



# Report and Recommendation of the President to the Board of Directors

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Project Number: 40263  
November 2008

## Proposed Asian Development Fund Grant and Administration of Grant Solomon Islands: Domestic Maritime Support (Sector) Project

## CURRENCY EQUIVALENTS

(as of 1 October 2008)

Currency Unit	–	Solomon Islands dollar (SI\$)
SI\$1.00	=	\$0.1298
\$1.00	=	SI\$7.7037

## ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	Executing Agency
EARP	–	environmental assessment review procedure
EC	–	European Commission
EMP	–	environmental management plan
FSS	–	franchise shipping scheme
IEE	–	initial environmental examination
MID	–	Ministry of Infrastructure Development
NTF	–	National Transport Fund
NTP	–	National Transport Plan
PDMC	–	Pacific developing member country
PMU	–	project management unit
RRP	–	report and recommendation of the President
SIMSA	–	Solomon Islands Maritime Safety Administration
SIPA	–	Solomon Islands Port Authority
SITNIS	–	Solomon Islands Transport Network Information System
TA	–	technical assistance

## NOTES

- (i) The fiscal year of the Government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

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## GRANT AND PROJECT SUMMARY

<b>Recipient</b>	Solomon Islands
<b>Classification</b>	Targeting classification: Targeted intervention—geographical poverty issues Sector: Transport and communications Subsector: Ports, waterways, and shipping Theme: Sustainable economic growth, private sector development Subthemes: Fostering physical infrastructure development, policy/institutional/legal/regulatory reforms
<b>Environment Assessment</b>	Category B. Initial environmental examinations (IEEs) for core subprojects were prepared. An environmental assessment review procedure was prepared to guide subproject selection and environmental assessment during implementation.
<b>Project Description</b>	The Domestic Maritime Support (Sector) Project will improve the safety and efficiency of domestic maritime transport services through (i) civil works to construct about 12 rural wharves, and (ii) establishment of a franchise shipping scheme (FSS) to support service provision to remote communities using an output-based approach.
<b>Rationale</b>	<p>Solomon Islands is still emerging from several years of conflict and is one of the least developed of the Asian Development Bank's (ADB's) Pacific developing member countries. The country is ranked second-lowest among Pacific island countries in the United Nations' Human Development Index, and is unlikely to meet most of the Millennium Development Goals by 2015.</p> <p>As a poorly developed and weakly performing nation, Solomon Islands faces many challenges. The socioeconomic situation is characterized by low per capita growth, high unemployment, and one of the highest population growth rates in the world. Revitalization of the rural economy is thus a key strategy in reducing poverty.</p> <p>The economy is based on primary commodities from agriculture, forestry, and fishing. Most production takes place in remote rural areas without adequate transport infrastructure and services. To connect the six main islands and smaller island groups in order to facilitate economic and social development, maritime transport is vital.</p> <p>Transport sector planning, financing, and maintenance have long been inadequate, so that most facilities are in poor condition and need rehabilitation. Many locations lack suitable maritime infrastructure and do not receive regular shipping services. Institutional capacity in the Marine Division of the Ministry of Infrastructure Development is weak, causing poor sector governance.</p>

Rehabilitated wharves and jetties will improve safety and accessibility for economic and social activities, and increase productivity and reduce costs for ship operators, leading to more efficient port calls and the possibility of greater service frequency.

Improved shipping services will reduce barriers to market access and promote the growth of rural production. Creation of an FSS will allow private sector operators to provide services to commercially unviable destinations. Using an output-based approach effectively aligns incentives for the private sector to provide socially desired services, thus combining transport improvements with private sector development.

Remote communities without reliable maritime services are among the poorest areas of Solomon Islands. Geographic targeting of improved infrastructure and services can catalyze growth and have a disproportionate impact on poverty.

**Impact and Outcome** The impact of the Project will be reduced economic disadvantage in remote rural areas. The outcome will be interisland shipping services that are frequent, reliable, and safe.

**Project Investment Plan** The investment cost of the Project is estimated at \$21.40 million, including taxes of \$0.72 million.

**Financing Plan**

(\$ million)		
Source	Total	Percent
Asian Development Bank	14.00	65.40
European Commission	5.25	24.60
Government of Solomon Islands	2.15	10.00
<b>Total</b>	<b>21.40</b>	<b>100.00</b>

Source: Asian Development Bank estimates.

**Period of Utilization** Until 30 June 2019

**Estimated Project Completion Date** 31 December 2018

**Implementation Arrangements** The Project will be implemented over 10 years. Civil works will be completed in 4 years, whereas the FSS will be completed over 10 years. Both components will follow the same initial schedule as follows: detailed design, preparation of bidding documents, and tendering will start in January 2009; award of contracts for civil works and franchises is expected by December 2009; physical completion of civil works will be by 31 December 2012; completion of the FSS will be by 31 December 2018; and grant closing will be by 30 June 2019.

**Executing Agency** Ministry of Infrastructure Development

<b>Procurement</b>	Procurement under the Project, including for ADB and Government-financed packages, will follow ADB's <i>Procurement Guidelines</i> (2007, as amended from time to time). Major civil works will be procured using international competitive bidding procedures. Franchise tenders and minor civil works will be awarded through national competitive bidding procedures. Community procurement through the shopping method will be used for maintenance contracts.
<b>Consulting Services</b>	<p>International and domestic consulting services will be required for (i) engineering design and preparation of bidding documents, (ii) construction supervision, (iii) project management, and (iv) financial management. The Project will fund 94 person-months of international consulting services and 164 person-months of national consulting services. Consulting services will be engaged in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2007, as amended from time to time).</p> <p>To facilitate joint cofinancing with the European Commission (EC), Board approval is sought to allow procurement of eligible goods and services from countries eligible for procurement under the EC regulations, which are not ADB member countries.</p>
<b>Project Benefits and Beneficiaries</b>	<p>The Project will improve shipping services to support rural development, spur economic growth, and reduce poverty by facilitating access to markets and economic and social services. More reliable transport services will increase the ability of rural populations to market their produce and derive income from natural resources.</p> <p>Direct benefits will include more frequent and reliable shipping services at lower cost. Induced benefits will include increased agricultural production and better terms of trade for remote communities. The beneficiaries will be people in the poorest parts of the country.</p> <p>Investment subprojects will be assessed based on their contribution to national development objectives and priorities. Selection criteria will require subprojects to be economically viable, with a target economic internal rate of return greater than 12%. Poverty and social analysis at the subproject level will be gender disaggregated, taking into account the differential project impacts and risks facing women. The Project will be proactive in ensuring HIV/AIDS prevention.</p>
<b>Risks and Assumptions</b>	The project design considers potential technical, financial, and institutional risks associated with project management, rehabilitation quality, financial management, and commitment to reform. The Project will establish a project management unit to strengthen the Government's capacity to handle increased responsibilities. A team of international and national consultants

will assist with implementation. Assurances regarding institutional reforms have been included.

Environmental impacts will be monitored through construction supervision and mitigated at the rehabilitation stage in accordance with approved environmental management plans.

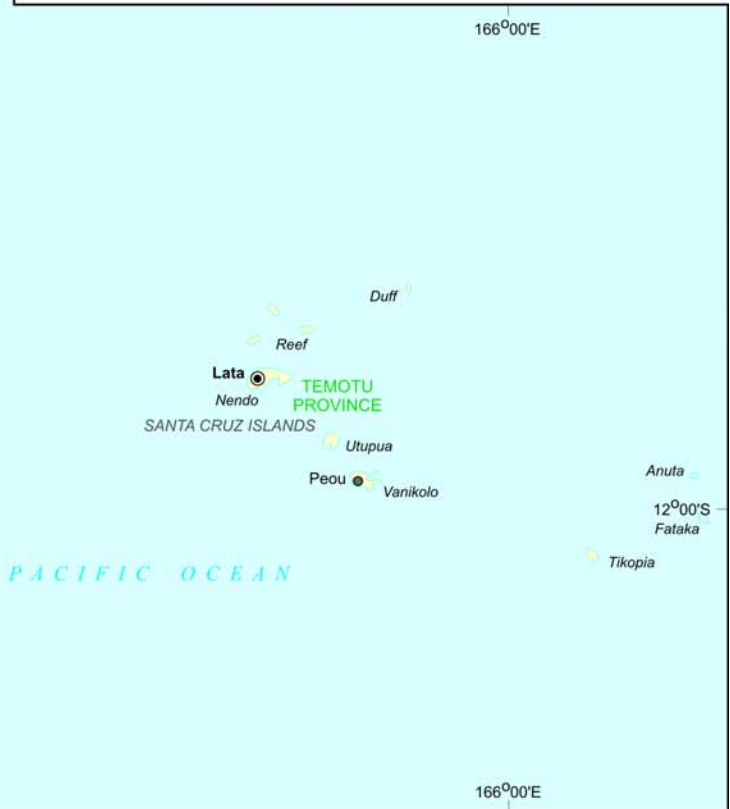
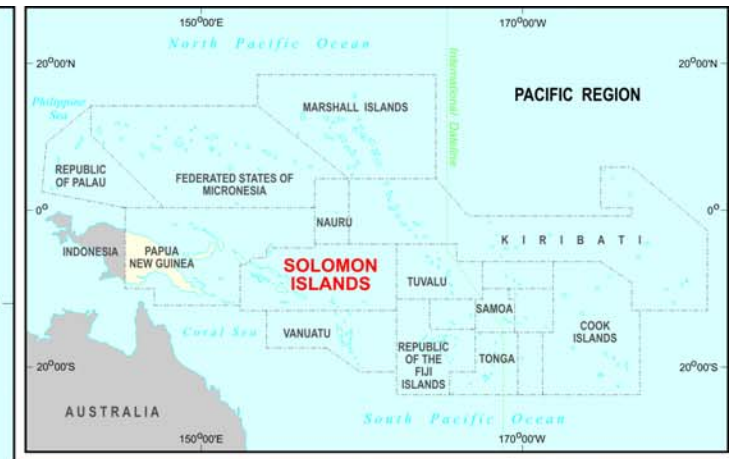
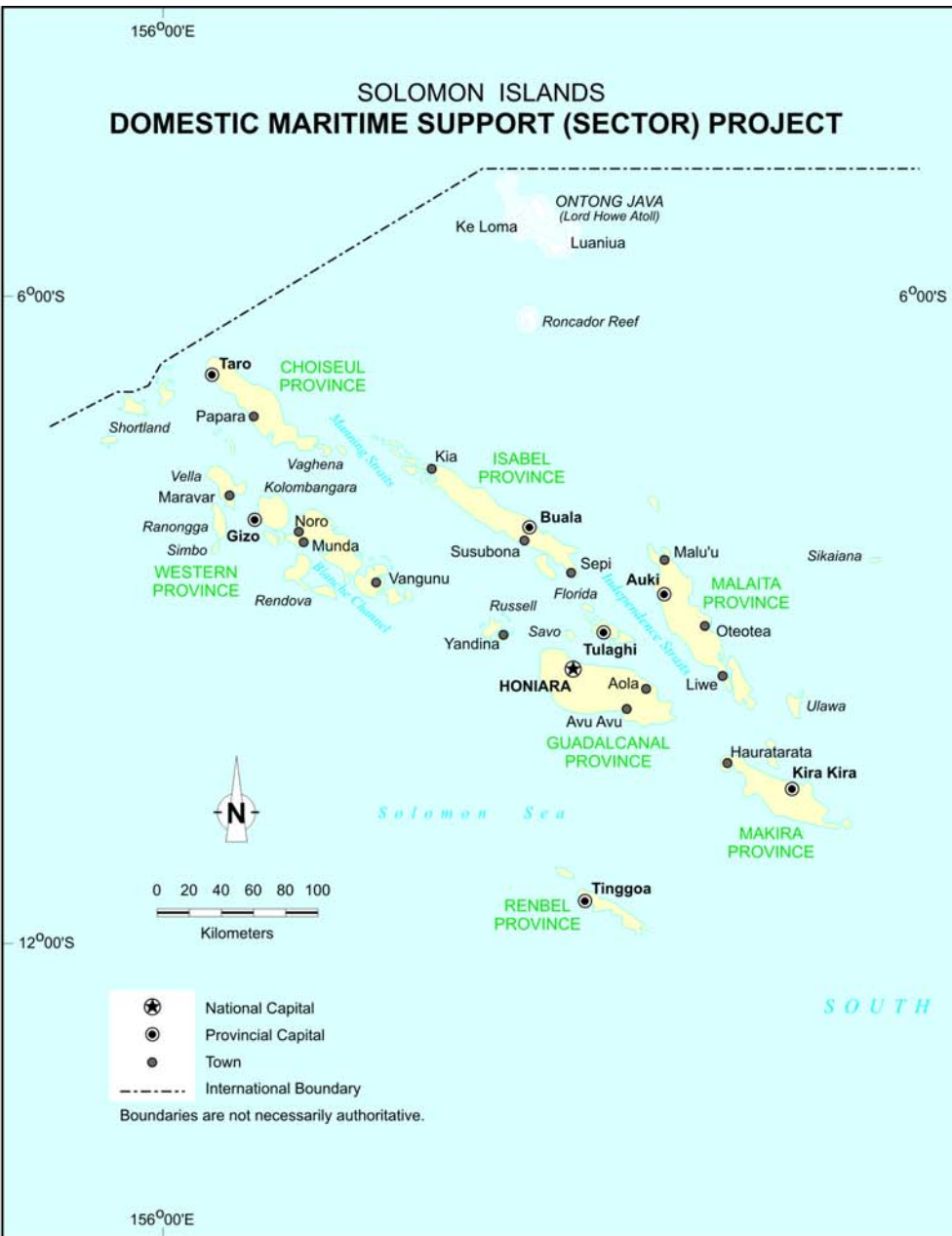
### **Technical Assistance**

Technical assistance (TA) will be provided to establish the Solomon Islands Maritime Safety Administration, by reforming the existing Marine Division of the Ministry of Infrastructure Development, to take responsibility for all aspects of regulatory control over the maritime sector and enhance safety of shipping and port operations. Its expanded functions will include regulation and oversight of marine safety through vessel registry, safety inspection, licensing of seafarers, search and rescue, navigation aids, and environmental protection.

