



Report and Recommendation of the President to the Board of Directors

Project Number: 48484-004
Grant Numbers: 0511-TUV, 0512-TUV, and 0513-TUV
August 2018

Proposed Grant for Additional Financing Tuvalu: Outer Island Maritime Infrastructure Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 August 2018)

Currency unit	–	Australian dollar (A\$)
A\$1.00	=	\$0.74
\$1.00	=	A\$1.35

ABBREVIATIONS

ADB	–	Asian Development Bank
CEMP	–	construction environmental management plan
EMP	–	environmental management plan
GAP	–	gender action plan
IEE	–	initial environmental examination
km	–	kilometer
MCT	–	Ministry of Communication and Transport
O&M	–	operation and maintenance
PAM	–	project administration manual
PDA	–	project design advance
PMU	–	project management unit
PMSC	–	project management and construction supervision consultant
PSMPC	–	project support and master planning consultancy

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: 48484-004	
Project Name	Outer Island Maritime Infrastructure Project (Additional financing)	Department /Division	PARD/PATE
Country	Tuvalu	Executing Agency	Ministry of Communication and Transport
Borrower	Government of Tuvalu		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Water transport (non-urban)		15.42
		Total	15.42
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	High
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	ADB Financing Adaptation (\$ million)	1.40
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Pilot-testing innovation and learning		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Rural	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG2, SDG3, SDG9, SDG10, SDG11, SDG12, SDG13, SDG14		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.42	
Sovereign Project grant: Asian Development Fund		15.42	
Cofinancing		0.00	
None		0.00	
Counterpart		1.50	
Government		1.50	
Total		16.92	

TUVALU OUTER ISLAND MARITIME INFRASTRUCTURE PROJECT (additional financing)

Lakena Matagi
NANUMEA

NORTHERN ISLANDS

NANUMAGA

NIUTAO



0 20 40 60 80

Kilometers

NUI
Fenuatapu

CENTRAL ISLANDS

Fuunaota NUKUFETAU
Fale Lafaga
Motulalo

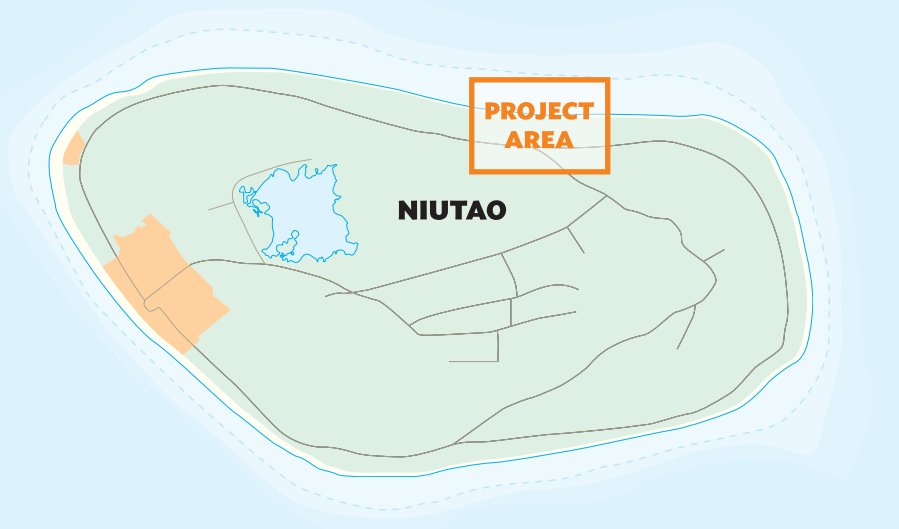
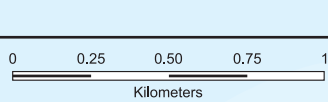
SOUTH PACIFIC OCEAN

Fualefeke Tegako
Fuafatu FOGAFALE
Funafala
FUNAFUTI

- National Capital
 - Airstrip
 - Urban Area
 - Road
 - Reef/Atoll
 - International Boundary
- Boundaries are not necessarily authoritative.

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ADB'S DEVELOPING MEMBER COUNTRIES IN THE PACIFIC



**PROJECT
AREA**

NIUTAO

NUKULAEALAE Tumuiloto
Fagaua Niuoku

SOUTHERN ISLANDS

NIULAKITA

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to Tuvalu for the additional financing of the Outer Island Maritime Infrastructure Project.

