



Report and Recommendation of the President to the Board of Directors

INTERNAL

Project Number: 49453-004
November 2022

Proposed Grant and Administration of Grant for Additional Financing Republic of Kiribati: South Tarawa Water Supply Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 27 October 2022)

Currency unit	–	Australian dollar/s (A\$)
A\$1.00	=	\$0.650
\$1.00	=	A\$1.539

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
DMC	–	developing member country
FMA	–	financial management assessment
GCF	–	Green Climate Fund
MFED	–	Ministry of Finance and Economic Development
MISE	–	Ministry of Infrastructure and Sustainable Energy
PAM	–	project administration manual
PUB	–	Public Utilities Board
WASH	–	water, sanitation, and hygiene

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: 49453-004	
Project Name	South Tarawa Water Supply Project (Additional Financing)	Department/Division	PARD/PAUW
Country	Kiribati	Executing Agency	Ministry of Finance and Economic Development
Recipient	Republic of Kiribati		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=49453-004-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=49453-004-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban water supply		20.000
		Total	20.000
3. Operational Priorities		Climate Change Information	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	High
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP4: Making cities more livable			
		ADB Financing	
		Adaptation (\$ million)	9.000
		Mitigation (\$ million)	1.100
		Cofinancing	
		Adaptation (\$ million)	2.064
		Mitigation (\$ million)	0.252
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.5		Effective gender mainstreaming (EGM)	✓
SDG 5.a			
SDG 6.1			
SDG 13.a			
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Low		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		20.000	
Sovereign Project grant: Asian Development Fund		20.000	
Cofinancing		4.587	
GEF-Least Developed Countries Fund - Project grant (Full ADB Administration)		4.587	
Counterpart		3.606	
Government		3.606	
Total		28.193	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to the Republic of Kiribati for the additional financing of the South Tarawa Water Supply Project.¹ The report also describes the proposed administration of a grant to be provided by the Global Environment Facility (GEF) for the additional financing of the South Tarawa Water Supply Project, and if the Board approves the proposed grant, I, acting under the authority delegated to me by the Board, approve the administration of the grant.

2. The ongoing project will address the factors causing the high incidence of waterborne diseases in South Tarawa by delivering and managing new and rehabilitated climate-resilient water supply assets and improved hygiene practices. The additional financing will address the project cost overrun caused by cost escalation since the onset of the coronavirus disease (COVID-19) pandemic in March 2020. The project scope will not be expanded. However, output 4 (project implementation is managed efficiently and effectively) of the original project will be removed from the ongoing project to align the project design with ADB's current Design and Monitoring Framework Guidelines, and its activities and costs will be redistributed among the continuing outputs.²

II. THE PROJECT

A. Rationale

3. **Ongoing project.** The ongoing project is in South Tarawa, the capital and largest urban center in Kiribati with a population exceeding 63,000 people.³ The project is aligned with the following impact: health and climate change resilience of South Tarawa's population improved.⁴ The project will have the following outcome: access of South Tarawa's population to safe, climate-resilient water supplies increased.⁵ The ongoing project has four outputs: (i) climate-resilient and low-carbon water supply infrastructure, (ii) capacity of Ministry of Infrastructure and Sustainable Energy (MISE) and Public Utilities Board (PUB) to effectively manage water supply infrastructure increased, (iii) awareness of WASH and climate change issues raised, and (iv) project implementation is managed efficiently and effectively.

4. On 30 August 2019, the Asian Development Bank (ADB) Board of Directors approved financing for the project, comprising a \$13.00 million grant from ADB's Special Fund resources (Asian Development Fund) and the administration of a \$28.63 million grant from the Green Climate Fund (GCF). The World Bank is jointly cofinancing the project with a \$12.96 million grant (administered by the World Bank). The Government of Kiribati counterpart financing totals \$7.24 million equivalent and comprises a cash contribution of \$1.49 million and an in-kind contribution of \$5.75 million. The project executing agency is the Ministry of Finance and Economic Development (MFED), and the implementing agency is MISE. The grant agreements were signed

¹ ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant Republic of Kiribati: South Tarawa Water Supply Project*. Manila.