The TA will fund 28 person-months of international consulting services and 44 person-months of national consulting services to provide institutional strengthening and capacity development. Consulting services will be engaged through a firm using the quality- and cost-based selection method, in accordance with ADB's *Guidelines on the Use of Consultants*.

The total cost of the TA is \$1,925,000. The TA will be financed on a grant basis by the ADB TA funding program, which will contribute \$1,000,000. The EC will provide cofinancing of \$600,000. The Government will contribute \$325,000.

# SOLOMON ISLANDS DOMESTIC MARITIME SUPPORT (SECTOR) PROJECT



- National Capital
  - Provincial Capital
  - Town
  - International Boundary
- Boundaries are not necessarily authoritative.



## **I. THE PROPOSAL**

1. I submit for your approval the following report and recommendation on (i) a proposed grant, and (ii) a proposed administration of a grant from the European Commission (EC), both to Solomon Islands for the Domestic Maritime Support (Sector) Project. The report also describes proposed technical assistance (TA) for Establishment of the Solomon Islands Maritime Safety Administration, and if the Board approves the proposed grant, I, acting under the authority delegated to me by the Board, will approve the TA.

## **II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES**

### **A. Performance Indicators and Analysis**

2. Solomon Islands is a large Melanesian island country, with a land area of about 28,000 square kilometers, six large islands, dozens of smaller islands, and hundreds of islets and atolls. Over 80% of the population of 540,000 is rural, living in widely dispersed villages of a few hundred persons. The country is fragile, weakly performing, and still emerging from several years of conflict from 1999–2003. It is one of the least developed among ADB's Pacific developing member countries (PDMCs). The country is unlikely to meet most of the Millennium Development Goals by 2015. Socioeconomic indicators include high unemployment, high population growth, and slow economic growth which combine to exacerbate poverty.

3. The economy is based on primary commodities from agriculture, forestry, and fishing. Most production takes place in remote rural areas without adequate transport infrastructure and services. To connect the six main islands and smaller island groups in order to facilitate economic and social development, maritime transport is vital. The project impact, outcomes, outputs, and activities are shown in the design and monitoring framework in Appendix 1.

4. Sector planning, financing, and maintenance have long been inadequate, so that most facilities are in poor condition and need rehabilitation. Institutional capacity in the Marine Division of the Ministry of Infrastructure Development (MID) is weak, causing poor sector governance, ineffective safety regulation, poor compliance with international obligations, weak environmental management, inadequate hydrographic charts, and limited search and rescue capacity. A sector analysis is in Appendix 2.

5. Despite two international ports, about 86 rural wharves and jetties, and numerous unimproved anchorages throughout the country, many locations lack suitable maritime infrastructure and do not receive regular transport services. Revenues generated by maritime fees have not been sufficient to fully fund capital improvements or maintenance. In recent years, capital investment in rural maritime infrastructure has been financed entirely by external assistance, which has totaled \$34 million over the past 10 years, as shown in Appendix 3.

6. Interisland shipping services are operated by about 20 private sector operators, supplemented by a few churches and provincial governments. Some routes are commercially viable because of their proximity to the national capital and comparatively high demand for passenger and cargo services. In contrast, some remote destinations receive only occasional unreliable services due to long distances and low passenger and cargo demand. To provide services to uneconomic destinations, the Marine Division occasionally charters or subsidizes vessels on an ad hoc basis, but their unpredictability constrains domestic and international trade and hampers delivery of public services.

## 1. Government's Sector Strategy

7. The policies, strategies, and priorities of the Government for development of the transport system are articulated in the National Transport Plan 2007–2026 (NTP). To achieve the vision of “an effective transport infrastructure and transport services to support sustained economic growth and social development in Solomon Islands,” the NTP sets out a strategic framework to (i) develop transport services, (ii) develop and maintain physical infrastructure, (iii) improve the capacity of Government agencies, and (iv) develop the private sector. The NTP (Appendix 2) is supported by a 3-year rolling work program that serves as the Government's sector development plan as required for implementation of a sector project.

8. The NTP includes appropriate policies to provide maritime infrastructure to support interisland shipping services by (i) providing annual funding for the maintenance of wharves and navigation aids, (ii) adopting assessment criteria for rural facilities based on economic viability together with social and development benefits, (iii) ensuring higher-quality construction and rehabilitation to improve life cycle costs, (iv) preparing a 10-year program of rehabilitation and construction, (v) using external assistance where available for civil works to preserve Government funds for maintenance, and (vi) improving planning and asset management.

9. The NTP also includes policies for the development of regular, reliable, and efficient shipping services by (i) promoting the ongoing development of private operators, (ii) establishing a system for financial assistance where services are not commercially viable, (iii) exploring options for improving access to finance for vessels, (iv) seeking external assistance for training in business management, (v) improving safety through legislative and regulatory reforms, and (vi) initiating consultations to reform restrictive provincial licensing practices.

## 2. ADB's Sector Strategy and Program

10. To support development and reduce poverty, ADB's partnership strategy<sup>1</sup> in Solomon Islands aims at rapid, pro-poor and private-sector-led economic growth by (i) providing transportation infrastructure and services, and (ii) strengthening the enabling environment for the private sector. Capacity development and the promotion of good governance are cross-cutting priorities. The strategy directly supports key priorities in the Government's development framework,<sup>2</sup> addresses binding constraints to growth,<sup>3</sup> is in line with ADB's Pacific strategy,<sup>4</sup> takes into account ADB's comparative advantage among development partners, and is consistent with internationally adopted principles of international engagement in fragile states.

11. ADB has provided extensive assistance to the transport sector in Solomon Islands in recent years. The Post-Conflict Emergency Rehabilitation Project<sup>5</sup> was completed in late 2007.

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<sup>1</sup> ADB. 2006. *Country Strategy and Program Update (2007–2009): Solomon Islands*. Manila; ADB. 2007. *Country Operations Business Plan (2008–2010): Solomon Islands*. Manila; ADB. 2008. *Country Operations Business Plan (2009–2011): Solomon Islands*. Manila.

<sup>2</sup> The Government has produced three relevant documents: (i) Solomon Islands Government. 2008. *Policy Statements*. Honiara; (ii) Solomon Islands Government. 2008. *Translation and Implementation Framework*. Honiara; and (iii) Solomon Islands Government. 2008. *Medium Term Development Strategy*. Honiara.

<sup>3</sup> International Monetary Fund. 2007. *Solomon Islands Medium-Term Fiscal Strategy 2008–2011*. Washington; ADB. 2005. *Private Sector Assessment*. Manila.

<sup>4</sup> ADB. 2008. *Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005–2009)*. Manila.

<sup>5</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Solomon Islands for the Post-Conflict Emergency Rehabilitation Project*. Manila (Loan 1823).

The Solomon Islands Road Improvement Project,<sup>6</sup> which is rehabilitating rural roads, and the Solomon Islands Emergency Assistance Project (SIEAP),<sup>7</sup> which is rehabilitating infrastructure destroyed in the April 2007 earthquake and tsunami, are ongoing. TA has also been provided for institutional strengthening, diagnostic assessment, and implementation of reforms.<sup>8</sup> To continue integrating the transport network and extending access to remote areas, improved maritime facilities and services are required.

12. In recognition of ADB's experience in implementing projects and TA in the transport sector in Solomon Islands, the Government requested, and through a well-established coordination process other partners agreed, that ADB take the lead role in the transport sector. ADB's strategy complements other external assistance by creating an integrated transportation system to link rural areas to urban centers for access to markets and social services.

## **B. Analysis of Key Problems and Opportunities**

13. As a weakly performing country emerging from several years of conflict, Solomon Islands faces many development problems. The most pressing issues include (i) sustained economic growth, (ii) economic restructuring away from forestry to other productive rural activities, (iii) increased employment and income-generation opportunities, (iv) an improved institutional framework to manage public sector responsibilities, and (v) improved human and institutional capacity. Improvements in these areas will contribute directly to poverty reduction.

### **1. Problems and Constraints**

14. **Economic Restructuring, Growth, Employment, and Income Generation.** Solomon Islands' heavy reliance on unsustainable large-scale forestry must be reduced, and replaced with other productive rural activity. However, agricultural development is hampered by deteriorating rural infrastructure, poor access to markets, and low-productivity traditional cultivation. Private sector development is also constrained by unreliable and expensive infrastructure and services, a weak legal and institutional business environment, and a limited market. Employment growth and income generation are therefore severely constrained.

15. **Sector Investments, Operations, and Sustainability.** Sustainability requires increased investments and improved maintenance. Due to deferred maintenance, deteriorated rural facilities hinder service provision and pose a safety risk. Global climate change is expected to cause sea level rise and increase vulnerability to natural hazards. Both factors increase the need for robust construction and better maintenance. To sustain investments, the Government needs to improve its sector planning, funding, and asset management. The Government has initiated establishment of the National Transport Fund (NTF) to increase predictability of resource allocation and sustainability of operations and maintenance, but it is undercapitalized and managed under temporary arrangements. There is a need to formalize the NTF.

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<sup>6</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Grants to Solomon Islands for the Road Improvement (Sector) Project*. Manila (Grants 0048/0049/0050).

<sup>7</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Grant to Solomon Islands for the Emergency Assistance Project*. Manila (Grant 0078).

<sup>8</sup> ADB. 2004. *Technical Assistance to Solomon Islands for Institutional Strengthening in the Ministry of Infrastructure and Development*. Manila (TA 4494-SOL); ADB. 2004. *Technical Assistance to Solomon Islands for Diagnostic Assessment of Interisland Transport*. Manila (TA 4527-SOL); ADB. 2005. *Technical Assistance to Solomon Islands for Implementation of Interisland Transport Reforms*. Manila (TA 4588-SOL); ADB. 2007. *Technical Assistance to Solomon Islands for Preparing the Domestic Maritime Support Project and Technical Support Program*. Manila (TA 4980-SOL).

16. **Maritime Network Development and Service Provision.** In addition to the constraints posed by poor physical infrastructure, long distances and low demand for cargo and passenger services mean that it is not commercially viable for operators to provide services to some remote destinations. Services are often delayed for weeks or months, and sometimes cancelled, leaving people and cargo stranded. To provide socially desired services on these routes, the Marine Division of MID frequently charters vessels or subsidizes operators on routes assumed to be unviable. Furthermore, deficiencies in maritime safety regulation and enforcement are endemic. These factors constrain provision of reliable and safe services.

17. **Geographic Disparities.** Remote communities in the project areas lack reliable maritime services and are among the poorest areas of Solomon Islands. The project areas have a higher incidence of poverty than the national average, lower agricultural productivity, and greater constraints in access to transport services.<sup>9</sup> Voyages to outer islands involve greater distances in less-protected waters and thus require larger vessels with higher operating costs, which lead to lower service frequencies.

18. **Private Sector Development.** Most vessels are operated by small companies with limited management expertise and chronic need for training. Many ships are old and thus maintenance and operating expenses are high. Meanwhile, some provincial governments apply restrictive licenses and fees to operators from other provinces to protect services provided by their own provincial development authorities. Private sector operators consequently do not face a level playing field in providing services to all destinations.

19. **Institutional Capacity.** Institutional capacity constraints have hindered the ability of MID and the Marine Division to develop and implement sector plans and policies. The human resource base is low as a result of declining public sector budgets, poor training, and conflict-related impacts. Managerial, administrative, and technical skills are in short supply. The Government's response is slowly improving and is in need of consolidation so that the Marine Division can fully implement its role in safety enforcement, search and rescue, aids to navigation, hydrographic charting, and environmental protection.

## 2. Opportunities

20. Rural economic development can be significantly enhanced through safe, reliable, and efficient rural maritime transport. Clear opportunities exist to improve performance and increase benefits through a comprehensive approach of asset investment and maintenance, sector planning and promotion of service provision, private sector participation, and institutional reform and capacity development. Improved infrastructure and services are essential to removing barriers to market access and promoting the growth of rural production, which will revitalize the rural economy and ultimately reduce poverty.

