



Project Design Advance

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Tuvalu: Outer Island Maritime Infrastructure Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 28 October 2015)

Currency unit	–	Australian dollar (A\$)
A\$1.00	=	\$0.7191
\$1.00	=	A\$1.3906

ABBREVIATIONS

ADB	–	Asian Development Bank
MCT	–	Ministry of Communication and Transport
PDA	–	project design advance
PMU	–	project management unit
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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I. THE PROPOSED PROJECT

1. The proposed Outer Island Maritime Infrastructure Project will rehabilitate and improve maritime infrastructure in selected outer islands of Tuvalu; and improve safety, efficiency, and sustainability of maritime transportation between Funafuti (the capital) and the eight outer islands.¹

2. Tuvalu has connectivity problems because of its geography: (i) a small country (land area of 26 square kilometers) comprising nine islands over an area of 680 kilometers; (ii) small and dispersed population—10,800 as of 2012, with less than 1,600 people on each of the outer islands; and (iii) decreasing outer island population.

3. Tuvalu's geography poses challenges to its transportation infrastructure and services: (i) two government-owned ships travel between Funafuti, the outer islands, and Fiji, and therefore each outer island has access to these ships once every 2–3 weeks; (ii) no outer island has a docking facility for the ships, so passengers and cargo must be transferred by small workboats; (iii) five of the outer islands have no docking facilities even for the workboats, and passenger transfers on and off vessels are laborious and cargo must be manually carried; (iv) channels can be narrow and dangerous when the weather is rough; and (v) serious accidents sometimes occur resulting in loss of lives and cargo. Transfer operations are not possible when the sea is rough or after dark, reducing the efficiency of ship operations.

4. Further, Tuvalu is vulnerable to climate change. Tropical Cyclone Pam in March 2015 caused severe floods, erosion, and damage of maritime infrastructure in the northern outer islands. In Nanumaga, a ramp used for loading and unloading cargo was washed away. In Niutao and Nui, the channels were silted with boulders and sand.

5. To address these challenges, the government has committed to improve the maritime transportation network as articulated in the National Strategy for Sustainable Development—Te Kakeega II and the Infrastructure Strategic Investment Plan, 2011–2015.² By making maritime transportation more efficient and safe, Tuvalu envisages achieving the following objectives: (i) develop the economy, including fisheries; (ii) improve livelihoods and safety conditions in the outer islands; and (iii) reduce migration from the outer islands to Funafuti, which currently has problems with overcrowding, pollution, and spread of disease.

6. The project will be designed in coordination with other development partners in the sector. It will directly build on the achievements of New Zealand's Ship to Shore Project (substantially completed in 2013), which dredged channels and installed navigation aids in the outer islands. Japan is providing a new cargo–passenger ship in late 2015.

7. The project impact will be secure and efficient port infrastructure in Tuvalu (Funafuti and the outer islands), with climate change resilience incorporated in port infrastructure design, protocols, and operation. The outcome will be improved transfer operations in the outer islands. The outputs will be (i) improved and rehabilitated maritime infrastructure in the outer islands, and (ii) improved capacity of the outer island communities and the Department of Marine and

¹ The outer islands are Nanumaga, Nanumea, Niulakita, Niutao, Nui, Nukufetau, Nukulaelae, and Vaitupu. Specific project activities are to be determined following discussions with the government. The project is included in ADB. 2015. *Country Operations Business Plan: Tuvalu, 2016–2018*. Manila.

² Government of Tuvalu. 2005. *Te Kakeega II, National Strategy for Sustainable Development, 2005–2015*. Funafuti; Government of Tuvalu. 2012. *Tuvalu Infrastructure Strategy and Investment Plan*. Funafuti.

Port Services of the Ministry of Communication and Transport (MCT) to operate and maintain facilities.

8. Asian Development Bank (ADB) financing for the project is estimated at \$10.41 million, which will be financed by a Special Funds resources grant including a \$3 million allocation from the Disaster Response Facility.³ This is consistent with the Interim Pacific Approach.⁴ The project and the project design advance (PDA) are listed in the country operations business plan, 2016–2018.⁵ PDA implementation readiness is adequately demonstrated. MCT has started to recruit project management unit (PMU) staff and secure office space for the PMU and the project preparatory technical assistance (TA) and PDA consultants.

II. ACTIVITIES TO BE FINANCED BY THE PROJECT DESIGN ADVANCE

9. Activities under the PDA include (i) prepare detailed engineering designs of maritime infrastructure to be built under the project, (ii) conduct geotechnical and hydrographic surveys, (iii) assist the government in procuring civil works under the project, and (iv) engage project management consultants.

10. **Outputs.** The following outputs are expected from the PDA: (i) detailed engineering designs, including design report and construction cost estimate; (ii) hydrographic and geotechnical survey reports; (iii) progress with procurement of civil works, including preparation of bidding documents, technical and financial evaluation of bids, and contracting; and (iv) management of project preparation activities.

11. **Expected benefits.** The PDA outputs will be achieved immediately after the feasibility study conducted during the TA. Project preparation works will be significantly expedited as compared with the usual business process. The usual business process involves a large time lag in project preparation between the feasibility study and detailed design, when project documents are prepared by ADB staff, followed by the recruitment of the project consultant. This time lag is estimated to be 9–15 months, even if advance contracting of consultants is used. Project preparation activities are not interrupted in the field if a PDA is used and the consultant for detailed design is selected at an early stage. The PDA will also help maintain the momentum of the government project preparation with the PMU being established from the start of the TA project.