² ADB. 2020. *Guidelines for Preparing and Using a Design and Monitoring Framework*. Manila; and ADB. 2016. *Guidelines for Preparing and Using a Design and Monitoring Framework*. Manila (para. 14).

³ Kiribati National Statistics Office. 2021. *2020 Population and Housing General Report and Results*. Tarawa.

⁴ Government of Kiribati. 2020. *Kiribati Development Plan 2020–2023*. Tarawa. The project supports the following key priority areas of the plan: 1 (harnessing our human wealth), 2 (growing our economic wealth and leaving no one behind), 3 (improving our health), 4 (protecting our environment and strengthening resilience), 5 (good governance), and 6 (developing our infrastructure).

⁵ The revised design and monitoring framework is in Appendix 1.

on 6 November 2020 and declared effective on 14 December 2020.⁶ The project is scheduled to close on 31 December 2027.

5. **Project performance.** As of 2 November 2022, contract awards were \$19.3 million (46.1%) and disbursements amounted to \$1.0 million (2.4%) from both the Asian Development Fund and Green Climate Fund grants. Physical progress is assessed at 16% against the elapsed time of 26%. The government is complying with the grant covenants and assurances and the project's safeguard policy requirements. No safeguard compliance issues have arisen. The project's performance throughout 2021 and for the first three quarters of 2022 was rated *on track*.

6. The ongoing project, while delayed because of the COVID-19 pandemic, is progressing well. Output 1: climate resilient and low-carbon water supply infrastructure constructed will be achieved through three civil works packages: (i) package GDW-1: two bore fields and two desalination plants in South Tarawa; (ii) package GDW-2: water supply networks and associated works; and (iii) package GDW-3: design, supply, install, test, commission, operate, and maintain solar photovoltaic generation and affiliated facilities in South Tarawa. The bidding for package GDW-1 has been completed and the contract was awarded on 21 June 2022. The two desalination plants are expected to be commissioned in 2023 and 2024. Package GDW-2 will be bid out in December 2022. The bidding for package GDW-3 has been completed, and the contract was awarded on 30 September 2022 and is scheduled to be commissioned in October 2023.⁷

7. Output 2: capacity of MISE and PUB to effectively manage water supply infrastructure increased will be delivered through the operations component of packages package GDW-1 and package GDW-2. Package GDW-2 includes provisions for recruiting and training national personnel to cover all aspects of the South Tarawa water supply operations to ensure the sustainable operation of PUB at the end of the contract.⁸

8. Output 3: awareness of WASH and climate change issues raised was designed to complement and reinforce previous and ongoing water, sanitation, and hygiene (WASH) initiatives in South Tarawa and will be delivered in three parts. Part A (water is life) will foster water conservation and vigilance in caring for the water supply assets and minimizing nonrevenue water and will be delivered under package GDW-2. Part B (community partnership) will focus on hygiene awareness and hygiene behavioral change to improve community health; it is being delivered by an international nongovernment organization that was engaged in April 2021. Part C (water leadership) will create the enabling environment for the sustainable delivery of potable water supply services and management of natural resources and will train MISE and PUB staff to be Kiribati water sector leaders. Consultants will be recruited to deliver part C in May 2023.

9. The executing and implementing agencies are complying with ADB's fiduciary and safeguard policy requirements. Further details of compliance with ADB's Safeguard Policy Statement (2009) and management of risks are provided in the summary of project performance.⁹

⁶ The signing of the grant agreements was delayed because of the protracted negotiations of the ADB–GCF Funded Activity Agreement, which was signed on 21 September 2020.

⁷ The package is being jointly procured with a 4.5-megawatt solar photovoltaic array and 13-megawatt-hour battery storage financed under ADB. 2020. *Pacific Renewable Investment Facility to the Republic of Kiribati for the South Tarawa Renewable Energy Project*. Manila.

⁸ PUB is a state-owned enterprise under the State-Owned Enterprises Act (2013) that is mandated to provide electricity, water supply, and sewerage services in South Tarawa.

⁹ Summary of Project Performance (accessible from the list of linked documents in Appendix 2).