2. The proposed additional financing will scale up and extend the socioeconomic benefits of the current project by (i) constructing a small workboat harbor in Niutao and (ii) financing cost overruns caused by foreign currency exchange rate fluctuation and contract variations for the works contract under the project.¹ The additional financing is consistent with the project rationale, will extend socioeconomic benefits to the outer island of Niutao, and is included in the country operations business plan, 2018–2020 of the Asian Development Bank (ADB) for the 11 small Pacific island countries.²

II. THE PROJECT

A. Rationale

3. **Regional context.** Tuvalu is one of the smallest and most remote ADB member countries. Its challenges in transport and economic development come from its dispersed geography: (i) nine atoll islands, stretching across more than 680 kilometers (km) in the southwest Pacific; (ii) a small and dispersed population of 10,100 as of June 2016, with more than 6,000 people in Funafuti, the capital, and the rest on the outer islands;³ and (iii) a decreasing population on the outer islands because of limited economic opportunities. Tuvalu is more than 1,100 km away from Fiji and more than 3,000 km away from Australia and New Zealand.

4. **Maritime transport challenges.** The Government of Tuvalu runs a shipping service to facilitate passenger and cargo mobility between the islands, which faces numerous challenges. First, the two ships operating continuously can only reach each the islands once every 2–3 weeks.⁴ Second, no outer island has a docking facility for the government ships, and small workboats ferry passengers and cargo between the ship and the shore. This is dangerous when the sea is rough. Third, workboats need to pass through channels, some of which are dangerous when the sea is rough or too shallow to use during low tide. Finally, except for Nanumea, Nukufetau, and Vaitupu, the outer islands also lack docking facilities for the workboats. In the past, serious accidents have occurred during both passenger transfers and navigation through the channels, resulting in loss of lives and economic values. Transfer operations cannot be carried out when the sea is rough or after dark, reducing the efficiency of ship operations. In addition, Tuvalu faces constant and increasing threats of natural hazards such as tropical cyclones.

5. **Government priority.** The government places very high priority on improving access for the outer islands. The National Strategy for Sustainable Development, 2016–2020 sets out the government's vision to make maritime transportation more efficient and safer.⁵ The original project included the construction of a small work-boat harbour in the island of Nukulaelae and some minor maritime infrastructure improvements (construction of boat ramps) in the islands of Nui and

¹ The construction of a small workboat harbor is a new activity under output 1.

² ADB. 2017. *Country Operations Business Plan: Small Pacific Island Countries, 2018–2020*. Manila.

³ Secretariat of the Pacific Community-Statistics for Development Division (PRISM Project). Population Statistics. <http://prism.spc.int/regional-data-and-tools/population-statistics>.

⁴ These ships are 46–58 meters in length, with 583–1,043 in gross tonnage, and carry 200–300 passengers and cargo.

⁵ Government of Tuvalu. 2016. *Te Kakeega III: National Strategy for Sustainable Development, 2016 to 2020*. Funafuti. As of May 2016, the government is updating the Tuvalu Infrastructure Strategy and Investment Plan 2016 based on Te Kakeega III to replace the Infrastructure Strategic Investment Plan, 2011–2015.

Niutao. In parallel, the government also requested the World Bank to improve the Funafuti and Nanumaga maritime infrastructure under the Maritime Investment in Climate Resilient Operations project.

6. **Project financing and scope.** On 16 November 2016, ADB approved grant financing of \$8.3 million from the Asian Development Fund and \$3.0 million from the Disaster Response Facility as well as grant administration of \$500,000 from the Global Environmental Facility to finance the project.⁶ ADB provided a project design advance (PDA) grant for the detailed engineering design, procurement assistance, and project management of the current project.⁷

7. The project scope includes the (i) construction of a workboat harbor in Nukulaelae and boat ramps in Nanumaga and Niutao; (ii) provision of technical assistance to improve capacity for the operation and maintenance (O&M) of harbors as part of the institutional strengthening plan; and (iii) preparation of a master plan for maritime transport in Tuvalu, including a harbor pre-feasibility study and conceptual funding strategy for the two highest-ranked transport options.