III. COST ESTIMATES AND FINANCING ARRANGEMENTS

12. On 17 June 2015, Tuvalu requested a PDA in the amount of \$2.0 million to be financed by a grant from the Special Funds resources. The government will provide in-kind support with an estimated value of \$0.1 million, including transportation of survey equipment and consultants to the outer islands by its ships, and accommodation for consultants in the outer islands.

³ ADB. 2012. *Piloting a Disaster Response Facility*. Manila.

⁴ ADB. 2009. *ADB's Pacific Approach, 2010–2014*. Manila; ADB. 2015. *Interim Pacific Approach, 2015*. Manila, which extend the validity of the Pacific Approach, 2010–2014.

⁵ ADB. 2015. *Country Operations Business Plan: Tuvalu, 2016–2018*. Manila.

Table 1: Investment and Financing Plan for the Project Design Advance^a
(\$ million)

Item	Cost ^b	ADB	Government
A. Base Cost			
1. Engineering design consultant	0.63	0.59	0.04
2. Geotechnical and hydrographic surveys ^c	0.97	0.93	0.04
3. Project management consultants	0.25	0.23	0.02
Subtotal (A)	1.85	1.75	0.10
B. Contingencies^d	0.25	0.25	0.00
Total (A+B)	2.10	2.00	0.10

ADB = Asian Development Bank.

^a A project design advance (PDA) carries interest and commitment charges where applicable, and the payment of these charges is deferred until the PDA is repaid from the ensuing financing or other repayment terms take effect. Commitment charges are waived for 2 years from PDA signing. If the ensuing financing does not become effective within that period, commitment charges accrue thereafter.

^b The Tuvalu government imposes no import duties in general; it imposes the Tuvalu consumption tax (TCT) on nonfood items. Since most resources necessary for the project design advance (PDA) are imported and the TCT will be imposed only on local expenditures, the amount of the TCT is considered to be minimal. No taxes and duties specifically target Asian Development Bank (ADB) projects. Therefore, the tax to be financed by ADB does not represent an excessive share of the PDA cost, and ADB financing of the tax applies only to ADB-financed expenditures. ADB financing of the tax is necessary and relevant to success of the project.

^c The cost of surveys will be covered by the consultant contract.

^d Physical contingencies computed at 8% for consulting services. Price contingencies computed at 5%, including provision for potential exchange rate fluctuation under the assumption of the purchasing power parity exchange rate.

Source: Asian Development Bank.

IV. IMPLEMENTATION ARRANGEMENTS

13. MCT will be the executing agency for the PDA under the oversight of the task force (Table 2). MCT has appointed the director of marine services to be project director on a part-time basis, as a focal person for project management. MCT will recruit three individual national consultants (project manager, deputy project manager, and financial manager) to form the PMU, which will support the project director. The project director and the PMU will supervise and provide counterpart support to the PDA consulting firm. All consultant recruitment will follow ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The implementation arrangements are summarized in Table 2 and described in detail in the PDA project administration manual.

Table 2: Implementation Arrangements for the Project Design Advance

Aspects	Arrangements		
Duration of PDA period	December 2015–January 2017		
Estimated completion date	31 January 2017		
Management			
(i) Oversight body	Task Force: Ministry of Home Affairs and Rural Development (chair); Ministry of Finance and Economic Development, Ministry of Public Utilities, Ministry of Communication and Transport, and Department of Environment		
(ii) Executing agency	Ministry of Communication and Transport		
(iii) Implementation unit	Project management unit		
Consulting services	Quality- and cost-based selection (output-based terms of reference)	One engineering design contract (17.5 person-months) ^a	\$1.75 million
	Individual consultant	Three national consultants (39 person-months)	\$0.25 million

Aspects	Arrangements
Advance contracting	The ADB vice-president (Operations 2) approved advance contracting for the individual consultant under the PDA on 6 July 2015.
Disbursement	The grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

ADB = Asian Development Bank, PDA = project design advance.

^a Consulting services are estimated at a total of 17.5 person-months (8 international and 1 national).

Source: Asian Development Bank.

14. MCT has started recruiting individual consultants to staff the PMU, and will secure offices for the PMU, the TA consultant, and the PDA consultant. MCT has delegated recruitment of the PDA consultant to ADB. Staff of ADB's Pacific Department are working on the recruitment and received proposals from candidate consultants on 28 September 2015. They are also recruiting a TA consultant; consultants submitted proposals to PARD on 28 September 2015. Awarding of the two consulting contracts is expected by the middle of November 2015.

V. SAFEGUARDS

15. The PDA only finances consulting services. The PDA itself, therefore, is categorized C for environment, involuntary resettlement, and indigenous peoples. Any safeguard impacts of the ensuing project are expected to be minimal, categorized B for involuntary resettlement and environment, and C for indigenous peoples. The TA will prepare an initial environmental examination, including an environmental management plan, and undertake resettlement planning as required, all in compliance with ADB's Safeguard Policy Statement (2009). The PDA consultant will update an initial environmental examination, including an environmental management plan and final resettlement plan, as required.

VI. DECISION

16. Management has approved the provision of a grant not exceeding \$2,000,000 to Tuvalu from ADB's Special Funds resources, in the form of a project design advance (PDA) for the Outer Island Maritime Infrastructure Project; and the President hereby reports this action to the Board.