10. **Cost overruns.** The project, however, like many projects in the Pacific is facing major cost overruns because the price of goods and civil works have increased substantially since its approval in 2019. Further details of the project cost overrun are provided in the summary of project performance (footnote 9). The bid price for the project's desalination plants package (package GDW-1) was 67% higher than the engineer's estimate made in 2019. The updated cost estimates for the water supply networks (package GDW-2) is \$18.5 million higher than estimated in 2019. Such price escalation is attributed to international inflation because of the COVID-19 pandemic and is evident in many of ADB's Pacific developing member countries (DMCs).¹⁰

11. The updated project cost estimate is \$90.0 million, which is \$28.2 million more than the approved project financing.¹¹ Considering the ongoing project's works and its critical importance for accessing safe drinking water and improving climate resilience in South Tarawa, the benefits of financing the cost overrun outweigh those of reducing the scope within the original financing. The government has concluded that a reduction in scope would seriously compromise the project outcome and has requested additional financing to address the cost overrun.

12. **Eligibility criteria for additional financing.** The additional financing meets the eligibility criteria for additional financing: (i) the overall project remains technically feasible and is expected to be economically and financially viable; (ii) the project continues to be a high priority of the government; (iii) the project is aligned with six of the government's Kiribati Development Plan 2020–2023 key priority areas (footnote 4); and (iv) the project is aligned with ADB's Strategy 2030 and its operational priorities of making cities more livable, tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability, and accelerating progress in gender equality. The project is also aligned with the second strategic pillar of ADB's Pacific Approach, 2021–2025 to build resilience to climate change.¹² The project supports key principals of ADB's Water for All Policy to improve and expand the delivery of water services and to foster the conservation of water and increase system efficiencies.¹³ The design of the additional financing project has been guided by the finding of ADB's Independent Evaluation Department's Evaluation of ADB's Water Sector Policy and Program, 2011–2021 that state that the predictions of climate change impacts have been underestimated, affecting the implementation of water-related adaptation and resilience-building measures.¹⁴ Kiribati is experiencing a major drought, and the government has declared a state of emergency on 11 June 2022 and was still in place in November 2022. The project will build the long-term climate resilience of South Tarawa's water supply to droughts.

B. Project Description

13. The additional financing will help meet the cost overruns and financing gaps incurred because of the effects of the COVID-19 pandemic. The impact, outcome, and outputs of the ongoing project as described in paragraph 3 will remain unchanged except for output 4 (project implementation is managed efficiently and effectively), which will be removed from the project to align the project design with ADB's current Design and Monitoring Framework Guidelines

¹⁰ The government has analyzed the reasons for the high bid cost for the desalination plants and has concluded that the COVID-19 pandemic has greatly affected the ability and the cost of companies to mobilize the resources required and to procure and ship the plant and equipment required for durable desalination plants in remote locations in the Pacific.

¹¹ The revised and appraisal cost estimates include taxes and duties and contingencies.

¹² ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila; and ADB. 2021. *Pacific Approach, 2021–2025*. Manila.

¹³ ADB. 2001. *Water for All Policy*. Manila.

¹⁴ ADB. 2022. *Integrated Water Management: Evaluation of ADB's Water Sector Policy and Program, 2011–2021*. Manila.

(footnote 2) and costs will be redistributed among the continuing outputs. This output relates to project management, which is considered an input rather than an output under the guidelines. The project implementation and management activities and budget for this output will be reallocated to the three outputs.

C. Value Added by ADB

14. ADB's engagement in Kiribati's water supply and sanitation operations adds value in several areas, including (i) ensuring the benefits of the ongoing project are delivered, (ii) bringing in extensive Pacific DMC experience in water and sanitation infrastructure investments and associated technical assistance, (iii) providing best practices for water utilities through institutional strengthening and capacity building, (iv) expanding services in low-income and informal areas, and (v) helping the government manage the project's environmental and social safeguard issues. The project design reflects lessons from the ongoing project and from previous ADB and development partner operations in water supply and sanitation in Kiribati and Pacific DMCs. Key lessons include (i) building adequate financial and technical capacity is essential for the sustainable delivery of water supply and sewerage services, and (ii) urban service demand and willingness to pay must be ensured.