8. **Project progress.** During implementation, the government established a task force to oversee the current project and a project management unit (PMU) to implement it. The current project included project management, construction supervision, and institutional strengthening support as a core component. It was fully ready at approval, with the detailed design and procurement strategy prepared through the PDA. The government set up a deferred maintenance fund in 2015 to secure O&M resources. These activities led to the satisfactory implementation of the current project and strengthened readiness for the additional financing project.⁸

9. The current project is performing well and has met all five standards stipulated in the Operations Manual on Additional Financing.⁹

- (i) **Delivery of expected outputs.** The current project is on track to meet the intended outputs.
 - (a) The construction of the workboat harbor in Nukulaelae and the rehabilitation of the boat ramps in Nanumaga and Niutao started in January 2018 and is expected to be completed within the original contract period.
 - (b) The government is preparing an O&M manual to keep project deliverables in good condition and to ensure that the islands' harbors will be fully maintained in the future. The government will conduct training on O&M when construction work ends.
 - (c) The government is preparing a master plan for future harbor development in the outer islands in 2018 and has completed pre-feasibility (high-level concept designs and cost estimates) and feasibility studies for small-scale harbors.
- (ii) **Implementation progress.** Implementation is progressing as scheduled.
 - (a) The government signed the civil works contract for the construction of the workboat harbor at Nukulaelae with the China Civil Engineering

⁶ ADB. 2016. *Proposed Grants and Administration of Grant to Tuvalu for the Outer Island Maritime Infrastructure Project*. Manila.

⁷ ADB. 2016. *Project Design Advance: Outer Island Maritime Infrastructure Project in Tuvalu*. Manila. ADB extended the PDA's closing date to 30 June 2019.

⁸ As of 17 August 2018, actual contract awards are \$11.41 million (97.06%) and disbursements are \$4.51 million (100%)

⁹ Summary of Project Performance (accessible from the list of linked documents in Appendix 2). The project team will seek the President's waiver in respect of the 12-month well-performing period under para. 4 of the Operations Manual on Additional Financing (ADB. 2011. *Additional Financing. Operations Manual*. OM H5/OP. Manila).

- Construction Corporation on 22 August 2017. Works are scheduled for completion within the contract period ending by March 2019.
- (b) The government signed the project support and master planning consultancy (PSMPC) contract with Cardno Emerging Markets of Australia on 13 September 2017. The government is reviewing and approving construction documents and plans in a timely fashion.
 - (c) The PSMPC is carrying out institutional strengthening to establish sustainable asset management arrangements that are focused on maintaining project deliverables, which is scheduled for completion by 31 December 2018.
 - (d) The PSMPC is also preparing a transport master plan, which is scheduled for completion by 31 December 2018.
- (iii) **Satisfactory compliance with safeguard policy requirements.** The current project has met social and environmental safeguard requirements satisfactorily so far.
 - (iv) **Successful management of risks.** The current project incorporated actions to mitigate risks, which the government is implementing satisfactorily. Nonetheless, the risk rating for the overall project remains *moderate*.
 - (v) **On track rating.** ADB's project performance monitoring system has rated the current project *on track* since grant effectiveness on 30 August 2017.

10. **Additional financing.** The government has requested additional grant financing from ADB to the project for a major infrastructure improvement (small work-boat harbour) in Niutao, an island of about 600 people. The additional financing will (i) scale up and extend benefits by constructing a workboat harbor in Niutao, and (ii) finance cost overruns caused by the appreciation of the Australian dollar by about 10% against the United States dollar and contract variations of about \$1 million for the works contract under the project because of the higher cost of dredging the channel and the lack of geotechnical data.

11. The additional financing is justified given that the overall project (i) remains technically feasible, cost-effective, and financially sound; (ii) is consistent with the current project's development objective to improve maritime transfer operations in Nanumaga, Niutao, and Nukulaelae; (iii) is accorded high priority by the government; and (iv) is consistent with the country operations business plan. ADB applied a simplified business process for the additional financing because the current project has been performing well for a reasonable amount of time.

12. The additional financing to scale up project outputs is feasible given that (i) project management capacity of the Ministry of Communication and Transport (MCT) is strengthened with a Joint World Bank and ADB's Project Management Unit, which will implement all maritime infrastructure projects in Tuvalu; (ii) the MCT has undertaken geotechnical investigations in Niutao, which will reduce the procurement risk of receiving bids for the civil works contract substantially higher than the cost estimate (geotechnical information was not available during the procurement of the civil works under the original project); the PMU has demonstrated sufficient financial management capacity with duly submitted and approved financial statements; and the institutional strengthening, and O&M plan that the MCT are implementing guarantee the asset sustainability. These measures contribute to the feasibility of the proposed project and will allow its timely implementation and sustainability.

13. The proposed project is suitable for additional financing since it has the same outcome, similar small outputs, and the same executing and implementing agencies as the current project; and builds upon the due diligence of the current project.

