.** In addition to the standard assurances, compliance with the specific assurances will be monitored. Implementation of covenants will be (i) summarized in the

¹⁵ ADB's project performance reporting system is available at <http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltool>

quarterly progress reports, (ii) discussed during project meetings, and (iii) reviewed during biannual grant review missions.

48. **Safeguards monitoring.** Environment and social safeguards (if unanticipated issues arise) will be monitored by the ESU within the project management unit based at TPL. The results of the safeguard monitoring will be reported in the TPL and MFNP quarterly reports. Additionally, the bi-annual review missions will report on safeguards compliance. Before commencing work, the contractor will prepare a contractor's EMP which will establish how the contractor will comply with the EMP safeguard requirements. Monitoring of the contractor's work will be undertaken by the project management engineer with assistance of the ESU. ADB review missions will also check the progress on implementation of safeguard requirements.

49. The PMU ESU will assist TPL in monitoring of safeguard activities and preparation, review and disclosure of semi-annual safeguard monitoring reports.

50. **Gender and social dimensions monitoring.** The project does not require a Gender Action Plan. Nevertheless, there are some gender and social activities which would be monitored by ESU, such as community consultations, opportunities for women employment, and proposed gender sensitivity awareness. The ESU will also be responsible for establishing sex-disaggregated indicators as inputs to the overall project performance and monitoring. Minutes of meetings and consultations will be made available with sex-disaggregated attendance list to document any issues particularly raised by women, including through the grievance redress mechanism, and how they have been addressed.

C. Evaluation

51. ADB and the EA assisted by TPL will conduct two annual reviews throughout the implementation of the project as well as a mid-term grant review for project. The review will monitor (i) project output quality, (ii) implementation arrangements, (iii) implementation progress, and (iv) disbursements. Within 6 months of physical completion of the project, the MFNP will submit a project completion report to ADB.¹⁶

D. Reporting

52. The MFNP will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for the next 12 months; and (iii) a project completion report within 6 months of physical completion of the project. To ensure that projects will continue to be both viable and sustainable, project accounts and the executing agency audited financial statement together with the associated auditor's report, should be adequately reviewed.

E. Stakeholder Communication Strategy

53. The project team based at TPL will employ the current Outer Island Renewable Energy Project (OIREP) stakeholder communication strategy. This will be reviewed by the end of 3 months after grant effectiveness. All communication will be in language suitable for the specific

¹⁶ Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

audience and will follow the ADB Public Communication Policy. The stakeholder strategy will incorporate the following outputs:

- (i) Compilation of stakeholder communication activities already undertaken.
- (ii) Role of the Public Service Commission in coordinating and communicating with relevant government stakeholders.
- (iii) Public communication plan for disseminating information regarding project development to the public who may be impacted by the proposed projects.

X. ANTICORRUPTION POLICY

54. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.¹⁷ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.¹⁸

55. To support these efforts, relevant provisions are included in the grant agreement and the bidding documents for the project. Additionally, the government will (a) comply with ADB's Anticorruption Policy (1998, as amended to date), and cooperate fully with any investigation by ADB and extend all necessary assistance, including providing access to all relevant books and records for the satisfactory completion of such investigation; (b) ensure that relevant staff are trained in ADB's Anticorruption Policy; (c) ensure that the audited annual project accounts under the project, project progress, and procurement activities are disclosed on relevant government entities; and (d) allow and facilitate ADB's representatives to conduct spot and random checks on (i) flow of funds, and their use for the projects in accordance with the legal agreements; (ii) work-in-progress; and (iii) project implementation under the project.

XI. ACCOUNTABILITY MECHANISM

56. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make an effort in good faith to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.¹⁹

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

57. This is the original PAM.

¹⁷ Anticorruption Policy: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

¹⁸ ADB's Integrity Office web site: <http://www.adb.org/integrity/unit.asp>

¹⁹ Accountability Mechanism. <http://www.adb.org/Accountability-Mechanism/default.asp>.