D. Summary Cost Estimates and Financing Plan

15. The overall project is estimated to cost \$90.0 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹⁵

Table 1: Summary Cost Estimates
(\$ million)

Item	Current Amount ^{a, b}	Additional Financing ^b	Total ^c
A. Base Cost^c			
1. Output 1: climate-resilient and low-carbon water supply infrastructure constructed	40.73	25.54	66.27
2. Output 2: capacity of MISE and PUB to effectively manage water supply infrastructure increased	11.48	4.94	16.42
3. Output 3: awareness of WASH and climate change issues raised	1.41	0.10	1.51
4. Output 4: project implementation is efficiently and effectively managed ^d	2.39	-2.39	0.00
Subtotal (A)	56.01	28.19	84.20
B. Contingencies^e	5.82	0.00	5.82
Total (A+B)	61.83	28.19	90.02

MISE = Ministry of Infrastructure and Sustainable Energy; PUB = Public Utilities Board; WASH = water, sanitation, and hygiene.

^a Refers to the original amount.

^b Includes taxes and duties of \$9.36 million (\$5.75 million for the ongoing project and \$3.61 million for the additional financing). Taxes and duties will be exempted by the government.

^c In mid-2022 prices as of 8 September 2022.

^d Output 4 has been removed from the project and its costs redistributed to outputs 1, 2, and 3.

^e Physical and price contingencies and a provision for exchange rate fluctuation are included.

Source: Asian Development Bank estimates.

16. The government has requested a grant not exceeding \$20 million from ADB's Special Funds resources (Asian Development Fund) to help finance the project. The GEF will provide a

¹⁵ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

grant of \$4,587,156 from its Least Developed Countries Fund that will be administered by ADB to help finance package GDW-2. The government will finance taxes and duties estimated at \$9.36 million through exemptions. The summary finance plan is in Table 2.¹⁶

Table 2: Summary Finance 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						
Special Funds resources	11.39	18.4	20.00	70.9	31.39	34.9
ADF (grant) ^a						
ADF DRR (grant) ^b	1.61	2.6			1.61	1.8
GEF (grant) ^c			4.59	16.3	4.59	5.1
GCF (grant) ^c	28.63	46.3			28.63	31.8
World Bank (grant)	12.96	21.0			12.96	14.4
Government of Kiribati ^d	7.24	11.7	3.61	12.8	10.85	12.0
Total	61.83	100.0	28.19	100.0	90.02	100.0

ADF = Asian Development Fund, DRR = disaster risk reduction, GCF = Green Climate Fund, GEF = Global Environment Facility.

^a Refers to the original amount and excludes a \$2 million project design advance approved in 2017.

^b The ADF DRR grant will finance part of the desalination plant.

^c Administered by the Asian Development Bank.

^d Includes taxes and duties funded through exemptions.

Source: Asian Development Bank estimates.

17. For the proposed additional financing, climate adaptation financing is estimated to cost \$11.06 million and the climate mitigation financing to cost \$1.35 million following the methodology for calculating climate change financing presented in the climate change assessment for the ongoing project. ADB will contribute \$9.00 million towards the climate adaptation costs and \$1.10 million towards the climate mitigation costs. The balance of the climate financing will be sourced from the GEF grant. The construction of the desalination plants will address water shortages because of climate change impacts, including more frequent and severe droughts and reduced groundwater reserves because of rising sea level and seawater inundation of groundwater catchments. Details are in the PAM (footnote 13).

E. Implementation Arrangements

18. MFED will remain the executing agency, and MISE will remain the implementing agency. PUB will also be an implementing agency as it will become responsible for the operation and maintenance of infrastructure delivered by the project and the capacity to implement investments has strengthened since 2019 when the ongoing project was approved. The project management unit, established within MISE, will remain responsible for the day-to-day project implementation, including all procurement (with ADB oversight). Per the arrangements for the original project, universal procurement will continue to apply under the ongoing project because the ongoing project will include financing from the World Bank, GCF, and GEF.¹⁷ Project implementation consultants will continue to support the unit. The closing date for the additional financing grant is 31 December 2027 and is aligned with the closing date for the ongoing project grants. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 13).

¹⁶ The cost sharing arrangements for the ongoing ADB, GCF, and World Bank grants will be amended following the approval of the additional financing. Details are in the PAM (accessible from the list of linked documents in Appendix 2).

