



# Technical Assistance Report

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Project Number: 52184-001  
Transaction Technical Assistance Facility (F-TRTA)  
August 2018

## Republic of Vanuatu: Infrastructure and Public Financial Management Support Facility

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 12 July 2018)

|               |   |           |
|---------------|---|-----------|
| Currency unit | – | vatu (Vt) |
| Vt1.00        | = | \$0.0092  |
| \$1.00        | = | Vt108.32  |

## ABBREVIATIONS

|       |   |   |
|-------|---|---|
| ADB   | – | Asian Development Bank                          |
| MFEM  | – | Ministry of Finance and Economic Management     |
| MIPU  | – | Ministry of Infrastructure and Public Utilities |
| PFM   | – | public financial management                     |
| TA    | – | technical assistance                            |
| VISSP | – | Vanuatu Interisland Shipping Support Project    |
| VPMU  | – | Vanuatu Project Management Unit                 |

## NOTE

In this report, “\$” refers to United States dollars.

|                          |   |
|--------------------------|---|
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## TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

|   |  |  |   |
|---|--|--|---|
| <b>1. Basic Data</b>  |  | <b>Project Number:</b> 52184-001       |   |
| <b>Project Name</b>   | Infrastructure and Public Financial Management Support Facility        | <b>Department/Division</b>             | PARD/PLCO                                 |
| <b>Nature of Activity</b>   | Project Preparation  | <b>Executing Agency</b>                | Ministry of Finance & Economic Management |
| <b>Modality</b>   | Facility   |  |   |
| <b>Country</b>  | Vanuatu  |  |   |
| <b>2. Sector</b>  | <b>Subsector(s)</b>  | <b>ADB Financing (\$ million)</b>      |   |
| ✓ Transport   | Transport policies and institutional development                       |  | 0.21                                      |
|   | Water transport (non-urban)  |  | 0.22                                      |
| Education   | Non-formal education   |  | 0.03                                      |
|   | Secondary  |  | 0.03                                      |
| Energy  | Renewable energy generation - small hydro                              |  | 0.06                                      |
| Public sector management  | Public expenditure and fiscal management                               |  | 0.21                                      |
|   |  | <b>Total</b>                           | <b>0.76</b>                               |
| <b>3. Strategic Agenda</b>  | <b>Subcomponents</b>   | <b>Climate Change Information</b>      |   |
| Inclusive economic growth (IEG)                                     | Pillar 1: Economic opportunities, including jobs, created and expanded | Climate Change impact on the Project   | Low                                       |
| Environmentally sustainable growth (ESG)                            | Global and regional transboundary environmental concerns               | <b>ADB Financing</b>                   |   |
|   | Natural resources conservation   | Adaptation (\$ million)                | 0.05                                      |
|   |  | Mitigation (\$ million)                | 0.06                                      |
| <b>4. Drivers of Change</b>   | <b>Components</b>  | <b>Gender Equity and Mainstreaming</b> |   |
| Governance and capacity development (GCD)                           | Institutional development  | Some gender elements (SGE)             | ✓   |
| Knowledge solutions (KNS)   | Public financial governance  |  |   |
| Partnerships (PAR)  | Knowledge sharing activities   |  |   |
|   | Bilateral institutions (not client government)                         |  |   |
| Private sector development (PSD)                                    | Implementation   |  |   |
|   | Conducive policy and institutional environment                         |  |   |
| <b>5. Poverty and SDG Targeting</b>                                 |  | <b>Location Impact</b>                 |   |
| Geographic Targeting  | No   | Nation-wide                            | High                                      |
| Household Targeting   | No   |  |   |
| SDG Targeting   | Yes  |  |   |
| SDG Goals   | SDG6, SDG7, SDG8, SDG9   |  |   |
| <b>6. Risk Categorization</b>                                       | Low  |  |   |
| <b>7. Safeguard Categorization</b>                                  | Safeguard Policy Statement does not apply                              |  |   |
| <b>8. Financing</b>   |  |  |   |
| <b>Modality and Sources</b>   |  | <b>Amount (\$ million)</b>             |   |
| <b>ADB</b>  |  |  | <b>0.75</b>                               |
| Transaction technical assistance: Technical Assistance Special Fund |  |  | 0.75                                      |
| <b>Cofinancing</b>  |  |  | <b>0.00</b>                               |
| None  |  |  | 0.00                                      |
| <b>Counterpart</b>  |  |  | <b>0.05</b>                               |
| Government  |  |  | 0.05                                      |
| <b>Total</b>  |  |  | <b>0.80</b>                               |

