



Report and Recommendation of the President to the Board of Directors

Project Number: 49319-002
Loan/Grant Number: L3331, L3332, G0459, G0460, G0461-VAN
July 2017

Proposed Loan and Grant for Additional Financing Republic of Vanuatu: Cyclone Pam Road Reconstruction Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 June 2017)

Currency unit	=	vatu (Vt)
Vt1.00	=	\$0.0092
\$1.00	=	Vt108.47

ABBREVIATIONS

ADB	–	Asian Development Bank
BBB	–	build back better
DSC	–	design and supervision consultant
EARF	–	environmental assessment and review framework
EMP	–	environmental management plan
MFEM	–	Ministry of Finance and Economic Management
MIPU	–	Ministry of Infrastructure and Public Utilities
PMU	–	project management unit
SDR	–	special drawing right
TCP	–	Tropical Cyclone Pam

NOTE

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

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PROJECT AT A GLANCE

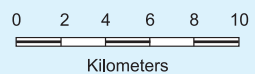
1. Basic Data		Project Number: 49319-002	
Project Name	Cyclone Pam Road Reconstruction Project (additional financing)	Department /Division	PARD/PLCO
Country Borrower	Vanuatu	Executing Agency	Ministry of Finance & Economic Management
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		4.10
	Urban roads and traffic management		4.10
		Total	8.20
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Some gender elements (SGE) ✓	
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide High	
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG9		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		8.20	
Sovereign Project grant: Asian Development Fund		4.10	
Sovereign Project (Concessional Loan): Ordinary capital resources		4.10	
Cofinancing		0.00	
None		0.00	
Counterpart		1.20	
Government		1.20	
Total		9.40	



VANUATU CYCLONE PAM ROAD RECONSTRUCTION PROJECT (additional financing)



- Road Reconstruction Project
 - National Capital
 - Provincial Headquarters
 - Town
 - Airport
 - Main Road
 - Minor Road
 - River
 - Provincial Boundary
 - International Boundary
- Boundaries are not necessarily authoritative.



This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan, and (ii) a proposed grant, both to the Republic of Vanuatu for the additional financing¹ of the Cyclone Pam Road Reconstruction Project.²

2. The additional financing will continue to support the efforts of the Government of Vanuatu to reconstruct and improve climate and disaster resilience of the transport infrastructure on the Efate ring road in Efate Island, Shefa Province, which was damaged by the Tropical Cyclone Pam (TCP) floods and storm surges during 12–14 March 2015. On 5 August 2015, the government requested all development partners to contribute to and support its program—emphasizing capacity development for stronger Ni-Vanuatu (nationals of Vanuatu) disaster resilience, including maximizing the use of local resources where possible. Twenty damaged sites were expected to be rehabilitated and reconstructed using financing under the original project. On 29 December 2016, the government requested to (i) scale up the project to include four additional damaged sites, and (ii) change the project scope to account for the extent of damage and unforeseen ground conditions at two sites included in the original project. The updated project supports post-cyclone recovery and reconstruction efforts in the transport sector, specifically for rehabilitating roads and bridges and addressing landslides on the Efate ring road.

II. THE PROJECT

A. Rationale

3. TCP struck Vanuatu on 12–14 March 2015 as an extremely destructive Category 5 cyclone, with a wind speed estimated at 250 kilometers per hour and wind gusts peaking at 320 kilometers per hour.³ The center of the cyclone passed east of Efate Island, which is home to the capital Port Vila, and continued southward passing just west of Erromango and Tanna islands in Tafea Province. Heavy rainfall and destructive storm surges caused severe flooding and widespread damage, particularly in Tafea and Shefa provinces. Eleven fatalities were confirmed; an estimated 65,000 people were displaced; and about 17,000 buildings were damaged or destroyed, including houses, schools, clinics, and other medical facilities.

4. The project supports government efforts to reconstruct and improve climate and disaster resilience of the transport infrastructure on the Efate ring road, which suffered flood and storm damage from TCP. The project includes the rehabilitation and reconstruction of 20 sites along the Efate ring road. All civil works were expected to be designed and implemented using the “build back better” (BBB) concept to strengthen resilience against future disasters and climate change risks. Works will also incorporate gender-proactive and universal access features in designs, including the construction of walkways and provision of access to laundry facilities in the streams alongside the road.⁴

¹ The design and monitoring framework is in Appendix 1.