¹⁷ ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	December 2022–June 2027		
Estimated completion date	30 June 2027		
Estimated grant closing date	31 December 2027		
Management			
(i) Oversight body	National Infrastructure Development Steering Committee with the Secretary to Cabinet as chair, and permanent secretaries of MISE, MFED, MHMS, MELAD, and the Office of the President as members.		
(ii) Executing agency	MFED		
(iii) Key implementing agencies	MISE, PUB		
(iv) Implementation unit	Project management unit, 7 staff		
Procurement	Open competitive bidding (internationally advertised)	Package GDW-2 2 contracts	\$39.0 million
Advance contracting	Advance contracting of water supply network upgrades contracts		
Disbursement	The ADB and Global Environment Facility grant proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2022, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank; MELAD = Ministry of Environment, Lands and Agricultural Development; MFED = Ministry of Finance and Economic Development; MHMS = Ministry of Health and Medical Services; MISE = Ministry of Infrastructure and Sustainable Energy; PUB = Public Utilities Board.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Economic and Financial Viability

19. The project's financial and economic analyses were updated to reflect the additional financing. The updated economic internal rate of return for the overall project is 10.7%, and the updated economic net present value is \$33.4 million. The sensitivity analysis suggests that the project remains robust across most adverse scenarios. It is most sensitive to changes in benefits, but modeled benefits are considered conservative. Since the project does not intend to recover the full cost of service, a financial viability assessment was not performed. Commercial, industrial, and government customers are likely to immediately connect to the rehabilitated network to avoid the cost of water tanker deliveries. However, households have not paid for water since 2013, and customers' willingness to pay has been eroded by poor service levels. The project will involve significant community engagement and advocacy as well as better service levels, which will build household willingness to pay for PUB water services. PUB has developed water tariffs, which are expected to generate incremental revenue for PUB, that will apply on completion of the project. The financial management assessment of MFED and MISE was updated and concluded that the pre-mitigation financial management risk was *substantial*. A financial management action plan has been prepared and, when implemented, will reduce the financial management risk to *moderate*.¹⁸

B. Sustainability

20. The project will support the outsourcing of operation, maintenance, and management of the South Tarawa's water supply system. The desalination plants will be delivered under design-build-operate contracts with an operation and maintenance phase of up to 5 years and may be extended. The private sector will operate, maintain, and manage water supply networks for 5 years through a service contract. Contractors will be required to recruit and train local personnel

¹⁸ Financial Analysis and Economic Analysis (accessible from the list of linked documents in Appendix 2).

in all facets of water supply delivery. Local staff engaged under the service contract will be absorbed into PUB, which is responsible for the delivery of electricity, water, and sewerage services in South Tarawa, at the end of the service contract.

C. Governance

21. The project-related governance risks were reviewed and updated following ADB's procurement and financial management requirements. The overall risk was assessed *moderate* (i.e., likely to occur) and will have low impact if it occurs. Key risks are mitigated through (i) engagement of a qualified and experienced project accountant, who was part of the project management unit and based in the Kiribati Fiduciary Services Unit and is responsible for project disbursements, accounting, financial reporting, and record keeping; (ii) an action plan to mitigate the risks, which is detailed in the PAM and is regularly reviewed and updated to ensure that the project responds to risks; (iii) financial oversight of the executing and implementing agencies by the Kiribati Fiduciary Services Unit; and (iv) provision of training to the executing and implementing agencies by ADB's financial management officer during missions, as needed.¹⁹

22. Kiribati has legislative frameworks to prevent corruption including the Penal Code 1965 (last amended in 2001), the Leaders Code of Conduct Act 2016, the Proceeds of Crime Act 2003, and the Procurement Act 2019. Surveys by Transparency International in 2021 indicate 55% of survey respondents in Kiribati consider corruption in the government to be a big problem (Pacific average: 61%) and 53% of Kiribati respondents consider corruption in the business sector to be a big problem (Pacific average: 56%).²⁰ On this basis, the project corruption risk is assessed *medium*. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, MFED, and MISE. The specific policy requirements and supplementary measures are described in the PAM (footnote 13).