B. Impact and Outcomes

14. The impact of the overall project remains unchanged and will be to secure safe and efficient maritime infrastructure in the outer islands, with climate change resilience incorporated in infrastructure design, protocols, and operation. The outcomes also remain unchanged and will be to improve maritime transfer operations in Nanumaga, Niutao, and Nukulaelae; and establish clear directions for developing transport, fishery, and tourism in the country.¹⁰

C. Outputs

15. Output 1 of the overall project will include the construction of a small workboat harbor in Niutao to higher standards of climate and disaster resilience. Outputs 2 and 3 remain unchanged.¹¹

D. Investment and Financing Plan

16. The project is estimated to cost \$16.9 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).

Table 1: Project Investment Plan
(\$ million)

Item	Current Amount ^a	Additional Financing ^b	Total
A. Base Cost^c			
1. Small-scale maritime infrastructure	10.2	14.0	24.2
2. Institutional strengthening	0.5	0.0	0.5
3. Marine transport master plan	0.8	0.0	0.8
Subtotal (A)	11.5	14.0	25.5
B. Physical and Price Contingencies^d	1.8	2.9	4.7
C. Financing Charges	0.0	0.0	0.0
Total (A+B+C)	13.3	16.9	30.2

^a Includes taxes and duties estimated at \$1.4 million to be exempted by the government.

^b Includes taxes and duties estimated at \$1.35 million to be exempted by the government.

^c Additional financing costs are based on first-quarter 2018 prices.

^d The current amount is based on actual costs. For additional financing, physical contingencies computed at 7% for civil works and 7% for consulting services. Price contingencies computed at 14% on foreign exchange costs and 6% on local currency costs under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank estimates.

17. The government has requested a grant not exceeding \$15.4 million from ADB's Special Funds resources (Asian Development Fund) to help finance the project. This amount includes \$1.25 million in grant resources from the disaster risk reduction financing mechanism under the 11th replenishment of the Asian Development Fund. Tuvalu will finance about \$1.5 million in remaining project costs, consisting of land lease, compensation for economic losses from the removal of trees, counterpart government staff, customs clearance costs, and exemption of taxes and duties. The financing plan is in Table 2.

¹⁰ The design and monitoring framework is in Appendix 1.

¹¹ Output 2: capacity to operate and maintain harbors improved, involving the outer island communities, the MCT, and other national government agencies. Output 3: a transport sector master plan for future harbor development in the outer islands created, with a view to promote fisheries and tourism

Table 2: Revised Financing Plan

Source	Current		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank Special Funds resources (grant)	11.3	85.0	15.4	91.1	26.7	88.4
Global Environment Facility (grant) ^a	0.5	3.7			0.5	1.7
Government	1.5	11.3	1.5	8.9	3.0	9.9
Total Financing	13.3	100.0	16.9	100.0	30.2	100.0

^a Administered by the Asian Development Bank.
Source: Asian Development Bank estimates.

E. Implementation Arrangements

18. The government established a project task force in February 2015 to oversee the preparation and implementation of the current project, with the permanent secretaries of five ministries as members. The Ministry of Communication and Transport (MCT) will continue to be the executing agency for the overall project. The MCT appointed the director of its Marine and Port Services Department as project director in July 2015 on a part-time basis and as the focal person for project management. The project director is assisted by the PMU, which has been operating since March 2016. The project director and the PMU supervise and provide counterpart support to a consulting firm that will be engaged under the overall project to provide project management, construction supervision, and capacity building support.

19. The World Bank will provide support to the government for the development of maritime infrastructure in Funafuti and the outer islands through a project scheduled for approval during the first half of 2019. Given the synergies between ADB and World Bank assistance programs, the PMU will be expanded into a Joint ADB–World Bank PMU. The World Bank will recruit new staff for the PMU and will expand the roles and responsibilities of the existing staff. The ADB project will finance the project manager and project account positions, and the World Bank project will finance the deputy project manager and the part-time safeguard and procurement specialist positions.

20. The government will select the project management and construction supervision consultant (PMSCS) through quality- and cost-based selection following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). All procurement of works will follow ADB's Procurement Guidelines (2015, as amended from time to time).