² Asian Development Bank (ADB). 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loans, Grants, and Administration of Grant to the Republic of Vanuatu for the Cyclone Pam Road Reconstruction Project*. Manila.

³ Government of Vanuatu. 2015. *Vanuatu Post-Disaster Needs Assessment: Tropical Cyclone Pam, March 2015*. Port Vila.

⁴ Build back better (BBB) concept (i) promotes a decentralized and participatory approach to reconstruction, (ii) uses local skills, institutions and resources, (iii) adopts climate and disaster risk reduction measures into reconstruction processes to lessen vulnerability to future risks, (iv) promotes the recovery of local livelihoods, and (vi) enables a more cost-effective and sustainable recovery.

5. **Delivery of expected output.** The project is on track to meet its output and outcome, and rehabilitation and reconstruction of all damaged sites included in the original project are expected to be completed by June 2018. This 6-month delay from the original project implementation period of January 2016–December 2017 was caused by a delay in (i) the effectiveness of the loan and grant agreements until 3 March 2016, from its signing on 1 March 2016, because Parliament was dissolved; and (ii) the mobilization of design and supervision consultants (DSCs) because the government signed the DSC contract late, on 27 June 2016.

6. **Satisfactory implementation progress.** The project is progressing well and is estimated to be 29% complete against 38% planned. Funds disbursed as of 15 May 2017 reached \$1,596,165 (9% of the total available funds), exceeding projected targets. The government completed the DSC selection on 27 June 2016 and mobilized consultants on 6 July 2016. The DSCs include international and national consultants, 30% of whom are women, and have been integrated within the project management unit (PMU) established under the Public Works Department of the Ministry of Infrastructure and Public Utilities (MIPU). The PMU, led by the DSC team leader, manages project activities and coordinates with other development partners to avoid duplication of activities. The DSCs assist the MIPU in project design and implementation; and have completed a feasibility study that includes an engineering option analysis; financial, economic, social, gender, environment, land acquisition, and indigenous people assessments; climate change adaptation and disaster risk management analyses; and detailed engineering designs.

7. The DSCs also assist the MIPU in procuring a civil works contract for all 20 sites. MIPU published an invitation for bids in national newspapers and on the Asian Development Bank (ADB) website on 22 January 2017, with bid submissions closing on 16 March 2017, and held a pre-bid meeting on 8 February 2017. The MIPU received six bids, which they are evaluating. The civil works contract is scheduled to be awarded in early July 2017.

8. On 6 February 2017, ADB recommended a contract variation for the DSCs to undertake a feasibility study on and detailed designs of the expanded scope under this additional financing as an advance readiness action to expedite implementation of the damaged infrastructure. The feasibility study includes all due diligence of the expanded scope; and the detailed designs will cover engineering designs, geotechnical investigations, topography, and bathymetry surveys. The feasibility study and detailed designs was completed in June 2017.

9. **Satisfactory compliance with environmental safeguards.** The project is classified *category B* for the environment. Following the environmental assessment and review framework (EARF) prepared for the project, the DSC prepared two environmental assessments on behalf of MIPU: an assessment covering eastern Efate (12 sites) and an assessment covering western Efate (8 sites). Following review and clearance by ADB, MIPU included these assessments in the application for an environmental permit and a foreshore development consent. ADB has disclosed the assessments on ADB's project website. The Department of Environmental Protection and Conservation has issued environmental permits for all the sites. MIPU is implementing environmental safeguards in compliance with ADB's Safeguard Policy Statement (2009) and national laws and regulations.

10. **Satisfactory compliance with social safeguards.** The project was originally classified *category B* for involuntary resettlement, but was reclassified to *category C*. Its classification as *category C* for indigenous peoples remains the same. The project has not triggered the involuntary resettlement safeguard as all works will be within the existing road corridor, and access to additional land has been negotiated with the landowners. Following the resettlement

framework, MIPU prepared a due diligence report confirming land arrangements based on detailed designs. The finalized due diligence report (including all memorandums of understanding and third-party validation) has been submitted by the PMU, cleared by MIPU, and disclosed by ADB on ADB project website. MIPU is implementing social safeguards in compliance with the Safeguard Policy Statement and national laws and regulations.