D. Poverty, Social, and Gender

23. Residents of South Tarawa suffer a very high incidence of gastroenteritis and other waterborne diseases.²¹ The project will increase access to safe water and sanitation and strengthen public awareness of hygiene which will reduce waterborne diseases. The additional financing will strengthen the sustainability of water and sanitation services in South Tarawa and ensure that all South Tarawa households have access to safe water and improved sanitation. The project is classified *effective gender mainstreaming*, and a gender action plan has been prepared. Some of the gender targets to be implemented by the project involve establishing new water supply connections in project areas, which will benefit 100% of households headed by women; providing quarterly financial literacy training to PUB customers (75% of them women) in 250 communities to improve their ability to pay for water; ensuring that at least 50% of community mobilizers are women; organizing monthly WASH awareness raising seminars for students, of whom at least 50% are girls; making sure that at least 20% of new recruits to MISE's Water and Sanitation Engineering Unit and PUB's Water Engineering Department are women, and that at

¹⁹ Key risks and mitigation measures are in Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

²⁰ Transparency International. 2021. *Global Corruption Barometer, Pacific 2021. Citizens' Views and Experiences of Corruption*. Berlin.

²¹ During 2014–2016, the Ministry of Health reported 80,000 cases of illnesses related to poor WASH coverage in South Tarawa, including diarrhea, dysentery, conjunctivitis, and fungal infections such as ringworm. In 2016, about 10% of recorded deaths of children under 5 years of age were attributed to diarrhea and gastroenteritis of presumed infectious origin and 3% to volume depletion, which can be triggered by dehydration as a result of vomiting and/or diarrhea commonly associated with gastroenteritis.

least 20% of PUB and MISE staff trained under the project are women; and involving at least 10% of women in community work during civil works and/or employing them during operation and maintenance.

E. Safeguards

24. The safeguard categorizations for the additional financing are environment (C), involuntary resettlement (C), and indigenous peoples (C) because the scope of the project remains unchanged. Initial environmental assessments and resettlement plans have been prepared and approved by ADB and the government for all project civil works components.

F. Summary of Risk Assessment and Risk Management Plan

25. The financial management assessment (FMA) was initially prepared in 2018 as part of due diligence for the South Tarawa Water Supply Project and was updated in June 2022. The FMA assessed the financial management capacity of MFED and MISE, including funds-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements. The 2018 FMA concluded that financial management arrangements within MFED and MISE were reasonable and presented *moderate* risk to the project during implementation. Following the June 2022 FMA review, the risk rating of some items in the financial management, internal control, and risk assessment has been reassessed from *low* to *moderate*, and the overall risk rating reassessed as *substantial*. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan (footnote 17).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
The absence of an asset management policy at the state level will affect the sustainability of new investments.	PUB will develop an asset management policy to ensure that investments will have adequate repairs and maintenance and are sustainable.
Low in-house capacity for project financial management	All project financial matters are managed by a qualified and experienced project accountant based in the Kiribati Fiduciary Services Unit (recruited in July 2022).

Source: Asian Development Bank.

IV. ASSURANCES

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

V. RECOMMENDATION

27. 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 \$20,000,000 to the Republic of Kiribati from ADB's Special Funds resources (Asian Development Fund) for the additional financing of the South Tarawa Water Supply Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Masatsugu Asakawa
President

18 November 2022

REVISED DESIGN AND MONITORING FRAMEWORK

The revised design and monitoring framework strikes out content for deletion and underlines content to be added.