21. To expedite project implementation, the government requested advance contracting for the procurement of geotechnical investigation work at the Niutao harbor site. It engaged a service contractor to carry out the investigation. This will ensure that detailed information on ground conditions are known, which will allow civil works bidders to price elements of the works more accurately, including dredging of the channel, driving of piles, and crushing of materials.¹²

22. ADB and the World Bank agreed to jointly finance the geotechnical investigation, which the government endorsed in May 2018. The World Bank will finance domestic transportation costs estimated at A\$175,000, while ADB will finance drilling works estimated at A\$350,000 and the

¹² Since the overall project is financed with ADB-administered cofinancing resources, universal procurement will apply. ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila

laboratory tests and reporting estimated at A\$100,000. The government contracted the drilling works in advance of grant approval (under retroactive financing) and using direct contracting, approved by ADB in February 2018, while the laboratory tests and reporting are financed by the PDA.

23. The government also requested advance contracting to recruit the PMSC and procure the works. ADB informed the government that approval of advance contracting does not commit ADB to finance the project. The implementation arrangements are summarized in Table 3 and described in detail in the PAM.¹³

24. To increase the readiness of the additional financing project, the government will carry out the following activities during preconstruction using the PDA: (i) producing the final feasibility and due diligence report (by updating initial documents prepared during the project preparation of the proposed additional financing) for approval by ADB and providing necessary support to the government in facilitating site possession; (ii) updating the detailed design after the completion of the geotechnical surveys; (iii) updating the initial environmental examination (IEE) and environmental management plan (EMP), including these in the bid documents, and summarizing the quality and completeness of bidders' responses to the EMP requirements; and (iv) supporting the government during the advance actions of the bidding for the civil works, including support for the tender stage.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	November 2018–December 2021		
Estimated completion date	31 December 2021		
Estimated grant closing date	30 June 2022		
Management			
(i) Oversight body	Task force chair		
(ii) Executing agency	Ministry of Communication and Transport		
(iii) Implementing agency	Ministry of Communication and Transport		
(iv) Implementation unit	Project management unit		
Procurement	International competitive bidding	1 contract	\$11,400,000
	Direct contracting	1 contract	\$300,000
Consulting services	Quality- and cost-based selection	1 contract	\$1,000,000
	Single source selection	2 national consultants	\$300,000
Retroactive financing and/or advance contracting	ADB has approved retroactive financing to finance a portion of the geotechnical investigation contract. The maximum amount of retroactive financing is 20% of the grant amount, which must be incurred not more than 12 months before the signing of the grant agreement. The government has requested advance contracting for the (i) geotechnical survey, (ii) construction supervision consultant, and (iii) civil works.		
Disbursement	The 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 between the government and ADB.		

ADB = Asian Development Bank.
Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

25. ADB has assessed as technically viable the construction of (i) a small-scale workboat harbor in Niutao, including channel dredging; and (ii) trestle, breakwaters, a boat ramp, and a

¹³ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

passenger terminal. Project preparatory consultants are designing all facilities following Australian and New Zealand technical standards with a design life of 50 years. Climate change and potential disaster risk impacts such as a predicted sea level rise, an increase in wave height, and an increase in the intensity and frequency of tropical cyclones and other risks from extreme weather events have been analyzed under the climate risk vulnerability assessment and are reflected in the preliminary and detailed design to address the climate change and disaster risks. The adaptation and disaster risk reduction measures recommended for incorporation concern the fixed breakwater structures, boat ramp, channel, and onshore facilities.¹⁴ The facilities are also being designed to minimize and/or reduce erosion and siltation. While structures made of concrete and steel do not require significant maintenance, the new channel dredged in Niutao is anticipated to require maintenance dredging. The overall project includes institutional strengthening for effective O&M of project assets to ensure the sustainability of the project facilities.

B. Economic and Financial

26. Following the same methodology and approach as that of the current project, the overall project applied a cost-effectiveness analysis to evaluate the economic viability and determined that the without-project scenario would negatively impact livelihoods because it would continue to make it difficult and under precarious conditions for the population to import basic goods.¹⁵

27. The cost-effectiveness analysis considered two options: (i) a wharf on the northeastern side of the island for small landing crafts and/or workboats; and (ii) a wharf at the same site but for large vessels, which is the most socially acceptable solution. The assessment compared the net present value of capital investment costs and travel cost improvements of both options. Not all benefits were incorporated, but the options can also be weighed by comparing the travel cost improvement. The assessment determined that the first option is more cost-effective in reducing travel times and vessel-operating costs.