11. **Successful management of risks.** MIPU is managing the risks identified under the original project, and these risks do not threaten the successful implementation of the project. The envisaged project risks and the actions taken to mitigate those risks are described in detail in the risk assessment and risk management plan.⁵

12. **On-track project performance rating.** As of 31 March 2017, the project is rated *on track*, with 88.35% of contracts awarded and over 90% of funds disbursed against baseline projections.

13. Consequent to paras. 5–12, the original project is performing well.⁶ The proposed additional financing is required to scale up the original project to include four additional sites on the Efate ring road damaged by TCP, and change the scope to cover additional work at two sites. The updated project complies with the subproject selection and eligibility criteria for additional financing: (i) that it remains technically feasible, economically viable, and financially sound (paras. 23–25); (ii) that it is accorded a high priority by the government; (iii) that it is consistent with the project’s development objectives; and (iv) that it is consistent with the current country partnership strategy.⁷

14. Additional financing is the most suitable financing modality because (i) the additional sites are on the same road as the original project; (ii) as in the original project, the DSCs will undertake the feasibility study and detailed engineering designs (through a contract variation [para. 8]); (iii) the procurement of civil works will be conducted following ADB’s Procurement Guidelines (2015, as amended from time to time); and (iv) the DSCs will carry out construction supervision through single source selection. Works under the additional financing will follow the continuation of work carried out by the DSCs. The continuity for downstream work that the DSCs will perform at the same time along with the works under the original project will facilitate continuity in the technical approach, experience acquired, and continued professional liability of the DSCs.

15. The additional financing meets the eligibility criteria and requirements of emergency assistance loans: (i) that the government has made an official request for additional financing on 29 December 2016; and (ii) that the impact on economic, social, and governance needs and priorities has been identified in the damage and needs assessment conducted in May 2015 and in the feasibility study of the original project conducted in December 2016.

B. Impact and Outcome

16. The impact will be accelerated economic and social recovery in Vanuatu’s TCP-affected provinces. The outcome will be socioeconomic activities restored to at least pre-TCP levels. The impact and outcome statements and project outcome indicators did not change because of the additional financing.

⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

⁶ ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila (para. 41).

⁷ ADB. 2016. *The Pacific Approach, 2016–2020*. Manila. The Pacific Approach serves as the operational framework of ADB for the Pacific region and the overall country partnership strategy for the 11 smaller Pacific island countries including Vanuatu.

C. Outputs

17. There will be only one output: transport infrastructure in damaged locations on the Efate ring road reconstructed and climate- and disaster-proofed. The project output indicators have been expanded to include the following expected outputs from the scale-up and change of scope under the additional financing:

- (i) Work conducted on additional locations on the Efate ring road damaged by TCP:
 - (a) 6.2 kilometers of the Tassikiri road section upgraded, including drainage improvement;
 - (b) management of Prima floodplain developed to manage floodwaters in the Prima (La Colle) River catchment near Prima Bridge;
 - (c) Tanoliu and Ulei bridges reconstructed; and
 - (d) drainage at Saama improved.
- (ii) Scope of work for two of the damaged sites in the original project changed because of the extent of the damage and unforeseen ground conditions:
 - (a) **Epule Bridge.** The bridge was to be repaired in the original project, but it now requires reconstruction with an improved road alignment.
 - (b) **Marona Bridge.** Boreholes under geotechnical investigations terminated at a depth of 20 meters. However, data interpretation and analysis showed that the soils underneath were undergoing liquefaction. The boreholes need to be driven down to at least 30 meters to confirm the founding material for the bridge piles.

D. Investment and Financing Plans

18. The updated project is estimated to cost \$27.9 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Current Amount ^a	Additional Financing ^b	Total
A. Base Cost ^c	18.25	9.11	27.36
B. Contingencies ^d	0.19	0.21	0.40
C. Financing Charges During Implementation ^e	0.06	0.08	0.14
Total (A+B+C)	18.50	9.40	27.90

^a Refers to the original amount and subsequent amendment to the financing plan following the minor change approved on 6 February 2017. Includes taxes and duties of \$1.91 million financed by the government through exemptions.

^b Includes taxes and duties of \$1.05 million to be financed by the government through exemptions, \$0.13 million as in-kind contribution for counterpart staff, and \$0.02 million for audit fees.

^c In December 2016 prices.

^d No separate provision is reserved for physical contingencies. Price contingencies computed at 5% on loan financing to include provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^e Interest during construction for additional financing to ADB loan has been computed at the rate of 1% per year.