## I. THE TECHNICAL ASSISTANCE FACILITY

### A. Justification

1. The transaction technical assistance (TA) facility will support the effective and efficient implementation of projects funded by the Asian Development Bank (ADB) in Vanuatu. A number of projects are facing implementation problems and delays because of the constrained project management capacity of the executing and implementing agencies and the government's Vanuatu Project Management Unit (VPMU). To minimize the reoccurrence of similar problems in future operations, the TA will also support the strengthening of institutional and policy frameworks for sound and sustainable project management in Vanuatu.

2. Significant capacity weaknesses, particularly in the Ministry of Infrastructure and Public Utilities (MIPU) and VPMU, have severely affected the quality and timeliness of project execution by the agencies responsible for infrastructure operations in Vanuatu. The government staff involved in projects is limited, and they lack experience and skills. The Vanuatu Interisland Shipping Support Project (VISSP) is facing serious delays and is unable to deliver results because of poor consultant performance and failed designs.<sup>1</sup> To help the government meet its urgent needs for technical expertise in managing project tasks, the TA will provide consultant support to fill gaps in human resources and improve the skills and abilities of national staff to successfully implement projects. For VISSP, this includes redesigning wharves and procuring a new civil works contract. The primary focus of the TA will be to improve the implementation performance of VISSP, but the TA will also support the Cyclone Pam Schools Project and the Vanuatu Energy Access Project to ensure timely implementation.<sup>2</sup> In addition to addressing the immediate capacity building needs of MIPU, VPMU, and other ministries, government staff will have increased opportunities to work with international experts and acquire technical knowledge through on-the-job training.

3. To identify systematic issues affecting project performance, ADB and the Government of Vanuatu held a comprehensive country portfolio review mission in April 2018. The review reinforced the finding that it is critical for Vanuatu to have an enabling institutional setup for strong and sustainable project management. Therefore, the TA will support two interlinked endeavors. First, the project team—through the TA—will review VPMU's organizational structure, internal capacity, and defined roles and responsibilities to propose alternative models for effective project management. A key objective of the review is to assist the government in establishing optimal lines of responsibilities between VPMU and MIPU on project management and to improve project ownership. Second, the TA will strengthen the government's public financial management (PFM) and investment management practices by supporting the implementation of Vanuatu's PFM road map. TA activities will focus on medium-term fiscal planning, economic analysis of public investments, and better data management through a modern financial management information system. This will lead to better-prepared projects, a broader understanding of the requirements to manage significant public investments, and proper resourcing, including lifetime costs (i.e.,

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<sup>1</sup> ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant, and Technical Assistance to the Republic of Vanuatu for the Interisland Shipping Support Project*. Manila; and ADB. 2015. *Additional Financing: Interisland Shipping Support Project in the Republic of Vanuatu*. Manila.

<sup>2</sup> ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Administration of Grant to the Republic of Vanuatu for the Cyclone Pam School Reconstruction Project*. Manila; and ADB. 2017. *Investment Facility Report on Pacific Renewable Energy Investment Facility for the Republic of Vanuatu for the Energy Access Project*. Manila.

operations and maintenance costs). The TA is in line with the government's 2015 National Recovery and Economic Strengthening Program Plan to strengthen the country's economic resilience by developing its domestic institutional and human resources and capacity.<sup>3</sup>

## B. Outputs and Activities

4. The TA will support three interlinked outputs: (i) VPMU's capacity for implementing ongoing projects strengthened; (ii) measures to improve government project management and institutional arrangements recommended, and implementation supported; and (iii) implementation of Vanuatu's PFM road map for improved public investments supported. These outputs are aligned with the recommendations of the Vanuatu Transport Plan 2030, currently being prepared with ADB's support.<sup>4</sup> The project team, through the TA, will act on key recommendations for strengthening the institutional setup for project management made by the April 2018 Vanuatu country portfolio review mission.