28. ADB assessed the government's capacity to sustain project outputs and shipping services as adequate. This is not a revenue-generating project, and passenger and cargo revenues will not cover the O&M of the shipping service, including the project facilities. However, the MCT has been satisfactorily maintaining the ships and to date has avoided any major troubles during operation. The major incremental O&M costs associated with the project will be the maintenance dredging of a new channel after every major tropical cyclone, which has been occurring about every 10 years. Notwithstanding this, the government will allocate an annual budget for major maintenance to ensure that sufficient funds are available when a cyclone occurs. The financial analysis showed that the MCT will have sufficient revenues and budgetary allocations for such incremental major maintenance dredging, estimated at A\$100,000 per dredging, and other O&M requirements. Coupled with planned institutional strengthening activities, the overall project will establish satisfactory O&M arrangements covering financial, technical, and institutional aspects.

C. Governance

29. **Financial management.** The financial management arrangements under the current project will continue under the overall project. A project financial management assessment prepared for the MCT and the Ministry of Finance and Economic Development indicated that the

¹⁴ Climate Risk and Vulnerability Assessment (accessible from the list of linked documents in Appendix 2).

¹⁵ The project also has unquantifiable benefits such as avoidance of a potential large maritime accident (e.g., sinking of a passenger ferry, oil tanker, or fishing boats) with major economic, human, and environmental losses.

overall financial management risk is *moderate*. The financial management assessment of the current project identified the following key risks: (i) inadequate accounting and claiming of project funds, (ii) incomplete audits, (iii) delayed release of the government counterpart funds, and (iv) no internal audit function. The PMU has procured suitable accounting software and makes sure that separate bank accounts are maintained for the receipt of ADB funds. The remaining financial arrangements under the current project, including support from the Technical Assistance for the Institutional Strengthening of the Ministry of Finance and Economic Development, will continue.¹⁶

30. **Procurement capacity.** ADB completed a project procurement risk assessment for the MCT, the Central Procurement Unit, and other offices involved. Overall, the procurement risk is *moderate*. The establishment of the Central Procurement Unit in 2015 helped reduce the procurement risks under the project, and the ADB-financed technical assistance supported legislation and institutional strengthening. Procurement risk will remain moderate only with continued support of the PDA consultants and the construction supervision consultant. ADB staff will oversee procurement activities under the project to ensure good governance. The MCT and the PMU agreed to continue joint consultant recruitment with ADB, as officially requested by the PMU to ADB in May 2018, using ADB's Consultant Management System.

31. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty and Social

32. Improving and upgrading maritime infrastructure will give the outer island communities better access to essential services and economic opportunities. The safe and efficient movement of people and goods is expected to increase economic activities, particularly among small business owners, and reduce migration from the outer islands to Funafuti. Women and poor and vulnerable groups, such as people with disabilities and elderly people requiring medical attention, are expected to benefit the most because they are particularly vulnerable to accident risks associated with the lack of harbor facilities in the outer islands.

E. Gender

33. The overall project is classified *effective gender mainstreaming*, and a gender action plan (GAP) was prepared.¹⁷ Project design elements that ensure women's participation and access to project benefits include (i) women-friendly design of the maritime facilities; (ii) women's participation in the capacity building and training activities; (iii) equal employment opportunities for women during construction; (iv) gender awareness activities to target groups (women, elderly, disabled persons); and (v) business opportunities associated with the new harbor (canteen and craft items). The MCT and the PMU will implement and monitor GAP implementation, and will engage intermittent international and national social development and gender specialists to assist in implementing the GAP. MCT and the PMU will prepare and implement gender awareness activities on HIV/AIDS and other communicable diseases during construction.

¹⁶ ADB. 2012. *Technical Assistance to Tuvalu for the Institutional Strengthening of the Ministry of Finance and Economic Development*. Manila.

¹⁷ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

F. Safeguards

34. In compliance with ADB's Safeguard Policy Statement (2009), the overall project's safeguard categories are as follows.¹⁸

35. **Environment (category B).** Impacts are site-specific, few if any are irreversible, and mitigation and management measures can be readily designed and implemented for most impacts. In compliance with the Safeguard Policy Statement, the Government prepared an IEE for the components to be supported by additional financing. The impacts are limited to the footprint of the small-scale workboat harbor, including channel, and associated land-side facilities at Niutao. These can be mitigated and managed to acceptable levels, provided that the measures identified in the IEE's EMP are implemented. ADB anticipates short-term impacts during construction—e.g., dust, noise, and waste generated during dredging and civil works—as well as minor community and occupational health and safety risks. The Department of Environment within the Ministry of Foreign Affairs, Trade, Tourism, Environment, and Labor has adequate capacity to manage environmental issues with consultant support. In compliance with ADB's Public Communications Policy, ADB will disclose the IEE and subsequent monitoring reports on ADB's website. As in the current project, the contractor will prepare its construction environmental management plan (CEMP) based on the EMP and sediment plume modeling. The PMU will review and clear the CEMP, and the PMU (assisted by the PMCSC) and the Department of Environment will monitor compliance with, and effectiveness of, the CEMP.