Source: Asian Development Bank estimates.

19. The government has requested (i) a concessional loan in various currencies equivalent to SDR2,961,000 (\$4,100,000)⁸ from ADB's ordinary capital resources, and (ii) a grant not exceeding \$4,100,000 from ADB's Special Funds resources (Asian Development Fund) to help finance the project. The loan will have an interest charge at the rate of 1% per year; a term of 40 years, including a grace period of 10 years; repayment of principal at 2% per year for the first

⁸ SDR1 = \$1.38478 as of 6 June 2017.

10 years after the grace period and 4% per year thereafter; and such other terms and conditions set forth in the draft loan agreement. The interest during construction will be capitalized under the loan.

20. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Current ^a		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
Ordinary capital resources (concessional loan)	1.00	5.40	4.10	43.62	5.10	18.28
Special Funds resources (Disaster Response Facility loan)	2.81	15.18	0.00	0.00	2.81	10.06
Special Funds resources (grant)	7.00	37.82	4.10	43.62	11.10	39.78
Special Funds resources (Disaster Response Facility grant)	2.81	15.18	0.00	0.00	2.81	10.06
Global Environment Facility (grant) ^b	2.68	14.48	0.00	0.00	2.68	9.60
Government	2.21	11.94	1.20 ^c	12.76	3.41	12.22
Total	18.50	100.00	9.40	100.00	27.90	100.00

Note: Numbers may not sum precisely and percentages may not total 100% because of rounding.

^a Refers to the original amount and subsequent amendment to the financing plan following the minor change approved on 6 February 2017.

^b Administered by the Asian Development Bank.

^c Includes taxes and duties of \$1.05 million to be financed by the government through exemptions, \$0.13 million as in-kind contribution for counterpart staff, and \$0.02 million for audit fees.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

21. The additional financing will use the implementation arrangements established for the original project. MIPU proposes to use the DSCs under the original project (which is financed by the Asian Development Fund and ADB-administered cofinancing) to perform services under the additional financing project (which is not cofinanced). As the blanket waiver of ADB's member country procurement eligibility restrictions that applied to the original project will not apply to the additional financing, approval by ADB's Board of Directors is required for a waiver of Article 14(ix) of the Articles of Agreement of the Asian Development Bank. The Ministry of Finance and Economic Management (MFEM) will be the executing agency and the MIPU will be the implementing agency. MIPU has established a PMU comprising the DSC team (international and national consultants) and Public Works Department engineers within the MIPU for project design and implementation supervision services; and has established an infrastructure working group, to provide oversight on project implementation under the guidance of a program recovery committee. The DSCs are undertaking the required due diligence and engineering designs of the works under additional financing, and will also carry out construction supervision along with the works under the original project, selected through single source selection.

22. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.⁹

⁹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2016–December 2018		
Estimated completion date	Physical completion date: 31 December 2018 Loan and grant closing date: 30 June 2019		
Management			
(i) Oversight body	Program recovery committee Director General of Ministry of Finance and Economic Management Director General of Ministry of Infrastructure and Public Utilities Director General of Ministry of Foreign Affairs and Trade		
(ii) Executing agency	Ministry of Finance and Economic Management		
(iii) Key implementing agencies	Ministry of Infrastructure and Public Utilities		
(iv) Implementation unit	Infrastructure working group, project management unit, MIPU in Port Vila, Vanuatu; 3 MIPU staff		
Procurement	International competitive bidding: original project	1 contract	\$12.1 million
	International competitive bidding: additional financing	1 contract	\$7.4 million
	National competitive bidding	None	Not applicable
	Shopping	None	Not applicable
Consulting services ^a	Quality- and cost-cased selection (90:10): Original project	175.75 person-months (design and supervision)	\$3,599,178 (latest revised)
	Single source selection: Additional financing	25.00 person-months (supervision only)	\$475,000
Retroactive financing and/or advance contracting	Retroactive financing for the reimbursement of eligible expenditures incurred under the project before the effective date of the loan and grant agreements, up to a maximum amount equivalent to 30% of each loan and grant amount subject to expenditures incurred after the emergency occurred but not earlier than 12 months before the date of signing of the loan and grant agreements Advance contracting for consulting services recruited by ADB and contract to be signed by the government Advance contracting for civil works procured by the government		
Disbursement	The loan and grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank.