5. **Output 1: Vanuatu Project Management Unit's capacity for implementing ongoing projects strengthened.** The TA will provide critical expertise to VPMU for stronger project implementation. It will fund international and national consultants to help bring VISSP back on track, ensure safeguards compliance of the Vanuatu Energy Access Project, and strengthen management of the Cyclone Pam Schools Reconstruction Project. The consultants will provide on-the-job training for national staff to improve their technical knowledge and capacity for them to lead more demanding assignments independently. VPMU will hire junior graduates as trainees to increase its future human resource capacity.

6. **Output 2: Measures to improve government project management and institutional arrangements recommended, and implementation supported.** Building on existing analyses, the project team, through the TA, will assess the institutional arrangements for project implementation and propose a business model that is acceptable to the government. The business model will enable sustainable project management, build domestic capacity, and strengthen government ownership and accountability.<sup>5</sup> Identifying and developing this model will require intensive consultations and consensus-building with VPMU, the Ministry of Finance and Economic Management (MFEM), the Prime Minister's Office, the Council of Ministers, and other ministries. Once the government has approved a preferred model for project management, the TA will support its implementation. Through the TA, the project team will

- (i) review the recommendations made under the existing analyses and assess their relevance given the problems that have arisen since the report was finalized (footnote 6);
- (ii) review the allocation of project implementation responsibilities between VPMU, MIPU, and other ministries;
- (iii) review regional and international practices on project management arrangements;
- (iv) support the government with consultations and consensus-building;
- (v) assist the government in identifying an optimal project management model;
- (vi) ensure the consistency of the recommendation with the Vanuatu Transport Plan 2030;
- (vii) prepare a report with recommendations to the Council of Ministers, if necessary; and

<sup>3</sup> Government of Vanuatu. 2015. *Strengthening Ni-Vanuatu Resilience: National Recovery and Economic Strengthening Program Plan*. Port Vila.

<sup>4</sup> ADB. 2017. *Technical Assistance for Strengthening Domestic Transport Connectivity in the Pacific*. Manila.

<sup>5</sup> ADB. 2017. *Vanuatu: Supporting the Vanuatu Project Management Unit and the Ministry of Infrastructure and Public Utilities*. Consultant's report. Sydney (TA 9263-VAN).

(viii) support the implementation of the agreed recommendations.

7. **Output 3: Implementation of Vanuatu’s public financial management road map for improved public investments supported.** Sound PFM and governance are prerequisites for sustained investment and growth. To complement the project and institutional-level support under outputs 1 and 2, the TA will also help the government to implement its PFM road map. However, the government faces challenges to implement the PFM road map. The TA will respond to the government’s needs for ADB to assist in three specific areas:

- (i) implementing key PFM road map actions, including prioritizing and sequencing for reforms;
- (ii) reviewing options for improving the government’s financial management information system, which at present does not meet the country’s needs; and
- (iii) supporting MFEM to improve economic analysis of significant public investments, which will be considered in the national budgeting processes; and supporting MFEM to design and implement a medium-term expenditure framework. The government needs to establish and execute a proper medium-term expenditure framework if it is to budget public resources effectively and efficiently to fulfil national and sector strategies and outcomes, and strengthen the coordination of donor-funded projects.

8. These efforts aim to improve the broad policy environment for public investment and PFM. Depending on the government’s preferred approach, ADB can provide follow-up support through a policy-based grant, a stand-alone project, or a combination of both in a sector development program.<sup>6</sup>

9. The major outputs and activities are summarized in Table 1.

**Table 1: Summary of Major Outputs and Activities**

| Major Outputs   | Delivery Dates  | Key Activities with Milestones   |
|---|---|--|
| 1. VPMU’s capacity for implementing ongoing projects strengthened | All by 15 October 2018<br><br>Continuous through project life | <b>Support VPMU to efficiently implement VISSP, CPSRP, and EAP; and build the capacity of national staff.</b><br><b>1. Ensure VPMU’s efficient implementation of VISSP, CPSRP, and EAP.</b><br>1.1 Recruit an individual international project management consultant, 11 person-months, full-time<br>1.2 Recruit an individual international maritime engineering consultant, 4 person-months, intermittent<br>1.3 Recruit an individual national social safeguards and resettlement specialist, 6 person-months, intermittent<br>1.4 Recruit two individual national project management consultants: 12 person-months, full-time, and 7 person-months, full-time<br>1.5 Recruit an individual national engineering/procurement consultant, 12 person-months, full-time<br><b>2. Build the capacity of national staff</b><br>2.1 International and national consultants provide on-the-job training, with the training manual prepared, and results reflected in monthly progress reports. |