21. **Improved Maritime Infrastructure.** Rehabilitated wharves and jetties will improve safety, accessibility, and productivity for users. Improved rehabilitation, maintenance, and operation of maritime infrastructure will reduce costs for operators and users due to more efficient port calls, which in turn will allow more frequent and reliable services. The potential for climate change means that project designs can improve adaptation by anticipating sea level rise and increased natural hazards through higher decks and more robust construction.

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<sup>9</sup> Solomon Islands Government. 2006. *Household Income and Expenditure Survey 2005/6*. Honiara; United Nations Development Programme. 2007. *Analysis of the 2005/06 Household Income and Expenditure Survey: A Report on the Estimation of Basic Needs Poverty Lines, and the Incidence and Characteristics of Poverty in Solomon Islands*. Fiji.

22. **Support for Service Provision.** Improved shipping services will reduce barriers to market access and promote the growth of rural production through increased reliability, allowing producers to generate higher-quality products and reduce spoilage. It will also allow better access to health care and delivery of public services. Creation of an FSS can induce private sector operators to provide services to commercially unviable destinations by providing competitively tendered subsidies tied to performance specifications. Experience in Solomon Islands and elsewhere shows that the output-based approach will improve service quality and sustain service provision.<sup>10</sup>

23. **Geographic Targeting.** Improved services and infrastructure in project areas are expected to have a disproportionate impact on poverty by catalyzing growth in poorer areas. Improved access to export markets will reduce peoples' reliance on large-scale commercial exploitation of natural resources and afford opportunities for artisanal production within communities. Regular, reliable, and more frequent shipping services to remote areas will also improve people's access to income earning opportunities, and contribute significantly to health and wellbeing by enabling access to education, health care, public services, and social events.

24. **Private Sector Development.** Creation of an FSS and provision of targeted subsidies is expected to have a catalytic effect on both private sector ship operators and rural agricultural producers. By providing reliable scheduled services, producers should increase their output and lose less of it to spoilage. Increased demand for cargo and passenger services should in turn make rural routes commercially viable over time. Predictable long-term funding of capital investments and maintenance through the NTF will also increase the ability of domestic contractors to invest in and develop sustainable businesses.

25. **Institutional Reform and Capacity Development.** The Government is in the process of unifying its development and recurrent budgets to improve the link between investments and maintenance. Government planning and financial management reforms under way at the national level can be strengthened by extension to the maritime sector. Funding arrangements for franchise shipping operations and for maintenance of maritime infrastructure will be enhanced by the implementation of the NTF and NTP, supported by implementation assistance which includes capacity development. Restructuring and development of the Marine Division will complement these reforms, by strengthening maritime administration through TA (paras. 62-65).

### 3. Lessons Learned

26. Previous ADB and EC assistance to the maritime transport sector for physical infrastructure investments, supported by institutional capacity-enhancement measures, has been mostly successful by focusing project scopes on well-defined areas supported by advisory services for design and institutional development purposes. Conversely, previous construction methods for wharf structures have been technically flawed by not providing adequate durability and structural stability, resulting in deterioration and eventual loss of assets. These lessons are incorporated in the design of the Project, based on designs that have evolved to suit local conditions, using improved design standards and materials.

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<sup>10</sup> A similar franchise scheme for six routes in the Fiji Islands, developed under ADB TA, resulted in passenger growth of 62% and cargo growth of 80% within the first 2 years of instituting reliable services. ADB. 1995. *Technical Assistance to the Republic of the Fiji Islands for the Transport Sector Institutional Strengthening*. Manila (TA 2321-FIJ). Franchise schemes have also been proposed in the Marshall Islands and Papua New Guinea. See footnote 11 for references and Supplementary Appendix E for details.

27. ADB has experience in domestic maritime projects in several PDMCs that instituted FSSs, from which three main lessons emerge.<sup>11</sup> First, clear specifications for routes, frequency, vessel type, and capacity are needed to ensure successful route tenders, performance monitoring, and payment certification. Second, flexible franchise contracts are needed to allow operators to adapt to weather and market conditions in meeting these specifications. Third, predictability of funding is needed to give operators certainty for planning and investment.

28. ADB has also implemented trust funds in the transport sector in two PDMCs.<sup>12</sup> In Tuvalu, the Falekaupule Trust Fund was created to fund island development projects. In Papua New Guinea, the Community Water Transport Fund provides subsidies for delivery of transport services to remote communities. Fund arrangements must be explicit about governance mechanisms and disbursement criteria. Because government experience with this approach is often limited, outsourcing management of the fund to the private sector, combined with capacity development to supervise arrangements, is necessary for effective supervision.

29. To improve sustainability, the Project will require engineering designs to employ conservative assumptions of climate change and sea level rise and to use improved materials to minimize maintenance.<sup>13</sup> To increase local ownership of new infrastructure, ADB has instituted a new approach to community engagement for infrastructure maintenance through experience with ongoing projects in Solomon Islands (footnotes 5–7). This approach is both cost effective and sustainable, and can also be used to involve rural communities in maintenance of wharves. The Project will continue to employ a community engagement model for maintenance.

30. To improve government planning and oversight, previous ADB TA (footnote 8) has revealed the need to improve institutional effectiveness through capacity development and multi-year external support. As with other recent projects, a project management unit will be established and will pursue capacity development for national staff to continue to improve planning, financial management, operations, and maintenance. The Executing Agency's (EA's) capacity to implement a sector project, when supplemented by implementation assistance, has been demonstrated through two other ADB-funded sector projects (footnotes 6 and 7).

#### **4. Rationale for the Project**

31. Pro-poor economic growth and improvement in social and health indicators depend on revitalization and decentralization of the rural economy. The poor condition of maritime transport is a significant constraint to the movement of people and goods, and thus a disincentive to productive rural activity. Improved transportation infrastructure and services, and thus reliable access to domestic and international markets for rural produce and commodities, is a key strategy to restart and build rural economies, reduce migration in search of employment, reduce conflict between groups competing for limited opportunities, and restore basic social services in rural areas. The focus on improving rural accessibility will increase the poverty reduction impact.

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<sup>11</sup> ADB. 1996. *Technical Assistance to the Republic of the Marshall Islands for the Public Sector Reform Program*. Manila (TA 2756-RMI); ADB. 2000. *Technical Assistance to Papua New Guinea for Preparing the Community Water Transport Project*. Manila (TA-3615 PNG). See also footnote 10.

<sup>12</sup> ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Tuvalu for the Island Development Program*. Manila (Loan 1693-TUV); ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Papua New Guinea for the Community Water Transport Project*. Manila (Loan 2079-PNG).

<sup>13</sup> Wharves will be designed to the maximum predicted sea level rise over the asset life, using concrete-encased steel piles and corrosion-resistant reinforcing, and factors of safety at least 25% above minimum specifications.

32. Most previous projects supported through external assistance have focused on road sector investment to improve accessibility to economic and social activities, but these have been based in more populous areas on the main islands. To promote economic development and rural employment more broadly, it is necessary to improve transport between the six main islands and some of the smaller island groups. The Government requested preparation of the Project, with a focus on addressing urgent needs in more remote areas of the country.

33. The Government has embarked on institutional reforms, with ADB assistance, to develop its capacity to effectively implement a sector project. The existing policy framework and action plan in the NTP guides the use of domestic and external resources to reduce constraints caused by maritime network conditions. Restructuring of MID is under way, and can be consolidated through implementation assistance and capacity building under the Project. TA for institutional reform and strengthening is described in paras. 62-65 and Appendix 10.

34. These considerations present opportunities to consolidate reform. Given the widespread need for rehabilitation of maritime infrastructure and reliable and safe service provision, it is necessary to address these issues in parallel across all aspects of the sector. Integrated transport planning through domestic processes will promote effective planning and implementation of works in the long term. The Project and TA will ensure that the Government has the institutional framework and capacity to effectively implement such an approach.

35. The Project represents the direct implementation of ADB's strategy for Solomon Islands by upgrading and preserving transportation infrastructure, facilitating expanded transportation services, improving the enabling environment for private sector development, and providing opportunities for direct private sector participation. In these respects, the Project is also closely aligned with the Government's priorities and strategic plans.

### III. THE PROPOSED PROJECT

#### A. Impact and Outcome

36. The Project is expected to reduce economic disadvantage in remote rural areas. The outcome will be interisland shipping services that are frequent, reliable, and safe.

#### B. Components and Outputs

37. The project has two major components: component A will construct rural wharves and jetties; component B will establish an FSS to support rural transport services through an output-based approach. Subprojects for both components will be analyzed and approved using the sector project modality.

38. **Component A: Improvement of Rural Infrastructure.** The Project will finance a portion of the Government's planned maritime infrastructure works as documented in the NTP. Outputs will include about 12 wharves and jetties for either rehabilitation or reconstruction. Civil works will be undertaken primarily in remote areas of provinces that experience a greater incidence of poverty than the national average. Recurrent funding for maintenance through community contracts, supported by training, will be provided to improve sustainability.

39. **Component B: Establishment of a Franchise Shipping Scheme.** The Project will design and implement an FSS to award franchises for provision of shipping services to remote areas that are considered commercially unviable. Seven routes have been identified as

unviable. Outputs will be increased transport services on these routes, through subsidies to private sector operators, based on a minimum-subsidy tender process. Initial contracts will be for 3 years, with longer periods for subsequent terms possible.<sup>14</sup>

40. Under the output-based approach, subsidies will be tied to performance, including vessel suitability (dimensions, capacity, and safety certification), franchise areas and routes, call locations and frequency, substantiation of calls and submission of voyage data, and flexibility for force majeure. During the initial contract period regular reviews will be carried out to ensure that actual revenue and costs are aligned with prior estimates, and the contract provisions will allow terms to be reviewed in response to actual results. Subsidies required will reduce over time, as routes become commercially viable. Each of the seven routes is expected to reach a break-even point 5–10 years after commencement. Details are in Supplementary Appendix B.

41. The legal basis to implement the FSS will be established in a proposed Maritime Reform Bill.<sup>15</sup> Administrative and operational responsibility shall be vested in MID to ensure that matters of safety and legal compliance by franchisees are addressed (paras 62-65). The Government has introduced a public transport act, expected to be enacted in November 2008, that will regulate fares to prevent market abuses. While the FSS will be implemented in accordance with contractual arrangements, MID will have the ability to review, monitor, and modify aspects of the scheme to achieve optimum efficiency and accountability.

42. Under the sector project modality, subprojects for both components will be prioritized and selected in accordance with the process and eligibility criteria in Appendix 7. A systematic and consultative approach will be established for subproject appraisal, covering (i) social, economic, and environmental evaluation; (ii) design; (iii) procurement; (iv) implementation; and (v) monitoring. Each subproject feasibility study will provide sufficient evidence of its eligibility under the agreed criteria to enable ADB to assess the viability and suitability of the subproject. No subproject categorized as category A in accordance with ADB's *Environment Policy* (2002) or *Involuntary Resettlement Policy* (1995) will be financed under the Project.

### C. Special Features

43. **Geographic Targeting.** Remote communities without reliable maritime services are among the poorest areas of Solomon Islands. Rural populations have a higher incidence of poverty, lower agricultural productivity, lower life expectancy at birth, higher percentage of underweight children, lower levels of literacy and educational attainment, less access to safe water and sanitation, and less access to health services than those in provincial centers. These indicators are in part due to constraints in access to transport services. Improved services can catalyze growth and have a disproportionate impact on poverty.

44. **Private Sector Development.** Creation of an FSS and provision of targeted subsidies for services to commercially unviable destinations is expected to have a catalytic effect on both private sector ship operators and rural agricultural producers. By providing reliable scheduled services, producers should increase their output and lose less of it to spoilage. Increased demand for cargo and passenger services should in turn make rural routes commercially viable over time, providing opportunities for private sector participation.

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<sup>14</sup> The justification for subsidies is in Supplementary Appendix C. Operation of the FSS is described in Supplementary Appendix E.

<sup>15</sup> Legislative reforms are being pursued through the ongoing preparatory TA (footnote 8).

45. **Output-Based Approach.** Under the output-based approach, subsidies will be tied to performance based on specifications for destination, frequency, and passengers and cargo carried. Franchise contracts will require certification from communities at target destinations that performance indicators have been met. This will create clear incentives to increase and improve services, while providing a safety net for operators until routes become commercially viable.

#### D. Project Investment Plan

46. The project investment cost is estimated at \$21.40 million as shown in Table 1.

**Table 1: Project Investment Plan**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Civil works for rural wharves and jetties	9.20
2. Maintenance (routine and community engagement)	0.02
3. Franchise shipping scheme <sup>c</sup>	4.78
4. Consulting services	3.46
<b>Subtotal (A)</b>	<b>17.46</b>
<b>B. Contingencies<sup>d</sup></b>	<b>3.94</b>
<b>Total (A+B)<sup>e</sup></b>	<b>21.40</b>

<sup>a</sup> In mid-2008 prices.