^a Universal procurement of services applies. Universal procurement applies.

Source: Asian Development Bank estimates.

III. DUE DILIGENCE

A. Technical

23. The additional financing will support activities that respond to critical post-cyclone recovery and reconstruction priorities and the government's transport and tourism priorities (footnote 3). The civil works will be selected using selection criteria, option analysis, cost estimates, and feasibility studies. The detailed engineering designs include measures to support the socially vulnerable, including women, children, and the disabled; and adopt a sustainable maintenance strategy while considering future traffic growth as well as climate and disaster risks. The detailed engineering designs and technical specifications for construction will be determined and derived using BBB principles.

B. Economic and Financial

24. The Efate ring road provides transportation services to about 29,150 people in rural areas and 55,525 people in urban areas. It also provides increased access to and improves the quality of the transportation network, thereby reducing vehicle operating costs and travel time and improving the reliability of access to social services. The improved road will help reduce poverty and increase incomes in rural areas by stimulating economic activity in tourism, local business development, and agricultural economic activities. ADB will implement the overall project as a sector project under emergency procedures.¹⁰ The economic analysis of the damaged sites of the original project and the additional financing has been completed following ADB's Guidelines for the Economic Analysis of Projects.¹¹ The economic due diligence included demand, cost–benefit, sensitivity, sustainability, distribution, and risk analyses. The economic internal rate of return of the damaged sites is 13.20% in the original project and 20.16% in the additional financing. The damaged infrastructure will not be relocated as it is within the existing right-of-way, but it will be reconstructed to higher standards under BBB principles. The civil works will be selected and prioritized following the selection criteria, including financial and economic considerations that require a minimum economic internal rate of return of 9%.

25. Outputs under the additional financing are public service goods with no cost recovery, and require no financial viability assessment and financial internal rate of return analysis. Roads and bridges to be constructed following BBB principles will be maintained using the MIPU's recurrent budget. The financial analysis of the project finds that the country has been at a budgetary deficit at the gross level for 4 reported years, from 2010 to 2013. It is uncertain how the government, in a deficit environment, will source incremental funds for the maintenance of the new assets rehabilitated under the project. Given that the estimated average annual total maintenance cost of the new assets is \$209,600 per year, which is within the MIPU's annual maintenance and replacement capital expenditure budget of Vt500 million, the government is expected to use this financing for the maintenance of the new assets. As the outputs will have BBB features to enhance resilience, less strain will be placed on the operation and maintenance budget in the first 3 years.

C. Governance

26. **Financial management.** The MFEM and the MIPU have implemented ADB-financed projects, through various PMUs, including the ongoing original project.¹² The PMUs carry out the accounting and bookkeeping for these projects while the Vanuatu PMU and the Department of Finance and Treasury of the MFEM monitor them centrally. Both the MFEM and the MIPU have been involved in the financial management of projects, accounting, financial reporting, and audit; and have gradually built their capacity. ADB has previously carried out a financial management assessment of the executing and implementing agencies. The overall fiduciary risk was rated *moderate*; it remains manageable and will be mitigated by the qualified accountant assigned to the PMU. The financial analysis of the executing and implementing agencies undertaken during the approval of the ongoing original project remains valid for the additional financing. The DSCs

¹⁰ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

¹¹ ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila.

¹² ADB. 1996. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance to the Republic of Vanuatu for the Urban Infrastructure Project*. Manila; ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Administration of Grant, and Technical Assistance to the Republic of Vanuatu for the Interisland Shipping Support Project*. Manila; ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant for Additional Financing to the Republic of Vanuatu for the Interisland Shipping Support Project*. Manila; and ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grants to the Republic of Vanuatu for the Port Vila Urban Development Project*. Manila.

prepared an asset management plan where expenditures were projected over a 5-year period for the sustainability of the Efate ring road. The procurement capacity assessment of the MIPU that was conducted for the overall project (footnote 12) identified a lack of procurement capacity within the MIPU. The DSCs have a procurement specialist available to undertake any procurement requirements, including providing capacity development during project implementation to strengthen the MIPU's procurement capacity.

27. **Anticorruption.** ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government during the inception mission for the original project and the fact-finding mission for the additional financing. The specific policy requirements and supplementary measures are described in the project administration manual (footnote 9).