<sup>6</sup> A policy-based grant is included in ADB. 2017. *Country Operations Business Plan: Vanuatu, 2017–2019*. Manila.

|   |  |  |
|---|--|--|
|   | All by 15 November 2018  | 2.2 Four trainees on engineering, financial management, social and environmental safeguards, and contract administration hired by VPMU to provide support to projects and learn project work.  |
| 2. Measures to improve government project management and institutional arrangements recommended, and implementation supported | 15 September 2018<br>30 November 2018<br>30 January 2019<br><br>31 March 2019                      | <b>Develop sound institutional arrangements for project implementation.</b><br>2.1 Recruit an individual consultant (2 person-months, intermittent, international)<br>2.2 Consult on the recommendations to improve institutional arrangements for project management. Identify reasons for resistance to implementing the recommended reforms. Refine the recommendations.<br>2.3 Update the draft project management capacity assessment report. Recommend an alternate business model agreeable to the government and other stakeholders to enable strong and sustainable project management, domestic capacity, and government ownership and accountability.<br>2.4 Conduct a workshop on appropriate models of project management for the government.<br>2.5 Draft a COM paper on the revised project management unit under the Prime Minister's Office.  |
| 3. Implementation of Vanuatu's PFM road map for improved public investments supported   | 30 December 2018<br>31 March 2019<br><br>30 June 2019<br><br>30 September 2019<br><br>30 June 2020 | <b>Support the implementation of key priorities in Vanuatu's PFM road map.</b><br>3.1 Recruit four individual consultants, three international consultants for a total of 7 person-months and one national consultant for a total of 6 person-months<br>3.2 Review the PFM reform road map priorities and develop ways to coordinate activities. Draft and consult of the design of the MTEF. Agree with MFEM on how to improve economic analysis of public investments.<br>3.3 The MTEF is approved by the COM implemented for the 2020 budget. Complete the review of the FMIS and present options for improving financial information flows and financial reporting to the government.<br>3.4 The COM decides on the preferred FMIS option. Determine with the government how to support implementation of the preferred approach.<br>3.5 Support implementation of the MTEF and preferred FMIS option, where feasible. |

ADB = Asian Development Bank, COM = Council of Ministers, CPRM = country portfolio review mission, CPSRP = Cyclone Pam School Reconstruction Project, EAP = Energy Access Project, FMIS = financial management information system, MFEM = Ministry of Finance and Economic Management, MIPU = Ministry of Infrastructure and Public Utilities, MTEF = medium-term expenditure framework, PFM = public finance management, VPMU = Vanuatu Project Management Unit, VISSP = Vanuatu Interisland Shipping Support Project.

Source: Asian Development Bank.

### C. Cost and Financing

10. The TA facility is estimated to cost \$800,000, of which \$750,000 will be financed on a grant basis by ADB's Technical Assistance Fund (TASF 6). The value of the government in-kind contributions is estimated at \$50,000. The key expenditures are listed in Appendix 1.

11. The government will provide counterpart support in the form of counterpart staff and junior project staff services in the fields of social and environmental safeguards, procurement, contract



management, financial management, and overall project administration; office space and office supplies; secretarial assistance; domestic transportation; and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

#### D. Implementation Arrangements

12. ADB will administer the TA. VPMU, MIPU, and MFEM will serve as the direct working counterparts and primary beneficiaries of the TA and will support the consultants by providing access to necessary information and facilities as described in para. 11. The VPMU steering committee will provide overall guidance to outputs 1 and 2.

13. The implementation arrangements are summarized in Table 2.

**Table 2: Implementation Arrangements**

| Aspects                          | Arrangements  |  |           |
|----------------------------------|---|--|-----------|
| Indicative implementation period | August 2018–June 2020   |  |           |
| Executing agency                 | Ministry of Finance and Economic Management   |  |           |
| Administration                   | The ADB Pacific Department's Pacific Liaison and Coordination Office in Sydney and ADB's extended mission in Vanuatu, in coordination with the Vanuatu Project Management Unit, Department of Finance and Treasury, and other ministries. |  |           |
| Consultants                      | To be selected and engaged by ADB   |  |           |
|                                  | Individual: individual selection  | International expertise (24 person-months) | \$491,693 |
|                                  | Individual: individual selection  | National expertise (43 person-months)      | \$219,988 |
| Procurement                      | None  |  |           |
| Disbursement                     | The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).  |  |           |

ADB = Asian Development Bank, TA = technical assistance.