Impact the Project is Aligned with			
Health ^a and climate change resilience ^b of South Tarawa's population improved			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Outcome Access of South Tarawa's population to safe, climate-resilient water supplies increased ^c	a. By 2027 <u>8</u> , at least 95% of South Tarawa's population (51.5% of them women) has access to safe, climate-resilient water supplies (2019 baseline: <10%). <u>(OP1.2; OP1.3.1; OP2.5.2; OP3.2.5)</u>	a. PUB reports	R: The government does not allocate sufficient funds for O&M after the project.
Outputs 1. Climate-resilient and low-carbon water supply infrastructure <u>constructed</u> . 2. Capacity of MISE and PUB to effectively manage water supply infrastructure increased	1a. By 2023 <u>5</u> , 64,000 cubic meters/day desalination capacity is installed (2019 baseline: 0). <u>(OP3.1.4; OP4.1)</u> 1b. By 2024 <u>2026</u> , >95% of households have a piped water connection, including 100% of households headed by women (2017 baseline: 62% of households have a piped water connection). ^d <u>(OP2.1.4; OP4.1.2)</u> 1c. By 2024 <u>2026</u> , 473 <u>180</u> kilometers of water supply pipes are installed or upgraded (2019 baseline: 0). <u>(OP4.1.2)</u> 1d. By 2022 , <u>2024</u> , additional 2,500 kilowatts solar capacity is installed (2019 baseline: 1,630 kilowatts capacity). <u>(OP3.1.4)</u> 2a. By 2024, a private operator supporting PUB operations is in place and operational (2019 baseline: Not applicable). <u>(OP4.1.1)</u>	1a. PUB's design, build, operate reports 1b. PUB reports 1c. PUB reports 1d. PUB reports 2a. PUB reports	R: Extreme weather events outside of climate change projections occur. R: Lack of private sector interest or lack of suitable candidates to participate in the project.

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
3. Awareness of WASH and climate change issues raised	2b. By 2027, nonrevenue water declines to 25% (2017 baseline: 89%). ^d <u>(OP4.1.1)</u>	2b. PUB reports	
	2c. By 2027, PUB achieves 95% collection ratio (2017 baseline: 70%). ^d <u>(OP4.2.1)</u>	2c. PUB reports	
	2d. By 2027, MISE and PUB staff report positive outcomes from exposure to training and/or monitoring programs. At least 20% of program attendees are women (2019 baseline: 0). <u>(OP4.1.1)</u>	2d. Post-training and/or mentoring program participant survey responses reported in MISE and PUB reports	
	2e. At least 20% of new technical recruits to MISE's Water and Sanitation Engineering Unit and PUB's Water Engineering Department are women (2019 baseline: 9% female staff). ^e <u>(OP2.1)</u>	2e. MISE and PUB reports	
	3a. By 2027, >95% of the population (52% of them women) is reached directly or indirectly by WASH and climate change awareness programs, which use gender-sensitive materials (2019 baseline: <10%). <u>(OP3.2.2)</u>	3a. PMU reports	
	3b. PUB customers (75% of them women) in 250 communities report improved financial literacy (2019 baseline: Not applicable).	3b. PMU reports	
	3c. At least 50% of community mobilizers contracted through the WASH and climate change program are women (2019 baseline: 0).	3c. PMU reports	
	3d. By 2027, 1,000 people have visited the WASH and climate change visitor education center (2019 baseline: 0).	3d. PMU reports	

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
4. Project implementation is managed efficiently and effectively	<p>4a. By 2027, PMU meets disbursement targets (2019 baseline: 0).</p> <p>4b. PMU delivers project progress and semiannual gender action plan reports, including sex-disaggregated data (2019 baseline: Not applicable).</p> <p>4c. Using a variety of social science techniques, qualitative data is collected over the life of the project in 4–6 project areas to measure positive impacts on women's daily lives resulting from 24/7 access to safe water. These would include baseline, mid and end-of project surveys. (2019 baseline: Not applicable).</p>	<p>4a. PMU reports</p> <p>4b. PMU reports</p> <p>4c. PMU reports</p>	
<p>Key Activities with Milestones</p> <p>1. Climate-resilient and low-carbon water supply infrastructure constructed</p> <p>1.1 Prepare bid documents for main works the <u>desalination package (Q3 2019Q2 2021 complete)</u>.</p> <p>1.2 Prepare bid documents for the solar photovoltaic system package (Q3 2019Q3 2021 complete).</p> <p>1.3 Award main works desalination contracts (Q2 20202022 complete).</p> <p>1.4 Award main works solar photovoltaic system contracts (Q23 20202022 complete).</p> <p>1.5 Award main works water supply network upgrades contracts (Q1 20202023).</p> <p>1.6 Commission the Betio desalination plant (Q23 2022023).</p> <p>1.7 <u>Commission the McKenzie desalination system (Q1 2024)</u>.</p> <p>1.8 <u>Commission the solar photovoltaic system (Q2 2023)</u></p> <p>1.9 <u>Sequential commission water supply network upgrades (Q3 2024–Q2 2027)</u></p> <p>1.10 Commission desalination plant and water supply network (Q2 2022).</p> <p>2. Capacity of MISE and PUB to effectively manage water supply infrastructure increased</p> <p>2.1 Engage project implementation assistance firm (Q1 20202021 complete).</p> <p>2.2 Commence 5-year O&M and capacity support to PUB (Q3 20222024).</p> <p>2.3 Complete 5-year O&M and capacity support to PUB (Q2 2027).</p> <p>2.4 Complete vocational education program (Q4 20242026).</p> <p>3. Awareness of WASH and climate change issues raised</p> <p>3.1 Complete request for proposal for WASH program (Q34 20192020 complete).</p> <p>3.2 Award contract to nongovernment organization (Q1 20202021 complete).</p> <p>3.3 Engage civil society organizations in community outreach (Q44 20202021 complete).</p> <p>3.4 Complete WASH program (Q4 20242025).</p> <p>4. Project implementation is managed efficiently and effectively</p> <p>4.1 Establish PMU (done in August 2018)</p> <p>4.2 PMU supports midterm review (Q23 20222023).</p> <p>4.3 PMU supports project completion mission (Q2 2027).</p> <p>Project Management Activities</p> <p>Establish PMU (done, August 2018 <u>complete</u>).</p> <p>Mobilize project design advance firm (done, January 2019 <u>complete</u>).</p> <p>Complete bidding documents (Q3 2019 2021 onwards).</p> <p>Award contract for main works packages (Q2 20202022 onwards).</p> <p>Complete all civil works complete (Q2 20232027).</p> <p>Monitoring and evaluation and contract management until Q2 2027.</p> <p>Inputs</p> <p>Asian Development Bank:</p>			