D. Poverty and Social

28. **Poverty and social dimensions.** The destruction of critical infrastructure has affected many people, especially vulnerable groups. Such disaster events also create new vulnerabilities as they affect employment and livelihood-generating abilities, personal safety, public health and sanitation, household efficiency, and food production. While TCP's destruction of physical assets occurred in March 2015, production losses and associated higher costs of production will linger for some time. The disaster's negative impact on the country's overall socioeconomic conditions will be felt for many years to come. The project's expected poverty and social benefits and impacts on local communities will be analyzed through a review of previous social and poverty analyses and consultations with stakeholders of ADB-financed projects. PMU has prepared a summary poverty reduction and social strategy. Repairs to roads and bridges are being prioritized to minimize secondary impacts on the economy; and to restore connectivity to essential services such as hospitals, schools, markets, and main commercial centers in Port Vila. The project will contribute to the reconstruction and repair of affected critical transport infrastructure, and rebuild transport networks to higher standards of disaster and climate resilience.

29. **Gender.** As in the original project, the additional financing is classified *some gender elements*. While a gender action plan is not required, the project will include and incorporate specific gender features for the additional sites to ensure women's involvement. Specific targets include 30% women participation in community meetings and training sessions, such as education awareness on HIV transmission and prevention (in coordination with the HIV coordinator from the Ministry of Health) and on gender-sensitive transport and road safety issues. At least 20% of the grievance redress and community liaison committee members will be women. Employment of women will also be encouraged during implementation.

30. **Consultation and communication.** In line with ADB's Public Communications Policy, the DSC will make all relevant project information, including safeguards implementation, available in a timely manner and in a form and language that is understandable to the affected people and other stakeholders. The DSC has prepared a consultation and communication plan for the original project, which will be expanded as required to cover the additional sites, communities, and stakeholders.

E. Safeguards

31. **Environment.** The additional financing is classified *category B* for the environment. It will provide funds to rehabilitate a further six sites and will follow the EARF requirements prepared for the original project, which follows the Environmental Protection and Conservation Act (as amended), 2010, with any additional elements required to comply with the Safeguard Policy

Statement. The screening undertaken during fact-finding concludes that, as in the original project, most of the impacts (i) will be site-specific; (ii) are not particularly significant as the road segments and bridges to be repaired will be reconstructed within their existing location, i.e., within the existing road corridor; and (iii) can be readily mitigated through the implementation of the environmental management plan (EMP). As established under the original project, during road reconstruction, environmental safeguards will follow the system being implemented by the government for other ADB- or externally funded projects, where (i) minor repair works are implemented following environmental management and safety guidelines or a simple EMP; and (ii) major works associated with the rehabilitation or reconstruction of roads and bridges will be subject to an environmental assessment and require an EMP, which will be updated during detailed engineering design, incorporated in bid and contract documents, implemented by contractors, and monitored by the implementing agency. Monitoring will follow the monitoring plan in the EARF. ADB and the government will post the monitoring reports on their websites.

32. **Involuntary resettlement.** The additional financing is classified *category C* for involuntary resettlement. The screening undertaken during fact-finding concludes that, as in the original project, the project will be confined to the existing ring road corridor and additional access to land will be obtained through negotiated settlement or land-use agreements following the approved resettlement framework. Due diligence for additional sites will follow the processes outlined in the resettlement framework; and will be reviewed, cleared, and publicly disclosed by MIPU.

33. **Indigenous peoples.** The additional financing is classified *category C* for indigenous peoples. The project is not expected to affect any distinct and vulnerable group of indigenous peoples. Melanesians are the native people of Vanuatu and comprise the clear majority of the population as well as the project beneficiaries. MIPU will implement all project components in a culturally appropriate and participatory manner.

34. **Capacity building.** The safeguards capacity of the MIPU and the Vanuatu PMU is being strengthened through the mentoring and training provided by the DSCs and the parallel support provided by ADB. ADB is also providing technical assistance to the Department of Environmental Protection and Conservation for strengthening the country safeguards system.¹³

F. Risks and Mitigating Measures

35. The overall risk is *moderate*, and the integrated benefits and impacts outweigh the costs. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan (footnote 5).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Lack of procurement capacity in the MIPU	A procurement specialist in the PMU is carrying out all project procurement activities and is building capacity in the MIPU's engineering staff.
Weak financial management capacity	ADB has previously conducted a financial management assessment and has prepared a financial management action plan, which is being implemented. MIPU maintains separate accounts for the project, and undertakes monthly reconciliation and verification of the project account with the Department of Finance and Treasury.