36. **Involuntary resettlement (category C).** The construction of a small-scale harbor at Niutao will be on government or community lands. The associated facilities—such as the passenger terminal, water tanks, and a warehouse—will be built on private lands where, as in the current project, the landowners have expressed willingness to enter into lease agreements with the government. The government will comply with the negotiated settlement requirements under ADB's Safeguard Policy Statement and the country's established lease procedures. Failure to negotiate the lease will not result in compulsory acquisition. Consultations were held with the affected communities and other stakeholders, and will continue during implementation by the government.

37. **Indigenous peoples (category C).** The project will not have an impact on any distinct and vulnerable group of indigenous peoples. The MCT will implement the project in a culturally appropriate and participatory manner. All residents will equally benefit from the improved marine transportation facilities.

G. Risks and Mitigating Measures

38. The project risk is *moderate*. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁹ The integrated benefits and impacts are expected to outweigh the risk and costs.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
The limited number of government staff have insufficient experience in implementing large investment projects.	The project management and construction supervision consultant, the Joint World Bank–ADB PMU, and a consulting firm for project implementation support will assist the MCT.

¹⁸ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

¹⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigating Measures
Procurement capacity is insufficient.	A construction supervision consultant and ADB will support the Joint World Bank–ADB PMU.
Climate risk screening shows high climate change and disaster risk for the project.	ADB prepared a climate risk vulnerability assessment and included climate change adaptation and disaster risk reduction considerations in designs.
The lowest bid on the works contract is substantially higher than the cost estimate.	The MCT and PMU will hold pre-bidding meetings, provide geotechnical information, and visual information of the site using a drone.
Potential mismanagement of public funds, abuse of power by government officials, and conflict of interest are some fraud and corruption risks.	ADB will strengthen oversight during the project, which will include holding biweekly teleconferences and two review missions per year.
The financial management capacity of the government is insufficient.	The Joint World Bank–ADB PMU and the project supervision consultant for financial management will provide support.
Asset sustainability will require regular dredging, which may require specialized machinery.	The MCT will implement institutional strengthening and the operation and maintenance plan during 2018. The government set up a deferred maintenance fund to secure operation and maintenance resources.

ADB = Asian Development Bank, MCT = Ministry of Communication and Transport, PMU = project management unit.
Source: Asian Development Bank estimates.

IV. ASSURANCES

39. 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 PAM and project documents.

40. The government has agreed with ADB on certain covenants for the project, which are set forth in the grant agreement.

V. RECOMMENDATION

41. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the grant not exceeding \$15,420,000 to Tuvalu from ADB's Special Funds resources (Asian Development Fund) for the additional financing of the Outer Island Maritime Infrastructure Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
President