<sup>b</sup> The Government does not charge taxes or duties on externally funded projects, but see (c).

<sup>c</sup> Includes taxes for marine fuel, proportional to expected subsidy payment compared to total operating costs. Taxes are reasonable at about 3.5% of total project costs and not targeted at ADB-financed projects.

<sup>d</sup> Physical contingencies computed at 15% for civil works; and 5% for field research and development, training, surveys, and studies. Price contingencies computed at 7.5%; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>e</sup> Includes management fee of 2% of European Commission funds charged by ADB for administering cofinancing.

Source: Asian Development Bank estimates.

#### E. Financing Plan

47. The Government has requested a grant of \$14.0 million from the Asian Development Fund to help finance the Project. The Government of Solomon Islands will provide \$2.15 million as its counterpart contribution. The EC will provide grant cofinancing of \$5.25 million equivalent, to be administered by ADB. As requested by the cofinancier, the EC funds will be front-loaded at the contract commitment level up to the maximum allocated amount of EC financing in individual categories. The financing plan is in Appendix 4, and summarized in Table 2.

**Table 2: Financing Plan**  
(\$ million)

Source	Total	%
Asian Development Bank	14.00	65.40
European Commission	5.25	24.60
Government of Solomon Islands	2.15	10.00
<b>Total</b>	<b>21.40</b>	<b>100.00</b>

Source: Asian Development Bank estimates.

## **F. Cofinancing**

48. ADB's strategy in Solomon Islands emphasizes coordination with development partners and encourages cofinancing. As described above, the EC has committed to provide joint cofinancing. For the EC to participate, it requires nondiscrimination in procurement processes against legal persons, firms, and goods established in EC-recognized official candidate countries, member states of the European Economic Area, and developing countries as specified by the Development Assistance Committee of the Organisation for Economic Co-operation and Development.<sup>16</sup> Given that components of the Project are jointly cofinanced with EC, Management requests Board approval to allow procurement of eligible goods and services from countries eligible for procurement under EC regulations, which are not ADB member countries.

## **G. Implementation Arrangements**

### **1. Project Management**

49. The EA for the Project will be MID. The Government will form a project steering committee<sup>17</sup> to oversee and monitor all aspects of project implementation, including (i) policy guidance and coordination, (ii) subproject feasibility study and selection, (iii) project progress reports and other project documentation, (iv) regular reports of FSS budgets and activities, and (v) audited accounts and financial statements.

50. A project management unit (PMU), directed by the permanent secretary of MID, will be responsible for day-to-day implementation. Given MID's limited technical staff resources, a consulting firm will be retained for these services. The PMU will be fully integrated with MID professional and technical staff as counterparts. The PMU will (i) conduct subproject baseline surveys, feasibility documentation, design, and supervision; (ii) manage tender processes; (iii) manage contracts; (iv) prepare withdrawal applications; (v) prepare project progress reports and a project completion report; (vi) maintain project accounts and complete grant financial records for auditing; (vii) monitor the Project's socioeconomic impacts; (viii) train MID staff and build their project implementation capacity; and (ix) complete related project management activities, as necessary to implement the Project successfully and comply with ADB policies and guidelines. Due to poorly developed capacity in MID as described in the financial management assessment in Supplementary Appendix I, the PMU will manage finances on behalf of MID. Outline terms of reference are in Appendix 9.

51. Management of the FSS will be contracted to a professional management firm through national competitive bidding. The firm will also manage procurement of services as a procurement agent on behalf of MID. The management contract will be overseen by MID and supported by implementation assistance provided by the PMU.

### **2. Implementation Period**

52. The Project will be implemented over 10 years. Civil works will be completed in 4 years, whereas the FSS will be completed over 10 years. Both components will follow the same initial schedule as follows: detailed design, preparation of bidding documents, and tendering will start

<sup>16</sup> Regulation (EC) No. 2110/2005 of the European Council and Parliament, 14 December 2005.

<sup>17</sup> Chaired by the permanent secretary of the Ministry of Infrastructure Development; comprising members from the Ministries of Finance and Treasury, Development Planning and Aid Coordination, and Rural Development; and including representatives of ADB, the EC, and the Solomon Islands Chamber of Commerce.

in January 2009; award of contracts for civil works and franchises are expected by December 2009; physical completion of civil works will be by 31 December 2012; completion of the FSS will be by 31 December 2018; and grant closing will be by 30 June 2019. This time frame takes into account appropriate construction periods for remote locations. The implementation schedule is in Appendix 5.

### 3. Procurement

53. All procurement under the Project will follow ADB's *Procurement Guidelines* (2007, as amended from time to time). Civil works will be divided into packages. International competitive bidding procedures will be used for civil works contracts of more than \$1 million, as they require specialized equipment and skills not available locally. National competitive bidding will be used for civil works contracts and FSS contracts up to \$1,000,000. International firms may tender for contracts for FSS services under the same conditions that apply to national firms.<sup>18</sup> Community participation contracts and goods and equipment valued up to \$100,000 will be procured using the shopping method. All tender processes will include measures—including clear documentation, public tender openings, and confidentiality of financial projections—designed to prevent anti-competitive behavior.<sup>19</sup> Technical and financial qualifications of contractors will be reviewed during bid evaluation for post-qualification. Before the contract award, the procurement process and tender evaluation report will be subject to review and approval by ADB. Evaluation of international competitive bidding contracts may include a margin of preference for domestic contractors. The procurement plan is in Appendix 6.

### 4. Consulting Services

54. Consulting services will be required to set up the PMU. All activities will be combined into a single consultancy. The Project will fund approximately 94 person-months of international consulting services and 164 person-months of national consulting services, provided by a firm. Specialist services to be recruited and outline terms of reference are in Appendix 9. At the request of the Government, due to the EA's inexperience in recruiting firms and negotiating international contracts, ADB will select the consultants in accordance with its *Guidelines on the Use of Consultants* (2007, as amended from time to time). Consultant selection will be via quality- and cost-based selection procedures with 80:20 weighting for quality and cost respectively. To accelerate implementation, ADB approved advance action for the procurement of services. The Government has been advised that approval of such advance action does not commit ADB to finance any part of the Project.

### 5. Anticorruption Policy

55. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government and EA. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the grant regulations and the bidding documents for the Project, and financial projections have been redacted from public documents as explained in paragraph 53. In particular, all contracts financed by ADB in connection with the Project shall include provisions specifying the right of

<sup>18</sup> This may be achieved by registering a chartered vessel locally, by the operator establishing a domestic presence, or by partnering with a domestic firm. See Supplementary Appendix E for details.

<sup>19</sup> Financial projections related to potential subsidies under the FSS will be redacted from the public version of the financial analysis in Supplementary Appendix B in accordance with ADB's *Public Communications Policy* (2005).

ADB to audit and examine the records and accounts of the EA and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

## 6. Disbursement Arrangements

56. The grant will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). The disbursement procedures will include direct payments and reimbursements. The EA will establish separate first-generation imprest accounts at the Central Bank for incoming transfers of ADB and EC funds, and two second-generation imprest accounts at a commercial bank for operational purposes. The accounting system will enable the PMU to process replenishments and liquidations separately according to funding source. The maximum amount to be deposited to both first-generation imprest accounts will not exceed the total of \$300,000 equivalent or the equivalent of 6 months estimated expenditures, whichever is lower. Upon demonstration of acceptable financial management by the PMU and the EA, the statement of expenditures procedure may be used for reimbursement of eligible expenditures and liquidation of imprest account expenses, and is applicable to individual payments not exceeding the equivalent of \$50,000. Direct payments will be encouraged for civil works and consulting services.

57. Operation of the FSS will be through the imprest account. Payments will be based on contracts established through competitive tenders and certification of outputs as described in Supplementary Appendix E. The Government will establish the NTF as a special fund pursuant to section 100 of the Constitution, to be managed in accordance with specific financial controls provided by regulations made under its establishing act. The operational mechanism of the NTF and its terms and conditions will be defined during the first year of project implementation. Use of the NTF for project operations will be subject to review and approval by ADB.

## 7. Accounting, Auditing, and Reporting

58. **Reports.** The EA will submit quarterly progress reports to ADB on both components of the Project. For component A, the reports will address (i) feasibility studies and preconstruction activities, (ii) physical and financial progress, (ii) status of land acquisition and resettlement (if required),<sup>20</sup> (iii) environmental management, and (iv) other activities critical to project implementation. For component B, the reports will address (i) pre-tender activities including legislative and regulatory changes, community involvement, willingness and ability to pay studies, ship operator capacity building, tender document preparation and marketing of the tender; (ii) the national competitive tender process; and (iii) operation of the FSS, including operational and financial performance. To facilitate performance monitoring and post-project review, the Government has agreed to provide ADB, within 3 months of physical completion of the Project, a completion report that will cover implementation details, costs and benefits, and any other information that ADB might require. In coordination with the associated TA (paras. 62-65 and Appendix 10), the Government will advise ADB on progress in implementing institutional reforms, sector policy initiatives, regulatory reforms, cost recovery, and legal reforms.

59. **Accounts and Audits.** The EA will maintain separate records and accounts that will identify the goods and services financed from the grant, the expenditures incurred for the Project, and the use of counterpart funds. The project accounts will be established and maintained in accordance with sound accounting principles and practices that will follow

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<sup>20</sup> As indicated in the summary poverty reduction and social strategy (Appendix 8), neither land acquisition nor resettlement is expected to be necessary.

internationally accepted accounting standards. The Government's Office of the Auditor General will audit the accounts and annual financial statements annually. The audit reports will include an auditor's opinion on (i) the use of the grant proceeds, (ii) compliance with the financial covenants included in the grant and project agreements, (iii) use of first-generation and second-generation imprest accounts, and (iv) statements of expenditures if the statement of expenditures procedure is subsequently approved during project implementation. The Government will provide ADB with the annual audited financial statements, audited project accounts, audit reports, management letters, and other related statements no later than 6 months after the end of each fiscal year throughout the implementation period.

## **8. Project Performance Monitoring and Evaluation**

60. The EA will establish a project performance and monitoring system within 6 months of grant effectiveness. ADB and the Government, in consultation with the EC, will agree on a set of indicators for monitoring and evaluating project performance in achieving its goals and purposes. These indicators will be refined and monitored during project implementation. The indicators will include data for monitoring economic development, sector performance, socioeconomic development, environmental impacts, maintenance, and institutional development. Monitoring and evaluation will be based on gender-disaggregated data for social and poverty impact indicators. The EA will monitor and evaluate the Project's progress annually, and provide a final report within 6 months of the end of the contract period.

## **9. Project Review**

61. ADB and the Government (with the EC invited to participate) will undertake regular review missions (approximately every 6 months) and a midterm review (about 2 years after project inception). The reviews will evaluate in detail the scope, implementation arrangements, and other aspects of the Project (including institutional, administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, and financial aspects) that might affect project performance, viability, and achievement of scheduled targets.

## **IV. TECHNICAL ASSISTANCE**

62. Previous ADB TAs (footnote 8) confirmed the need to improve institutional effectiveness through capacity development and long-term support to improve the Government's capacity in maritime administration and safety. The lack of institutional capacity causes deficiencies in maritime infrastructure maintenance, safety, and administration. To comply with international standards and protocols, it is necessary to strengthen (i) strategic planning for improvements to maritime safety, (ii) adequate delegation of responsibility and authority, (iii) succession planning and a broad-based approach to skills development, and (iv) compliance with safety regulations.

63. The TA will reform the Marine Division into the new Solomon Islands Maritime Safety Administration (SIMSA). The improvement of maritime administration (vessel registry, inspection, survey, and licensing of seafarers) and marine safety (search and rescue, navigation aids, and environmental protection) will be brought together under SIMSA. Mandatory safety equipment will be purchased to upgrade the compliance of SIMSA and private sector vessels to meet national and international standards. As a result, it is expected that SIMSA will become a professional and efficient agency able to effectively discharge its planning, asset management, safety, and regulatory functions, as well as facilitate private sector participation by ensuring adequate sector governance and regulation. A detailed description of the TA is in Appendix 10.

64. Through legislation, SIMSA will be vested with clear responsibility for the implementation and enforcement of all regulatory functions applying to the maritime sector. All provisions of the Shipping Act 1998 and the proposed Maritime Reform Act 2008, as well as the implementation of all international maritime conventions and agreements applying in Solomon Islands, will become the responsibility of SIMSA. Training will be provided for government staff and private sector operators to improve regulation, inspection, and compliance.

65. ADB will provide TA to establish SIMSA and implement reforms. The total cost of the TA is \$1.9 million. The TA will be financed on a grant basis by ADB's TA funding program, which will contribute \$1.0 million, and will be jointly cofinanced by the EC, which will contribute \$600,000. As requested by the cofinancier, EC funds will be front-loaded at the contract commitment level up to the maximum allocated amount of EC financing in individual categories. The Government will contribute \$325,000 equivalent in counterpart contributions through the provision of counterpart staff, office space and administrative support, logistics, and local transport. ADB will engage consulting services for the TA in accordance with ADB's *Guidelines on the Use of Consultants* for the selection and engagement of international and national consultants.