¹³ ADB. 2016. *Quarterly Summary Report on Approved (A) Project Preparatory Technical Assistance Not Exceeding \$5,000,000; (B) Technical Assistance Projects Not Exceeding \$225,000; and (C) Technical Assistance Cluster Subprojects (January–March 2016)*. Manila (TA 9073, approved by the director general of the Pacific Department in January 2016 for \$225,000); and ADB. 2014. *Technical Assistance for Strengthening and Use of Country Safeguards Systems (Subproject: Strengthening the Implementation Capacity for EIA in Vanuatu)*. Manila (The subproject was approved by ADB in March 2014 for \$265,000 and completed in 2015).

Risks	Mitigating Measures
Low implementation capacity of the government	DSC support is provided for compliance with procurement, financial management, disbursement, monitoring, and safeguard policies and procedures. The DSCs are building capacity into the MIPU's engineering, procurement, safeguards, and accounting units.
Low implementing capacity of national contractors	PMU conducted a national contractor assessment. National contractors will be trained in the civil works through subcontracting by the international competitive bidding contractor. The DSCs will closely monitor national contractor performance and provide support on contract compliance and specifications.
Lack of sustainability	Following completion, the project assets will become the property of the government and will be maintained by the MIPU. The DSCs have prepared an asset management plan with expenditure forecast for annual MIPU budgeting. The MIPU currently has community-based, labor-intensive maintenance contracts in place for Efate ring road.

DSC = design and supervision consultant, MIPU = Ministry of Infrastructure and Public Utilities, PMU = project management unit.

Source: Asian Development Bank.

IV. ASSURANCES

36. The government has 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 and grant documents.

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

V. RECOMMENDATION

38. I am satisfied that the proposed loan and grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan in various currencies equivalent to SDR2,961,000 (\$4,100,000)¹⁴ to the Republic of Vanuatu for the additional financing of the Cyclone Pam Road Reconstruction Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1% per year; for a term of 40 years, including a grace period of 10 years; with repayment of principal at 2% per year for the first 10 years after the grace period and 4% per year thereafter; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board;
- (ii) the grant not exceeding \$4,100,000 to the Republic of Vanuatu, from ADB's Special Funds resources (Asian Development Fund), for the additional financing of the Cyclone Pam Road Reconstruction Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board; and
- (iii) the proposal in para. 21 of this report to permit procurement of services from nonmember countries of ADB.

Takehiko Nakao
President

17 July 2017

¹⁴ SDR1 = \$1.38478 as of 6 June 2017.

REVISED DESIGN AND MONITORING FRAMEWORK

<p>Impact the Project is Aligned with Current Project Accelerated economic and social recovery in Vanuatu's TCP-affected provinces (Post-Disaster Needs Assessment)^a</p> <p>Overall Project Unchanged</p>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome Current project Socioeconomic activities restored to at least pre-TCP levels</p> <p>Overall project Unchanged</p>	<p>By 2018 Current project a. GDP growth projection increased to 3.6% (2015 baseline: 2015 GDP growth is expected to decline from 4.6% to 1.4%)</p> <p>b. 130 km of road connected for road users to facilitate trade</p> <p>Overall project Unchanged</p>	<p>a. ADB Outlook, Pacific Economic Monitor database, and Vanuatu National Statistics Office</p> <p>b. Quarterly progress reports from the MIPU</p>	<p>Extreme weather event during reconstruction results in delays.</p>
<p>Output Current project 1. Transport infrastructure in damaged locations on the Efate ring road reconstructed and climate- and disaster-proofed</p> <p>Overall project Unchanged</p>	<p>By 2017 Current project 1a. About 10 km of road rehabilitated</p> <p>1b. About eight stream crossings and their approach roads, abutments, and piers repaired and protected</p> <p>1c. About nine bridges, box culverts, and causeways repaired for minor damage and debris cleared</p> <p>1d. About 200 m of river channel realigned upstream and downstream, and river training structures constructed</p> <p>1e. About 1,000 m of sealed pavement protected against erosion from storm surges</p> <p>1f. About 8 km of roadside and crossroad drainage improved</p> <p>1g. About six culvert headwalls reconstructed</p>	<p>Quarterly progress reports from the MIPU</p>	<p>Delays in implementation caused by MIPU staff occupied in other infrastructure sectors, such as reconstruction of public buildings, adversely affect the implementation and effectiveness of the emergency assistance.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p>1h. About 250 m of guardrail reconstructed</p> <p>1i. About 180 m of riverbanks protected</p> <p>1j. Landslide at Klems Hill (about 100 m x 50 m) reinstated</p> <p>1k. Concrete longitudinal roadside drain at Klems Hill (about 600 m long) improved</p> <p>1l. 100% of construction workers and at least 80% of roadside inhabitants receive education on gender equality and HIV and AIDS awareness by the end of the project</p> <p>1m. At least 30% of participants in all community consultations and training sessions are women</p> <p>Overall project By 2018 1a–1m. Unchanged</p> <p>1n. 6 km of the Tassikiri road section rehabilitated</p> <p>1o. Management of Prima floodplain developed to manage the catchment near Prima Bridge</p> <p>1p. Tanoliu and Ulei bridges reconstructed</p> <p>1q. Drainage at Saama improved</p> <p>1r. Epule Bridge replaced (reconstruction instead of repairs)</p> <p>1s. Boreholes for the piles for the Marona Bridge driven down to at least 30 m</p>		