22 August 2018

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Overall project Small-scale harbors constructed in Nukulaelae and Niutao, and boat ramps in Nanumaga and Niutao rehabilitated</p> <p>Output 2 Current project 2. Capacity to operate and maintain harbors improved, involving the outer island communities, the MCT, and other national government agencies</p> <p>Overall project Unchanged</p> <p>Output 3 Current project 3. A transport sector master plan for future</p>	<p>1d. Women-friendly design incorporated in facilities, e.g., handrail on the jetty or a trading stall in the transit shed</p> <p>Overall project By 2022 1a. Small-scale harbors in Nukulaelae and Niutao constructed, including dredged channel and boat basin, trestle, boat ramp, and boat parking area (2016 baseline: 0)</p> <p>1b. A transit shed, a women-friendly passenger terminal (e.g., priority seating for pregnant women), and a crane truck provided in Nukulaelae and Niutao (2016 baseline: 0)</p> <p>1c. Boat ramps in Nanumaga and Niutao improved (2016 baseline: 0)</p> <p>1d. Women-friendly design incorporated in facilities, e.g., handrail on the jetty or a trading stall (sale area for women to sell handicrafts); multipurpose room with first aid facilities for the sick, elderly, and pregnant women provided in the transit shed; life buoy provided to increase the safety of transfers; appropriate lighting and safety and security measures installed at the harbor facility</p> <p>1e. Canteen constructed inside the passenger terminal managed by women's groups, e.g. Niutao Women's Council</p> <p>Current project 2a. O&M plan for the maritime infrastructure prepared and training implemented for the outer island communities, the MCT, and other national government agencies (2016 baseline: 0)</p> <p>2b. At least one O&M training will be conducted for island communities, including the <i>Kaupule</i> (local government council) officer-in-charge and at least 20% participation of female representatives</p> <p>Overall project Unchanged</p> <p>Current project 3a. A master plan for the transport sector with a view to promote fishery and tourism developed</p>	<p>1a–e. Project design and quarterly project progress report</p> <p>3a–d. Quarterly project progress report</p>	<p>The government's financial management capacity is limited</p> <p>High turnover of government staff who received training</p> <p>Stakeholders fail to reach a consensus for the</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks							
harbor development in the outer islands created, with a view to promote fisheries and tourism	<p>3b. Feasibility study for developing a small-scale harbor in Nanumaga, Niutao, and Nui prepared</p> <p>3c. Pre-feasibility study prepared for developing a harbor that can accommodate government ships in the outer islands</p> <p>3d. All community and public consultations will be participated in by at least 20% female representatives</p>		direction or priority of development.							
Overall project Unchanged	Overall project Unchanged									
Key Activities with Milestones										
1. Small-scale harbors constructed in Nukulaelae and Niutao, and boat ramps in Nanumaga and Niutao rehabilitated										
1.1 Procurement of works in Nukulaelae and Nanumaga conducted during January–May 2017, under PDA (completed); and procurement of works for Niutao harbor conducted during January–May 2019 (added)										
1.2 Small-scale harbor constructed in Nukulaelae and boat ramps in Nanumaga and Niutao rehabilitated during June 2017–December 2020, and Niutao harbor and Nukulaelae passenger terminal constructed during June 2019–December 2022 (changed)										
2. Capacity to operate and maintain harbors improved										
2.1 Consultant recruitment for Nukulaelae and maritime transport plan conducted during October 2016–February 2017 (completed), and consultant recruitment for Niutao harbor project management and construction supervision consultant conducted during October 2018–February 2019 (added)										
2.2 Consulting services for institutional strengthening engaged during June 2017–December 2020, and consultant services for Niutao harbor project management and construction supervision consultants engaged during June 2019–December 2022 (changed)										
3. A transport sector master plan for future harbor development in the outer islands created										
3.1 Consultants recruited during October 2016–February 2017 (completed)										
3.2 Consultant services for preparing a transport sector master plan engaged during June 2017–December 2020 (unchanged)										
Inputs										
<table border="1"> <thead> <tr> <th>Asian Development Bank (Grant)</th> </tr> </thead> <tbody> <tr> <td>\$11.3 million (current)</td> </tr> <tr> <td>\$15.4 million (additional)</td> </tr> <tr> <td>\$26.7 million (overall)</td> </tr> </tbody> </table>		Asian Development Bank (Grant)	\$11.3 million (current)	\$15.4 million (additional)	\$26.7 million (overall)	<table border="1"> <thead> <tr> <th>Global Environment Facility (Grant)</th> </tr> </thead> <tbody> <tr> <td>\$0.5 million (current)</td> </tr> <tr> <td>\$0.5 million (overall)</td> </tr> </tbody> </table>		Global Environment Facility (Grant)	\$0.5 million (current)	\$0.5 million (overall)
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Government										
\$1.5 million (current)										
\$1.5 million (additional)										
\$3.0 million (overall)										
Assumptions for Partner Financing										
Current project										
Not applicable										
Overall project										
Unchanged										

MCT = Ministry of Communication and Transport, O&M = operation and maintenance, PDA = project design advance.

^a Defined by project.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=48484-004-2>

1. Grant Agreement
2. Sector Assessment (Summary): Transport (Water Transport [Nonurban])
3. Project Administration Manual
4. Summary of Project Performance
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan: Overall Project
11. Initial Environmental Examination
12. Risk Assessment and Risk Management Plan

Supplementary Documents

13. Social Due Diligence Report
14. Climate Risk and Vulnerability Assessment
15. Procurement Risk Assessment
16. Financial Management Assessment
17. Communication and Participation Plan
18. Economic and Financial Analysis: Supplementary Appendix