Source: ADB estimates.

14. **Consulting services.** ADB will engage individual consultants, using output-based or lump-sum contracts if appropriate, following ADB's Procurement Policy (2017, as amended from time to time).<sup>7</sup> Consultants currently engaged under the Technical Assistance for Building Project Implementation Capacities in the Pacific, supporting VISSP, the Energy Access Project, and the Cyclone Pam School Reconstruction Project will have their contracts renewed under this TA facility.<sup>8</sup> There are no procurement of works, goods, and services anticipated.

## II. THE PRESIDENT'S DECISION

15. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$750,000 on a grant basis to the Republic of Vanuatu for the Infrastructure and Public Financial Management Support Facility, and hereby reports this action to the Board.

<sup>7</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

<sup>8</sup> ADB. 2016. *Technical Assistance for Building Project Implementation Capacities in the Pacific*. Manila.

**COST ESTIMATES AND FINANCING PLAN**

| <b>Item</b>   | <b>Amount</b>  |
|---|----------------|
| <b>Asian Development Bank<sup>a</sup></b>           |                |
| 1. Consultants                                      |                |
| a. Remuneration and per diem                        |                |
| i. International consultants                        | 451,200        |
| ii. National consultants                            | 212,500        |
| b. Out-of-pocket expenditures                       |                |
| i. International and local travel                   | 41,550         |
| ii. Reports and communications                      | 4,150          |
| iii. Miscellaneous administration and support costs | 2,282          |
| 2. Contingencies                                    | 38,318         |
| <b>Total</b>  | <b>750,000</b> |

Note: The technical assistance is estimated to cost \$800,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff and junior project staff services in the fields of social and environmental safeguards, procurement, contract management, financial management, and overall project administration; office and housing accommodation; office supplies; secretarial assistance; domestic transportation; and other in-kind contributions.

<sup>a</sup> Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF 6).

Source: Asian Development Bank estimates.

## PROJECTS UNDER TECHNICAL ASSISTANCE FACILITY

**Table A2.1: Indicative Consultants' Input Allocation**  
(person-month)

| <b>Consultant</b>   | <b>Total</b> | <b>CPSRP</b><br>low risk | <b>EAP</b><br>low risk | <b>VISSP</b><br>low risk |
|---|--------------|--------------------------|------------------------|--------------------------|
| Project management expert (international) <sup>a</sup>                | 11.0         | 1.0                      | 1.0                    | 9.0                      |
| Maritime engineering expert (international) <sup>a</sup>              | 4.0          | 0.0                      | 0.0                    | 4.0                      |
| Institutional review specialist (international) <sup>a</sup>          | 2.0          | 0.0                      | 0.0                    | 2.0                      |
| Social safeguards and resettlement specialist (national) <sup>a</sup> | 6.0          | 0.0                      | 3.0                    | 3.0                      |
| Project management 1 (national) <sup>a</sup>                          | 12.0         | 0.0                      | 1.0                    | 11.0                     |
| Project management 2 (national) <sup>a</sup>                          | 7.0          | 7.0                      | 0.0                    | 0.0                      |
| Engineering/procurement specialist (national) <sup>a</sup>            | 12.0         | 0.0                      | 3.0                    | 9.0                      |

CPSRP = Cyclone Pam School Reconstruction Project, EAP = Energy Access Project, FMIS = financial management information system, VISSP = Vanuatu Interisland Shipping Support Project.

Note: The transaction technical assistance facility will support the ongoing implementation of the Asian Development Bank (ADB) Cyclone Pam School Reconstruction Project, the Vanuatu Interisland Shipping Support Project, and the Vanuatu Energy Access Project.

<sup>a</sup> Consultants currently engaged under the Technical Assistance for Building Project Implementation Capacities in the Pacific will have their contracts renewed under this technical assistance facility. ADB, 2016. *Technical Assistance for Building Project Implementation Capacities in the Pacific*. Manila.

Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=52184-001-TARreport>

1. Terms of Reference for Consultants
2. Links to the Approved Report and Recommendation of the President for Ongoing Projects