## V. PROJECT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

66. The Project will directly benefit the rural population in remote areas with a higher average incidence of poverty through better access and decreased travel time to markets and social services. Government agencies and private sector companies that use the maritime network to deliver products and services will benefit similarly. The estimated benefits to these groups, as well as other impacts, assumptions, and risks, are described in this section.

### A. Economic Impacts

67. The direct benefits of reliable and safe maritime transport services will include travel time savings, reduced cargo loss and spoilage of agricultural products, reduced vessel operating costs and fuel use, and increased safety. Rehabilitated rural facilities will facilitate increased transport services that will also be supported by the FSS. Reliable services will in turn promote more agricultural production,<sup>21</sup> facilitate marketing of rural output, and create local employment during construction and maintenance. Improved maritime transport will also increase access to social services including education, health, and government functions.

68. Economic benefits from transport cost savings will flow to the areas served. Benefits from lower freight transport costs will be divided between producers, consumers, and transport operators. Distribution analysis shows that, since market prices are unlikely to fall substantially, over 70% of such benefits accrue to producers. As most producers are rural smallholders, net benefits to poor households comprise about 65% of total benefits.

69. Economic evaluations of sample subprojects have been conducted, including economic internal rates of return and sensitivity analysis, which show typical subprojects to be viable under a range of conditions. For approval, feasibility studies will be required to demonstrate that subprojects are economically justifiable, with economic internal rates of return of at least 12%. Subproject eligibility criteria are in Appendix 7.

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<sup>21</sup> Experience in Solomon Islands shows that provincial copra production fell by 80%–90% over 2 years when subsidized services were withdrawn in 2001. When regular services provided by the private sector resumed, copra production increased by 50% or more per year (from a very low base) to return to normal within 5 years.

70. Financial and economic evaluations of the FSS have been conducted. The financial analysis shows that the FSS will result in the seven target routes reaching a break-even point of commercial sustainability 3–10 years after project commencement, and that the FSS is the least-cost option to providing services to remote areas. The economic analysis shows that all routes of the FSS have a positive net present value over 20 years of about \$1 million–\$4 million under conservative assumptions.<sup>22</sup> The financial analysis is in Supplementary Appendix B and the economic analysis is in Supplementary Appendix C.

## **B. Poverty Reduction Impact**

71. The Project is geographically targeted at the poorest areas of the country, and will reduce poverty by improving people's access to domestic and international markets for agricultural commodities, thereby offering artisanal income-generation opportunities within the community in place of large-scale commercial exploitation of natural resources. By reducing the cost and time of travel, inducing economic activities, and improving safety the Project will improve people's incomes and food security.

72. During the poverty and social analysis of the subprojects, the economic impacts of the Project on the poor and non poor will be assessed using secondary and field data. Distributional analysis will not be needed unless the initial assessment is considered insufficient, and if the extra data collection and analysis required for distributional analysis is considered worthwhile. A summary poverty reduction and social strategy is in Appendix 8, while a social and poverty impact analysis is in Supplementary Appendix A.

## **C. Social Impacts**

73. Positive social impacts include improved access to government services and education facilities, which will help raise school enrolment and retention rates, and improved access to health services, which will promote more frequent use and facilitate care during medical emergencies for those in rural areas who currently have no way to reach distant provincial hospitals. Other social benefits include easier access to administrative and service centers and improved safety of passengers and crews at wharves.

74. **Gender-Inclusive Development.** Over 20% of the poorest households in rural areas are headed by women. Women's needs in relation to pregnancy, childbirth, and family care mean they are more vulnerable to the negative effects of living in remote rural areas where access to health services and formal education are difficult. There is a strong likelihood that high infant and maternal mortality rates in remote areas are directly the result of poor access to health services, and low enrolment rates among rural children—particularly girls—are attributed in part to the distance to schools. Improving shipping transport services will directly benefit rural women and their children in this regard. The Project will also be proactive in ensuring women's involvement in consultations, HIV/AIDS prevention, and impact monitoring.

75. **Public Health Issues.** While the reported number of infections remains low, Solomon Islands is vulnerable to HIV/AIDS. Risk factors include the prevalence of sexually transmitted

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<sup>22</sup> Services will be provided by existing ships so no new investment is required. Internal rates of return cannot be calculated for the routes since there is no initial capital outlay, but subsidy tenders will be designed to allow operators to structure bids to ensure positive cash flows and adequate financial rates of return. Net present values are positive at an assumed discount rate of 12%, well above the estimated weighted average cost of capital of 7.15%. Sensitivity analyses show the results are robust in case actual costs and revenues vary from projections.

infections, teenage pregnancy, gender inequality and violence against women, recent violent social conflict, and cultural and religious factors. Transport systems and infrastructure development are recognized as a vector for HIV transmission. Several HIV/AIDS prevention and treatment programs and projects are active in the Pacific region and Solomon Islands. HIV/AIDS education and prevention will be integrated into the Project through links to domestic and externally funded projects and technical assistance. Construction contractors will be required to provide their crew and communities with access to education and control programs.

76. **Stakeholder Participation and Consultation.** Initial consultations have been held during project preparation and are reported in the sample subproject documentation in Supplementary Appendix D. During implementation, as part of the poverty and social analysis of subprojects, consultations will be undertaken in each subproject location with (i) resource owners, (ii) households, (iii) the poor and non poor, (iv) females and males, (v) young and old, (vi) the disabled, (vii) community-based and nongovernment organizations, (viii) transport service providers and users, (ix) local contractors, and (x) provincial governments.

77. **Resettlement and Indigenous People.** Subprojects are not expected to require resettlement or land acquisition, as all works will be undertaken at the same locations as existing facilities. If changes in conditions require land acquisition or resettlement for civil works, the Government will inform ADB and prepare a resettlement plan according to relevant laws and regulations, the resettlement framework in Supplementary Appendix H, and ADB guidelines. Native Melanesians, who comprise the vast majority of the population, are the indigenous people of Solomon Islands. The Project is not expected to have a negative impact on indigenous peoples that would trigger ADB's *Policy on Indigenous Peoples* (1998).

#### **D. Environmental Impacts**

78. The Project is classified as environmental category B, as subprojects consist of rehabilitation or reconstruction of existing wharves. Civil works are simple and will have only insignificant environmental impacts. An initial environmental examination (IEE) incorporating an environmental management plan (EMP) has been prepared for the sample subproject. An environmental assessment review procedure (EARP) has been prepared that will guide the environmental management of the Project and environmental assessment procedures for all subprojects. Neither land acquisition nor resettlement is expected to be required. A summary IEE for civil works, prepared in accordance with ADB's *Environmental Assessment Guidelines* (2003), is in Supplementary Appendix F, and full IEEs of two sample subprojects are in Supplementary Appendix D. ADB's assessment procedure is aligned with the environmental impact assessment requirements of the Government's Environment Act (1998).

79. The typical environmental impacts of the subprojects include earthworks that may cause sedimentation of nearby water bodies, potential contamination from lubricating oil, sewage discharge, dust and emission from machinery, and noise. Mitigation measures that will minimize the impacts have been prescribed and will be implemented. Adherence to best engineering practices during rehabilitation, and strict enforcement of the EMP, will avoid or adequately mitigate all of the rehabilitation-related impacts. Subproject environmental selection criteria will ensure that the Project will not harm any ecologically or culturally sensitive areas.

#### **E. Policy and Institutional Improvements**

80. The Government's policy on rural transport is clear and closely supported by ADB's country partnership strategy. Funding arrangements for the FSS and for maintenance of

maritime infrastructure will enhance the Government's capacity to implement its existing policy through operation of the NTF. Establishment of an FSS utilizing a simple and efficient output-based approach will improve policy transparency and sustainability in maritime transport. Project implementation assistance will strengthen MID's capacity for conducting feasibility assessments, design, tendering, supervision of construction, and maintenance, as well as strengthen the ability of the private sector to participate in service provision.

## **F. Project Risks and Safeguards**

81. **Technical Risks.** The effects of climate change could damage infrastructure if designs are inadequate. The Project will mitigate this risk by requiring conservative design assumptions regarding sea level rise and using improved materials. Underestimation of resource allocation, material availability, and inadequate construction methods and equipment might cause delays and increase costs. The project design will mitigate these risks by (i) incorporating provisions in tender documents for evidence of satisfactory past performance in similar conditions; (ii) requiring minimum provision of physical plant at mobilization, detailed quantification of engineering risks, and adequate contingencies; and (iii) holding community consultations in advance, with Government support, on subproject selection and access to resources.

82. **Financial Risks of Construction.** Grant-financed budgetary allocations for the Project could be inadequate as a result of underestimated construction costs, inflation during implementation, and the potential cost of defending construction claims lodged by contractors. To mitigate these risks, the PMU will (i) estimate costs conservatively, (ii) prepare subprojects for concurrent implementation, (iii) use strict and effective contract conditions to mitigate slow contractor performance, and (iv) require a guarantee by the contractor for 1 year following civil works to ensure construction quality. Government budgetary allocations for restructuring, maintenance, and counterpart staff could be inadequate due to poor national financial management. Ongoing programs supported by development partners are strengthening Government budgetary processes, financial management systems, and provincial governance, and will thus improve the environment for project implementation and institutional strengthening.

83. **Financial Risks of the Franchise Shipping Scheme.** Grant-financed budgetary allocations for the Project could be inadequate as a result of a low number of bidders for the franchise routes, resulting in a less than fully competitive bidding process. Bidders might apply a large discount to their bids because of past experience with slow payment for ad hoc charters. To mitigate these risks, the PMU will employ a tender process designed to maximize bidder involvement, including training and workshops to help bidders complete the necessary bid documents, including financial modeling of costs and revenues to assist with contract negotiations. Bidder concerns about slow payment will be mitigated by establishing a management arrangement with clear payment processes, funding that is not dependent on annual budget appropriations, and straightforward payment terms in the franchise contract. Fare and cargo rate levels will be discussed prior to the tender with all stakeholders, in order to obtain recognition of the need for shipping operators to cover their costs.

84. **Institutional Reforms and Sector Restructuring Risks.** Development of management systems for SIMSA depends on successful ADB TA and adequate Government funding. The Government's commitment to the reform process, and associated development and implementation of operational and management procedures, could wane. Further risks include the Government not progressing with timely legal and institutional reforms, and resource shortages within MID. The project design mitigates these risks through close collaboration and cooperation via TA, which involves consultations between Government, the private sector, and

the public. ADB project and TA review missions, as well as country consultation missions, will engage in regular dialogue to maintain support and commitment. ADB will also continue to work closely with development partners to promote sector governance improvements.

85. **Land and Material Acquisition Risks.** Landowners and rural populations are expected to welcome project activities for the social and economic benefits. Existing practice in Solomon Islands is for local landowners to grant access for aggregates as their counterpart contribution. Clear Government and development partner policies regarding counterpart contributions mitigate the risk of demands for compensation. No land acquisition is expected.

86. **Post-Conflict Environment Risks.** The post-conflict environment is stable, and the economy has recovered substantially. The business environment is increasingly positive, as contractors and consultants respond to business opportunities. If political instability increases or the peace and order situation deteriorates, prospective bidders might have less interest in the Project, increasing tender prices. This could also reduce community support for the Project. Continuing assistance by development partners that is both large in scope and long term, to help the Government with its economic and post-conflict recovery efforts, mitigates this risk.

87. Analysis of the risks shows the economic benefits are robust, and adverse social and environmental impacts to be insignificant and capable of mitigation. Cost and implementation risks will be managed through the approach to contractor prequalification, contract conditions, financial incentives, and penalties to avoid late performance problems of previous projects. Overall, the risks are sufficiently manageable to not constitute barriers to project approval.

## VI. ASSURANCES

88. In addition to the standard assurances, the Government has given the following assurances, which are incorporated in the legal documents:

- (i) **Counterpart contributions.** The Government will ensure that its contributions to project costs are available in a timely fashion. The Government will ensure counterpart staff for the Marine Division and the Transport Policy and Planning Unit are available throughout the project duration, and ensure that MID has adequate resources to support its routine operations, including per diem and transport for staff participating in field activities.
- (ii) **Subproject selection.** Prior to the detailed design of any subproject, the Government will obtain ADB's concurrence on the inclusion of the subproject for financing under the Project. Each subproject will be prioritized and selected in accordance with the agreed process and eligibility criteria, through a systematic and consultative approach, covering (a) social, economic, and environmental evaluation; (b) design; (c) procurement; (d) implementation; and (e) monitoring. Each subproject feasibility study will provide sufficient evidence of its eligibility under the agreed criteria to enable ADB to assess the viability and suitability of the subproject. No subproject categorized as category A, in accordance with ADB's *Environment Policy* (2002) or ADB's *Involuntary Resettlement Policy* (1995), will be financed under the Project.
- (iii) **Franchise route selection and procurement.** The Government will ensure that all procurement for the FSS is done in accordance with the procedures satisfactory to ADB. ADB shall have the right to refuse to finance contracts which have not been tendered and/or awarded in accordance with the procedures

acceptable to ADB. Prior to making any change in the routes, vessel eligibility, or performance criteria the Government will obtain ADB's concurrence. Prior to the award of any franchise contract, the Government will obtain ADB's concurrence on the tender evaluation.