Key Activities with Milestones	
1. Reconstruction of damaged infrastructure	
1.1 Conduct topographical survey (Q3 2017)	
1.2 Conduct feasibility study (Q2–Q3 2017)	
1.3 Prepare detailed engineering designs (Q2–Q3 2017)	
1.4 Prepare bid documents (Q3 2017)	
1.5 Carry out bidding and bid evaluation (Q3 2017)	
1.6 Award civil works contracts (Q1 2018)	
1.7 Reconstruct civil works (Q1–Q4 2018)	
Project Management Activities	
Recruit supervision consultants (Q3 2017)	
Prepare project implementation plan (Q1 2018)	
Implement communication strategy and communication plan (2017–2018)	
Oversee environment management activities (2017–2018)	
Prepare project completion report (Q4 2018)	
Inputs	
ADB	
Loan	Grant
ADF: \$1,000,000 (current)	ADF: \$7,000,000 (current)
ADF (DRF): \$2,810,000 (current)	ADF (DRF): \$2,805,000 (current)
COL: \$4,100,000 (additional) ^b	ADF: \$4,100,000 (additional) ^b
\$7,910,000 (overall)	\$13,905,000 (overall)
Global Environment Facility	
Grant	
\$2,680,000 (current)	\$2,210,000 (current)
\$2,680,000 (overall)	\$1,200,000 (additional)
	\$3,410,000 (overall)
Assumptions for Partner Financing	
Current project	
Additional cofinancing may be confirmed and added to the project for additional or expansion of existing performance targets for the output.	
Overall project	
Additional cofinancing may be confirmed and added to the project for any additional or upscaling of the performance targets for the output.	

ADB = Asian Development Bank, ADF = Asian Development Fund, COL = concessional ordinary capital resources loan, DRF = Disaster Response Facility, GDP = gross domestic product, km = kilometer, m = meter, MIPU = Ministry of Infrastructure and Public Utilities, Q = quarter, TCP = Tropical Cyclone Pam.

^a Government of Vanuatu. 2015. *Vanuatu Post-Disaster Needs Assessment: Tropical Cyclone Pam, March 2015*. Port Vila.

^b Grant funds are front-loaded. The loan may be withdrawn only after the grant funds are fully utilized.

^c Comprises taxes and duties of \$2,960,000 to be financed by the government through exemptions and \$450,000 as in-kind contribution for audit fees and counterpart staff.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49319-002-3>

1. Loan Agreement
2. Grant Agreement
3. Summary Assessment of Damage and Needs: Transport Sector
4. Project Administration Manual
5. Summary of Project Performance
6. Contribution to the ADB Results Framework
7. Emergency Assistance Coordination
8. Financial Analysis
9. Economic Analysis
10. Country Economic Indicators
11. Summary Poverty Reduction and Social Strategy
12. Environmental Assessment and Review Framework
13. Resettlement Framework
14. Risk Assessment and Risk Management Plan

Supplementary Documents

15. Financial Management Assessment
16. Options Workshop Report