<p><u>Ongoing: \$13.0 million (grant)</u> <u>Additional financing: \$20.0 million (grant)</u> Green Climate Fund: \$28.63 million (grant) Global Environment Facility: \$4.59 million (grant) Government of Kiribati: \$7.24 million, including \$5.75 million in taxes and duties exemption <u>Ongoing: \$7.24 million,</u> <u>Additional financing: \$3.61 million.</u> World Bank: \$12.96 million (grant)</p>
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MISE = Ministry of Infrastructure and Sustainable Energy; O&M = operation and maintenance; OP = operational priority; PMU = project management unit; PUB = Public Utilities Board; Q = quarter; R = risk; WASH = water, sanitation, and hygiene.

- ^a As outlined in the Kiribati Development Plan 2016–2019, increased water and sanitation coverage is to achieve the outcome under key priority area 6 (infrastructure) of improved infrastructure to facilitate economic growth; poverty reduction; trade; industrialization; health for economic, technological and socio transformation.
- ^b Kiribati Joint Implementation Plan for Climate Change and Disaster Risk Management 2014–2023. In particular, the project is aligned with these major strategies: increasing water and food security with integrated and sector-specific approaches and promoting healthy and resilient ecosystems; promoting sound and reliable infrastructure development and land management; promoting the use of sustainable, renewable sources of energy and energy efficiency; and delivering appropriate education, training and awareness programs.
- ^c “Access” implies sufficient water to meet domestic needs is reliably available close to home; “safe” water is always free from pathogens and elevated levels of toxic chemicals. [Safely managed drinking-water \(who.int\)](#).
- ^d Based on 2017 data obtained from the International Benchmarking Network for Water and Sanitation Utilities. <https://www.ib-net.org/> (accessed 12 March 2019). The baseline will be revisited during implementation upon availability of updated data.
- ^e Based on 2018 data. Seven women out of 81 engineering staff from MISE and PUB (6 out of the Water and Sanitation Engineering Unit’s 34 technical staff, 1 out of the PUB Water Engineering Department’s 47 staff).

Contribution to Strategy 2030 Operational Priorities

The expected values and methodological details for all OP indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49453-004-2>

1. Grant Agreement: Asian Development Fund
2. Grant Agreement: Global Environment Facility
3. Project Administration Manual
4. Summary of Project Performance
5. Financial Analysis
6. Economic Analysis
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. Gender Action Plan
10. Contribution to Strategy 2030 Operational Priorities

Supplementary Documents

11. Updated Financial Management Assessment
12. Approved Report and Recommendation of the President for the Original Project