- (iv) **Land acquisition and resettlement.** Subprojects are not expected to require resettlement or land acquisition, as all works will be undertaken at the same locations as existing facilities. In the event of unforeseen land acquisition or resettlement needs, the Government will inform ADB and prepare a resettlement plan according to relevant laws and regulations and ADB's *Involuntary Resettlement Policy* (1995). The PMU will ensure that no construction activities begin until ADB has reviewed and approved such resettlement plan.
- (v) **National Transport Fund.** Within 1 year of grant effectiveness, the Government will formally establish the NTF under legislation, appoint trustees, and promulgate regulations for its operation that are acceptable to ADB, including criteria restricting the use of ADB funds and other development partners' funds deposited to the NTF for the purposes approved in respective project documentation.
- (vi) **Maritime Reform Act.** Within 1 year of grant effectiveness, the Government will enact a Maritime Reform Act that establishes the Solomon Islands Maritime Safety Administration as a regulatory body, consolidates and updates all applicable laws, and provides for the establishment of a franchise shipping scheme to be funded by the NTF.
- (vii) **Environment.** The Government will ensure that (a) the Project is carried out in accordance with the project design, and construction and operations will comply with all applicable Government environmental laws and ADB's *Environment Policy* (2002); (b) the EARP will be followed including compliance of subprojects with the operational principles indicated in the EARP; (c) the EMP is updated during detailed design; (d) the environmental mitigation measures specified in the EMP are incorporated into the bidding documents and civil work contractor's specifications; (e) civil works contractors are closely supervised to ensure compliance; (f) the PMU undertakes environmental monitoring and reflects the results in the project progress reports and project completion report; (g) adequate support including training is provided to the MID officer assigned for supervising environmental management to enable environmental supervision and monitoring during construction and operations; and (h) if necessary, an additional officer responsible for environmental management is recruited to supplement the existing environment management capacity of MID.
- (viii) **Labor standards.** The Government will ensure that (a) civil works contracts require contractors employed under the project to incorporate workplace occupational safety standards in accordance with all applicable labor laws and international conventions, (b) contractors provide appropriate training and information for workers on HIV/AIDS prevention, (c) contractors and their workers observe local customs concerning acceptable behavior towards the local population, (d) contractors pay equal wages to men and women for work of equal value, (e) specific clauses to implement this assurance are included in bidding documents, and (f) compliance is strictly monitored during project implementation.

- (ix) **Public consultations and participation.** The Government will ensure that as part of the poverty and social analysis of subprojects, consultations are undertaken in each subproject location with (a) resource owners, (b) households, (c) the poor and non-poor, (d) women and men, (e) young and old, (f) the disabled, (g) community-based and nongovernment organizations, (h) transport service providers and users, (i) local contractors, and (j) provincial governments.
- (x) **Gender-inclusive development.** The Government will ensure women's involvement in (a) consultations held under the Project, (b) HIV/AIDS prevention, and (c) project impact monitoring.
- (xi) **Project performance monitoring and evaluation.** The Government will ensure that within 6 months of grant effectiveness, the EA finalizes and adopts a project performance and monitoring system acceptable to ADB, based on indicators and procedures agreed between the Government and ADB including financial monitoring of the FSS. The EA shall monitor the indicators according to the agreed framework on a quarterly basis to determine the efficiency and effectiveness of the Project, and shall provide to ADB semiannual monitoring reports from the commencement of project implementation until project completion, and thereafter on an annual basis for the first 5 years after project completion.

## VII. RECOMMENDATION

89. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve

- (i) the grant not exceeding \$14,000,000 to Solomon Islands, from ADB's Special Funds resources, for the Domestic Maritime Support (Sector) Project, on terms and conditions that are substantially in accordance with those set forth in the draft Grant Agreement presented to the Board; and
- (ii) the administration by ADB of a grant from the European Commission not exceeding the equivalent of \$5,250,000 to Solomon Islands for the Domestic Maritime Support (Sector) Project.

90. I also recommend that the Board approve the expansion of procurement eligibility for the Domestic Maritime Support (Sector) Project and the technical assistance for Establishment of the Solomon Islands Maritime Safety Administration to allow procurement of goods and services from those countries eligible for procurement under the European Commission regulations, which are not ADB member countries.

C. Lawrence Greenwood, Jr.  
Vice-President

3 November 2008

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Economic disadvantage in remote rural areas is reduced.</p>	<p>Average annual income per household in the target areas will increase from \$2,300 in 2008 to \$3,000 in 2018.</p>	<p>Household Income and Expenditure Survey 2005/6 and updates</p> <p>Project monitoring and evaluation reports</p>	<p><b>Assumption</b></p> <ul style="list-style-type: none"> <li>Sufficient incentives for rural agriculture to grow in response to restored transport.</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Social and political stability could deteriorate.</li> </ul>
<p><b>Outcome</b> Interisland shipping services are frequent, reliable, and safe.</p>	<p>Services on seven remote routes will increase from an average frequency of once a quarter in 2008 to at least once a month by 2018.</p> <p>The inward tonnage of copra per year in the target areas will increase from 4,600 in 2008 to 5,800 in 2018.</p> <p>The number of passengers per year in the target areas will increase from 11,000 in 2008 to 26,000 in 2018.</p> <p>Reported problems with reliability and safety, decline over 10 years.<sup>a</sup></p> <ul style="list-style-type: none"> <li>Number of delayed services will decrease by 20% from 2008 to 2018.</li> <li>Number of accidents will decrease by 20% from 2008 to 2018.</li> </ul>	<p>FSS quarterly reports</p> <p>FSS quarterly reports</p> <p>FSS quarterly reports</p> <p>Community consultations during implementation</p>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Improved transport services will catalyze increased agricultural production.</li> <li>Transport providers have enough capacity to increase services.</li> <li>Sufficient depth in private sector transport market for competitive tenders</li> <li>Private sector operators respond to opportunities</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Constrained commercial finance prevents private sector operators from improving vessels</li> <li>Increasing fuel prices prevent routes from becoming commercially viable</li> </ul>
<p><b>Outputs</b></p> <p>1. Rural wharves constructed or rehabilitated</p> <p>2. Franchise shipping scheme established and operational</p>	<p>At least 12 wharves and jetties constructed or rehabilitated by 2013</p> <p>At least six route franchises successfully tendered and operational by 2010</p>	<p>Project progress and completion reports</p> <p>MID asset inventory</p> <p>FSS quarterly reports</p>	<p><b>Assumption</b></p> <ul style="list-style-type: none"> <li>There are sufficient private sector contractors to create a competitive environment</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Increased material and construction prices could</li> </ul>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
	At least six route franchises remaining operational by 2013	FSS quarterly reports	cause a reduced scope <ul style="list-style-type: none"> <li>• Institutional and legislative reforms could be delayed</li> </ul>
<b>Activities with Milestones</b> <b>1. General</b> 1.1 Recruitment of consultants by March 2009 1.2 Project management unit established by April 2009 1.3 Government to prepare and approve priority list of subprojects by July 2009 1.4 Procurement actions to commence by November 2009 1.5 Inception of civil works by January 2010 and completion by December 2012 1.6 Project performance and monitoring system established by July 2009 <b>2. Project Components</b> 2.1 Rehabilitation or reconstruction of about 12 wharves to good condition by December 2012 2.2 Engagement of FSS management by July 2009 2.3 Design of FSS finalized and tenders called by December 2009 2.4 Regular service operating on seven rural routes by January 2010, continuing for 4 years 2.5 Implementation assistance provided from March 2009 to December 2018			<b>Inputs</b> <ul style="list-style-type: none"> <li>• Asian Development Bank: \$14.00 million grant funded by Asian Development Fund</li> <li>• Cofinancing: \$5.25 million grant funded by the European Commission</li> <li>• Government of Solomon Islands: \$2.15 million</li> </ul>

FSS = franchise shipping scheme, SIMSA = Solomon Islands Maritime Administration, MID = Ministry of Infrastructure Development.

<sup>a</sup> Quantitative indicators to be refined and finalized following completion of baseline surveys.

## MARITIME SECTOR ANALYSIS

### A. Maritime Network

1. Maritime transport in Solomon Islands is a vital component of the country's transport sector due to the lack of road alternatives on most islands. It also provides access between and within the six main islands and some of the smaller island groups. These shipping services are used for (i) passenger travel for social, educational, health, and commercial purposes; (ii) commercial movement of goods from the outer islands to Honiara for both interprovincial trade and export; and (iii) the interisland importation of things such as consumer goods, building materials, and fuel.

2. Throughout Solomon Islands there are designated international ports at Honiara, Noro, and Yandina (although Yandina no longer operates); approximately 86 small wharves and jetties; and 26 anchorages. At present, there are about 60 buying points throughout the islands, each with a storage shed and a radio for the communication of ship schedules, and these allow producers to prepare their cargo in a timely manner.

3. Most wharves and jetties are in poor condition due to age and lack of maintenance. The assets are not appropriately maintained by the Ministry of Infrastructure and Development (MID) unless provincial governments complain that there is a problem. This is a typical reactive maintenance approach. Under a marine infrastructure project executed by the European Commission (EC), 14 wharves and jetties were constructed or rehabilitated; another 23 wharves and jetties were proposed for reconstruction in the National Transport Plan (NTP). Because of the poor condition and the reactive approach, high maintenance costs are incurred. In addition, profits generated by ports have not been sufficient to cover the true cost of capital, and accumulated losses stand at about \$1.5 million because of inadequate funding for operation and maintenance. MID requires appropriate operation of the assets and records of asset use and condition over time in order to justify their maintenance and/or rehabilitation and to sustain their asset operation.

4. The larger islands are all within 400 nautical miles of Honiara. Connecting routes can be divided into outer-interisland routes that are heavily exposed to wind and wave action and inner-interisland routes that are more protected. Services are characterized by long distances from the main centers and export gateways (such as international ports) to remote islands and the weather coasts. The remote areas have small populations and therefore low passenger numbers, which negatively affect the viability of services set up to communities in the areas. The services are often forced by financial necessity to migrate to routes where there is sufficient volume to provide or contribute to commercial viability. This may cause low trade volumes in the remote areas and trade imbalance between the high-volume areas and the remote areas.

5. Remote communities in the Project areas lack reliable maritime services and are among the poorest areas of Solomon Islands.<sup>1</sup> The Project areas have a higher incidence of poverty, lower agricultural productivity, and greater constraints in access to transport services than the national averages. Total demand for transport services in Ontong Java, Renbel, Sikaiana, and Temotu represents 2.1% of passenger trips and 8.0% of cargo shipments out of the total national demand. Except for Renbel, these outer islands are more than 400 nautical miles (741

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<sup>1</sup> United Nations Development Programme. 2007. *Analysis of the 2005/06 Household Income and Expenditure Survey: A Report on the Estimation of Basic Needs Poverty Lines, and the Incidence and Characteristics of Poverty in Solomon Islands*. Fiji.

km) from the economic center through relatively unprotected waters, and hence require larger vessels with higher operating costs, which leads to lower service frequencies.

## **B. Maritime Services**

6. Interisland shipping services are operated by the private sector, church organizations, and by some provincial governments. The role of the private sector has progressively expanded and private operators are now dominant. In 2007, there were 21 active operators and other vessels in operation. The length of time that businesses have been in existence varied from 7 months to 35 years. All are servicing the provinces out of Honiara. Most of the shipping companies operate a single vessel only and mainly serve routes close to Honiara due to the comparatively high volumes of passengers and cargo available. These routes are commercially viable without government assistance. Meanwhile, remote provinces are seldom serviced because they are regarded as commercially unviable. Hence, the Marine Division of MID occasionally charters vessels or space to cover assumed uneconomic routes. Also, the Marine Division has been providing subsidies to some shipping operators to provide services in remote areas. The current method of subsidization involves the division determining both the route and operator for the service. The amount paid to the operator is supposed to be the cost of the uneconomic leg of the service less any revenue received from passenger or cargo fees. Service operators are required to provide log books to the division recording the revenue and passenger numbers. Estimates of the current annual provision for this subsidy are \$39,000 to \$78,000.

7. Generally, management expertise within the domestic shipping industry is very limited. Management appears to vary from business to business and is weak in most of them, although there are some exceptions. Most companies have computers and accounting packages but lack thorough knowledge about the system and require training. Thus, financial information is lacking in almost all of the companies, and they operate on a day-to-day basis. Their first priority is to ensure the survival of their businesses; passenger safety and service quality are secondary. The shipping operators require basic and advanced business management training.

8. Many ships are old (the median age is about 20 years) and thus maintenance and operating expenses are high. Also, the high expenses oppress the costs for improving old ships. Fuel and spare parts are said to be the major cost components of the shipping industry, despite the lack of financial information.

9. Fees and charges for the carriage of passengers and freight have not been regulated since the cessation of operations of the government-owned fleet. Some provincial governments and provincial development authorities, which run many of the shipping companies, currently apply restrictive licenses and license fees to other operators providing services to the province. Although the constitutionality of the fees is unclear, operators pay the fees (which are small relative to the total costs of vessel operation) in order to keep their operation. Such licenses discourage the provision of quality shipping services, interisland trade, and development. Prices are set by the shipping operator and in general they reflect what the market is able to bear. The total price paid by a passenger or a cargo owner increases as trip distance increases, although the rate per nautical mile declines as distance increases.

## **C. Traffic Volume**

10. The international ports of Honiara in Guadalcanal and Noro in Western Province account for more than 80% of total port throughput (excluding logs) in Solomon Islands, with Honiara alone accounting for more than two-thirds of the total. The density of services between

Guadalcanal and Malaita, and between Guadalcanal and Western Province, is very high, and at least destinations in Malaita Province are commercially viable without government assistance.

11. According to a European Union (EU) study of the sector,<sup>2</sup> the annual interisland traffic volumes of domestic passenger and cargo traffic were estimated at 231,000 passenger trips, 96,000 tons (t) of general cargo, 25,000 t of copra, and 185,000 drums of petroleum products. The percentage breakdowns of the interisland traffic by province are also drawn in the study. Given the numbers, traffic in inner provinces (Malaita and Western Province) accounts for more than 90% of the country's total. The outer islands—including all of Renbel and Temotu provinces and the islands of Ndai, Ontong Java, Sikaiana, and Shortlands—are outside of protected waters and, with the exception of Renbel Province, are more than 400 nautical miles from Honiara. For ships on outer island trips, sea conditions dictate larger vessels of 300–500 GT (gross tons). While such vessels are safer at sea, their higher operating costs will inevitably lead to lower service frequencies. It is suggested that actual loadings are typically less than 100 passengers and/or less than 50 t (equivalent to approximately 500 bags of copra). For ships on inner interisland services, the ideal vessel size is 100–300 GT; it is recommended that the actual loading is typically less than 300 passengers and less than 200 t (equivalent to approximately 2,000 bags of copra).

12. On some routes to major towns, alternative air services exist. The existence of air services suggests population density and economic activity, which may also result in greater demand for shipping services. It can be assumed that on these routes the volumes of passengers and cargo are highest and high load factors and frequent services will be common.

13. Fiberglass or aluminum-hulled boats fitted with outboard motors are the most common means for passenger and cargo distribution and consolidation. Such boats are important to provide the final leg in the supply chain to stores all over Solomon Islands, especially in selected buying points in Central and Choiseul provinces. These points typically serve outlying islands some distance from the distribution and consolidation centers.

#### **D. Safety**

14. Deficiencies in maritime safety are identified with respect to compliance with international protocols such as training and ship inspections. Decrepit and unsafe ships ply the waters because of lack of enforcement of regulations. According to the Shipping and Transport College,<sup>3</sup> four ships were lost with 18 casualties from 1999 to 2002. Although compliance is improving in general terms, an adequate plan is required to remedy defects and address human resource issues. Also, environmental matters such as oil pollution are not covered by an adequate pollution response plan. Despite collection of oil pollution levies, there is little or no equipment for oil collection or dispersal. Lack of accurate charts and no electronic compatibility such as GPS (global positioning system) also reduces maritime safety. Finally, search and rescue services need resources in order to perform expected tasks.

15. Generally, effective management of maritime safety is difficult due to (i) insufficient and unpredictable funding due to dependence on the annual government budget; (ii) conflicts between the need to keep vessels in service to operate vital shipping supply lines and the need to ensure the safety of crew, passengers, and the environment; (iii) a limited pool of appropriate expertise; and (iv) inadequate systems vulnerable to cultural and political influences.

<sup>2</sup> European Union. 1999. *Solomon Islands Shipping and Marine Sector Study*. Brussels: EU.

<sup>3</sup> Shipping and Transport College. 2003. *Inter-island Shipping Project Mid-Term Review Final Report*. Rotterdam: EU.

16. Due to a lack of safety awareness, most shipping operators do not prioritize safety measures. On the administrative side, due to the inadequate and vulnerable systems, the Marine Division of MID has weak enforcement of rules in maritime transport, and thus low priority for safety measures. Safety training for shipping operators and the Marine Division staff is required to improve safety awareness. In addition, the introduction of autonomous administration that is not vulnerable to cultural and political influence is vital.

17. The fees currently collected from charges in Solomon Islands fall well short of the cost of delivering maritime safety services. Typical annual revenue is about \$32,500, while annual costs are typically about \$120,000 to \$200,000. As the level of safety services currently delivered is inadequate, it is reasonable to expect that the costs incurred by a properly functioning maritime safety authority would be considerably higher. Due to the funding situation, problems with services, expertise, and systems occur, resulting in ineffective management of maritime safety.

## **E. Institutional Framework**

18. Maritime sector responsibilities are shared between the Marine Division of MID, the Solomon Islands Port Authority (SIPA), and provincial governments. The Marine Division has important regulatory, policy setting, and sector leadership roles as follows: (i) provision and maintenance of navigation aids, (ii) vessel safety and certification, (iii) vessel registration, (iv) officer and crew registration, and (v) organization of search and rescue operations. SIPA is a state-owned enterprise under the Ministry of Commerce, Industries, and Employment, and operates the two international ports (i.e., Honiara and Noro). Its main functions are to (i) design and construct appropriate port infrastructure, (ii) regulate port use through efficient and safe service, (iii) provide pilotage and navigational aids, and (iv) facilitate government-regulated service. Some provincial governments play a multiple role in the domestic shipping sector, such as (i) operating interisland shipping services, (ii) providing jetties and landings used by interisland vessels, and (iii) applying license fees to operators providing services to the province.

19. In the current structure of the Marine Division, an element that appears to be missing is compliance with international protocols and obligations. According to the *Diagnostic Assessment of Interisland Transport*,<sup>4</sup> the current level of service in areas of maritime safety enforcement, aids to navigation, and hydrographic charting is below acceptable standards. Search and rescue has apparently operated effectively, but without adequate systems and support. In each of these areas, there are international standards and protocols that should be met or complied with, and responsibility for compliance in specific areas is not clearly defined. The issue could be addressed by creating separate roles in the divisional structure.

20. The importance of human resource development has been overlooked by the relevant ministries (i.e., MID and Ministry of Education). There is an aging group of senior maritime personnel—including marine tutors, marine surveyors, and marine administrators—in the School of Marine and Fisheries and the Marine Division of MID. Many of them are due for retirement. Hence, fostering the next generation is an urgent task for the Government.

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<sup>4</sup> ADB. 2004. *Diagnostic Assessment of Interisland Transport*. Manila (TA 4527-SOL, approved in December 2004 for \$350,000).

## F. Government Vision and Strategy

21. **National Transport Plan.** The Solomon Islands Government developed the NTP 2007–2026 to provide vision, strategies, policies, and immediate priorities for development of the Solomon Islands transport system. The vision states the importance of “an effective transport infrastructure and transport services to support sustained economic growth and social development in Solomon Islands.” The NTP addresses a strategic framework and direction for achieving the Government’s mission for the transport sector over 20 years by (i) developing transport sector services, (ii) developing and maintaining transport sector physical infrastructure, (iii) improving the competency and capacity of the Government agencies, and (iv) developing transport in the private sector.

22. **Transport Service and the Private Sector.** The NTP strategy aims to provide regular, reliable, and cost-effective shipping services to all areas of the country. For maritime services, the Government will not develop shipping services but will support private operators by providing the infrastructure for the services to operate throughout the country. The means of providing transport access for individual communities and localities will be based on providing the most economically efficient and appropriate means of transport for the communities to access services and markets for their produce.

23. **Physical Infrastructure.** Maritime transport will be supported and augmented by rehabilitated road infrastructure and air services infrastructure to provide an integrated national transport system. Expenditure on transport sector infrastructure will be concentrated on the rehabilitation and maintenance of existing infrastructure. Also, maintenance funding will be increased and kept at adequate levels to maintain infrastructure. To ensure adequate, timely, and consistent funding, the National Transport Fund will be established.

24. **Institutional Environment.** Government agencies involved in the transport sector will be reorganized as regulatory agencies, and their service delivery functions will be outsourced to the private sector. The Transport Task Force, comprising representatives of Government, transport users, and transport service providers, will continue to advise on key issues, development options, and the prioritization of activities relating to the transport sector in general and the NTP in particular. The Government needs to monitor and evaluate plan performance to (i) ensure the appropriateness of the NTP in meeting Government policy and priorities for the transport sector, and (ii) establish the effectiveness of the NTP in meeting the intended outcomes. To monitor and evaluate NTP performance, MID will maintain a transport network database, the Solomon Islands Transport Network Information System (SITNIS), which provides information on the country’s transport system. SITNIS is expected to assist decision making for planning, budgeting, and management of the transport network.

25. **Maritime Infrastructure.** For prioritization of major wharf projects, in addition to the economic viability criteria, the Government will apply criteria such as the social benefits of improved access to health and welfare facilities, enhanced safety, and potential development benefits. To minimize subsequent infrastructure maintenance costs, the Government has adopted the policy of higher-quality reconstruction works rather than lower-cost works with shorter economic life span and higher maintenance costs. This policy makes it possible to reduce project cycle life costs, or whole-of-life costs, of the wharves. Surveys are required to provide up-to-date information on the current and potential wharf and anchorage traffic. In conjunction with the traffic survey, the present state of all wharves must be confirmed. The data will provide more accurate information to determine needs, priorities, and works programs for rehabilitation, new construction, or abandonment of wharves.

26. To provide infrastructure to support shipping services, the Government will (i) provide the necessary annual funding from the consolidated budget for the maintenance of wharves and navigation aids; (ii) adopt assessment criteria for wharf construction based on economic viability together with social and development benefits; (iii) adopt a policy of higher-quality construction and rehabilitation works to improve whole-of-life costs of wharves; (iv) prepare an initial 10-year program of wharf rehabilitation and construction; (v) continue with the existing EU program of wharf construction and navigation aid provision; (vi) utilize funds from funding agencies, where available, for wharf rehabilitation and construction until Government funds are available; (vii) conduct surveys to provide up-to-date information on the current and potential wharf and anchorage traffic and confirm the condition of all wharves; and (viii) retain the Solomon Islands Ports Authority and its management of the three international ports: Honiara, Noro, and Yandina.

27. **Shipping Services.** To assist in the development of regular, reliable, and cost-effective shipping services, the Government will (i) retain the system of the provision of shipping services by private operators; (ii) establish a system for providing financial assistance to private sector ship owners to operate regular, frequent, and safe services to outer islands where commercial services are not commercially viable; (iii) explore options for improving access to finance for purchase of more modern and appropriate vessels by private operators; (iv) seek funding agency assistance to provide training in appropriate small-business management and planning; (v) encourage improvements in the condition of vessels by amending relevant legislation and more rigorously applying regulations relating to ship seaworthiness; and (vi) initiate a consultative process (jointly by MID and the Ministry of Finance and Treasury) to persuade provincial authorities to abandon restrictive regulations and licensing arrangements.

## **G. Main Challenges and Opportunities**

28. The most difficult challenge for the Government is to secure funding for maritime transport, including maintenance, rehabilitation, and operation of maritime infrastructure and the provision of reliable, equal, and safe services in Solomon Islands.

29. Hence, there are several issues, including (i) the establishment of a prioritization process between different transportation modes; (ii) the sustainable maintenance, rehabilitation, and operation process despite limited budgets, such as (a) the utilization of efficient maintenance, rehabilitation, and operation means; (b) the implementation of asset management systems; (c) the incorporation of the systems into a budgeting process; and (d) the improvement of the existing monitoring system; and (iii) the provision of reliable, safe, and economical maritime transport to uneconomical remote areas.

30. Another challenge is to introduce the new systems and processes addressed above into the Government. Effective implementation processes and education are required to enforce regulation for the service provision in order to secure safe maritime transport. Many operators in the private sector may be affected by the reinforcement. Hence, a strategic introduction built on a careful discourse is required.

**EXTERNAL ASSISTANCE TO THE MARITIME SECTOR**  
(1998–2008)

<b>Funding Agency</b>	<b>Grant or TA No.</b>	<b>Description / Year of Approval</b>	<b>Amount (\$ million)</b>
ADB	G-0078	Solomon Islands Emergency Assistance Project (2007)	4.95
	TA 4588	Implementation of Interisland Transport Reforms (2005)	0.50
	TA 4494	Institutional Strengthening of Ministry of Infrastructure Development (2004)	0.70
	TA 4527	Diagnostic Assessment of Interisland Transport (2004)	0.35
European Commission	Grant	Solomon Islands Emergency Assistance Project (2007)	4.00
	Grant	Marine Infrastructure Project II (2005)	8.64
	Grant	Marine Infrastructure Project I (2003)	6.50
	Grant	Transport Sector Strategy (1998)	0.45
Japan	Grant	Construction of Market and Jetty in Auki (2007)	8.00
<b>Total</b>			<b>34.09</b>

ADB = Asian Development Bank, TA = technical assistance,  
Source: Ministry of Infrastructure Development, Government of Solomon Islands.

## DETAILED COST ESTIMATES

**Table A4.1: Detailed Cost Estimates by Expenditure Category**

Item	SI\$ million			\$ million			% of Total Base Cost
	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost	
<b>A. Investment Costs<sup>a</sup></b>							
1. Civil Works	50.52	20.33	70.86	6.56	2.64	9.20	52.7
2. Franchise Shipping Scheme <sup>b</sup>	21.26	15.56	36.81	2.76	2.02	4.78	27.4
3. Consultants	19.72	6.93	26.65	2.56	0.90	3.46	19.8
<b>Subtotal (A)</b>	<b>91.50</b>	<b>42.82</b>	<b>134.32</b>	<b>11.88</b>	<b>5.56</b>	<b>17.44</b>	<b>99.9</b>
<b>B. Recurrent Costs</b>							
1. Wharf Maintenance	0.00	0.15	0.15	0.00	0.02	0.02	0.1
<b>Subtotal (B)</b>	<b>0.00</b>	<b>0.15</b>	<b>0.15</b>	<b>0.00</b>	<b>0.02</b>	<b>0.02</b>	<b>0.1</b>
<b>Total Base Cost (A+B)</b>	<b>91.50</b>	<b>42.98</b>	<b>134.47</b>	<b>11.88</b>	<b>5.58</b>	<b>17.46</b>	<b>100.0</b>
<b>C. Contingencies</b>							
1. Physical <sup>c</sup>	7.62	3.08	10.71	0.99	0.40	1.39	
2. Price <sup>d</sup>	8.70	3.54	12.25	1.13	0.46	1.59	
3. Franchise Shipping Scheme	5.01	2.39	7.39	0.65	0.31	0.96	
<b>Subtotal (C)</b>	<b>21.33</b>	<b>9.01</b>	<b>30.34</b>	<b>2.77</b>	<b>1.17</b>	<b>3.94</b>	
<b>Total Project Cost (A+B+C)<sup>e</sup></b>	<b>112.83</b>	<b>51.99</b>	<b>164.82</b>	<b>14.65</b>	<b>6.75</b>	<b>21.40</b>	

<sup>a</sup> In mid-2008 prices.

<sup>b</sup> Includes taxes for marine fuel, proportional to expected subsidy payment compared to total operating costs. Taxes are reasonable at about 3.5% of total project costs and not targeted at ADB-financed projects.

<sup>c</sup> Computed at 15% for civil works; and 5% for field research and development, training, surveys and studies.

<sup>d</sup> Computed at 7.5% of costs.

<sup>e</sup> Cost estimates include financing of bank charges where applicable.

Source: Asian Development Bank estimates.

**Table A4.2: Detailed Cost Estimate by Financier**

(\$ million)

Item	Cost	ADB		European Commission <sup>a</sup>		Government	
		Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category
<b>A. Investment Costs</b>							
1. Civil Works	9.20	7.68	83.5	0.00	0.0	1.52	16.5
2. Franchise Shipping Scheme	4.78	2.46	51.5	2.11	44.1	0.21	4.4
3. Consultants	3.46	1.41	40.8	1.65	47.7	0.40	11.6
<b>Subtotal (A)</b>	<b>17.44</b>	<b>11.55</b>	<b>66.2</b>	<b>3.76</b>	<b>21.6</b>	<b>2.13</b>	<b>12.2</b>
<b>B. Recurrent Costs</b>							
1. Wharf Maintenance	0.02	0.00	0.0	0.00	0.0	0.02	100.0
<b>Subtotal (B)</b>	<b>0.02</b>	<b>0.00</b>	<b>0.0</b>	<b>0.00</b>	<b>0.0</b>	<b>0.02</b>	<b>100.0</b>
<b>Total Base Cost</b>	<b>17.46</b>	<b>11.55</b>	<b>66.2</b>	<b>3.76</b>	<b>21.5</b>	<b>2.15</b>	<b>12.3</b>
<b>C. Contingencies</b>	<b>3.94</b>	<b>2.45</b>	<b>62.2</b>	<b>1.49</b>	<b>37.8</b>	<b>0.00</b>	<b>0.0</b>
<b>Total Project Cost</b>	<b>21.40</b>	<b>14.00</b>	<b>65.4</b>	<b>5.25</b>	<b>24.6</b>	<b>2.15</b>	<b>10.0</b>

ADB = Asian Development Bank.

<sup>a</sup> This amount also includes ADB's administration fee, audit cost, bank charges and provision for foreign exchange fluctuations (if any), to the extent that these items are not covered by the interest and investment income earned on this grant, or any additional grant contribution by the European Commission (EC). As requested by the cofinancier, EC funds will be front-loaded at the contract commitment level up to the maximum allocated amount of EC financing in individual categories.

Source: Asian Development Bank estimates.

## IMPLEMENTATION SCHEDULE

Project Component	2008		2009				2010				2011				2012				→	2018			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
<b>Grant Effectiveness</b>																							
<b>Project Management</b>																							
PMU recruitment																							
Pre-feasibility																							
Public consultations																							
Feasibility studies																							
Detailed design and bidding documents																							
Tendering, evaluation, and mobilization																							
<b>Civil Works</b>																							
Rehabilitation and construction																							
<b>Franchise Shipping Scheme</b>																							→
Maritime Reform Act																							
Detailed design and bidding documents																							
Tendering, evaluation, and mobilization																							
Management Contract																							→

SIMA = Solomon Islands Maritime Administration, PMU = project management unit.

Source: Asian Development Bank estimates.

## PROCUREMENT PLAN

**Table A6.1: Project Information**

<b>Country</b>	Solomon Islands
<b>Name of Recipient</b>	Solomon Islands
<b>Project Name</b>	Domestic Maritime Support (Sector) Project
<b>Project Reference</b>	SOL 40263
<b>Date of Effectiveness</b>	March 2009
<b>Amount</b>	\$20.35 million
<b>Of which, committed</b>	—
<b>Executing Agency</b>	Ministry of Infrastructure Development
<b>Approval Date of Original Procurement Plan</b>	November 2008
<b>Approval of Most Recent Procurement Plan</b>	November 2008
<b>Publication for Local Advertisements</b>	Expressions of Interest: June 2009 General Procurement Notice: June 2009 Request for Proposals: October 2009 Invitation for Bids: October 2009
<b>Period Covered By This Plan</b>	June 2009–December 2010

— = not available.

Source: Asian Development Bank estimates.

**Table A6.2: Procurement Thresholds for Works, Goods, and Related Services**

<b>Procurement Method</b>	<b>Value To Be Used Above</b>
ICB Works	\$1,000,000
ICB Goods	\$500,000
NCB Works	Less than \$1,000,000
NCB Services	Less than \$500,000
NCB Goods	Less than \$500,000
Shopping Works (including community maintenance contracts)	Less than \$100,000
Shopping Goods	Less than \$100,000

ICB = international competitive bidding, NCB = national competitive bidding.

Source: Asian Development Bank estimates.

**Table A6.3: Procurement Thresholds for Consulting Services**

<b>Procurement Method</b>	<b>Value To be Used Above</b>
Quality- and Cost-Based Selection <sup>a</sup>	\$1,000,000
Consultants Qualifications Selection	—
Least-Cost Selection	—
Exceptional Methods	—
Quality Based Selection	—

— = not applicable.

<sup>a</sup> ADB will select the consultants in accordance with its *Procurement Guidelines* (2007, as amended from time to time).

Source: Asian Development Bank estimates.

**Table A6.4: Contract Packages Exceeding \$100,000 for Goods, Works, and Consulting Services**  
(\$'000)

Ref	Contract Description	Estimated Cost	Procurement Method	Expected Date of Advertisement	Prior Review Y/N	Comments
1	Civil Works - Wharves	\$10,000	ICB	October 2009	Yes	1 package
2	Civil Works - Maintenance	\$20	NCB / S	January 2011	No	To be determined <sup>a</sup>
3	Franchise Shipping Scheme	\$200	NCB	October 2009	Yes	21 packages <sup>b</sup>
4	Vehicles, Office Equipment, and Furniture	\$50	S	March 2009	No	2 packages
5	Consultants Services	\$2,100	QCBS	September 2008	Yes	2 packages

ICB = international competitive bidding, NCB = national competitive bidding, S = shopping, QCBS = quality- and cost-based system.

Note: All tender processes will include measures designed to prevent anti-competitive behavior including clear documentation, public tender openings, and confidentiality of projections.

<sup>a</sup> Number of packages and amount per package to be determined during implementation, following competitive tenders under NCB for civil works between \$100,000 and \$1,000,000 and shopping for civil works under \$100,000.

<sup>b</sup> Based on seven routes tendered for 3-year franchises, over a 10-year implementation period. Number of packages and amount per package to be determined during implementation. Technical and financial qualifications of contractors will be reviewed during tender evaluation for post-qualification.

Source: Asian Development Bank estimates.

## **SUBPROJECT ELIGIBILITY CRITERIA**

### **A. Project Components**

1. The Domestic Maritime Support (Sector) Project will consist of two components: component A will provide investments in rural wharves and jetties; component B will establish a franchise shipping scheme (FSS) to support rural transport through an output-based approach. Subprojects for both components will be analyzed and approved using the sector project modality.

2. Component A of the Project will rehabilitate or construct about 12 provincial wharves, representing a 5-year time slice of the rehabilitation projects in the Government's National Transport Plan (NTP). Wharves to be rehabilitated are mostly of simple concrete and timber construction with earth-filled causeway approaches and gabion-basket erosion protection. Most have deteriorated to such an extent that it would be uneconomical to restore them to an acceptable and maintainable condition. In most cases, rehabilitation will require demolition of existing facilities and construction of new pilings, decks, and causeways.

3. Component B of the Project will design and implement an FSS to award franchises for provision of shipping services to remote areas that are considered commercially unviable. Seven routes have been identified as unviable and potentially eligible for subsidies to private sector operators. Service standards are described in Supplementary Appendix E.

### **B. Subproject Eligibility Criteria for Component A**

4. Subprojects will be subject to investigation and design criteria. Subproject selection and approval will be based on the following general eligibility criteria:

- (i) The subprojects will upgrade or rehabilitate wharves assessed as high development priorities based on their contribution to the objectives of the Government's Medium Term Development Strategy, particularly:
  - (a) potential to catalyze development in remote areas with poor access, including increased agriculture due to lower freight costs and more reliable access;
  - (b) improved accessibility to social services among poor and rural households, including schools, health facilities, and Government extension services;
  - (c) increased opportunities for employment, income generation, and marketing of local products;
  - (d) potential for increased private sector participation in provincial and national economic activities; and
  - (e) contribution to increased incomes and poverty reduction among poor and rural households.
- (ii) The Government will endorse the subprojects through their inclusion and prioritization in the NTP.
- (iii) Communities will agree to use of land (for locations that are not public land) for rehabilitation or reconstruction works.

5. Environmental screening will be conducted for all subprojects. No subproject classified as category A in accordance with ADB's *Environmental Assessment Guidelines* (2003) will be eligible for funding under the Project. In selecting subproject sites, including extraction sites for materials to be imported to the construction sites, the following environmental criteria will be used for the first level of screening. If any of these criteria are found applicable to the site, then the subproject will not be approved as part of the Project:

- (i) wharves in or adjacent to areas classified as ecologically sensitive, and therefore in category A, requiring the production of an environmental impact assessment;
- (ii) the need for major realignment of the existing facility;
- (iii) significant loss or damage to near-shore marine environments, such as reefs, mangroves, or other sensitive coastal areas;
- (iv) permanent negative effect on a known rare or endangered species; and
- (v) permanent damage to irreplaceable cultural relics and archaeological sites.

6. Screening for land acquisition and resettlement impacts will be conducted for all subprojects. No subproject that would entail significant involuntary resettlement, according to ADB's *Involuntary Resettlement Policy* (1995), will be eligible for funding under the Project.<sup>1</sup>

### **C. Subproject Eligibility Criteria for Component B**

7. Subprojects under this component will consist of franchise awards for specific routes. Subproject selection and approval will be based on the following general eligibility criteria:

- (i) Candidate routes will be analyzed and prioritized according to the approved multi-criteria assessment procedure incorporating technical, economic, and social criteria. Criteria will include distance of the route, historically poor services with frequencies of less than monthly, confirmation through community consultations, and approval by the project steering committee.
- (ii) Projections of demand will be based on data established through baseline surveys, comparing the effects of regular and irregular services in the target areas. Passenger trip forecasts will be based on population, number of households, number of children and young people in secondary and tertiary education for each ward in the franchise area, the number of government- and health-related trips, and social events. Cargo volume projections will be based on the share of agricultural products generated in target areas.
- (iii) Assessments will demonstrate financial viability through cash flow analysis and comparison of the expected financial internal rate of return versus the weighted average cost of capital, and economic viability through calculation of positive net present value using an assumed discount rate of 12%.

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<sup>1</sup> Involuntary resettlement addresses social and economic impacts that are permanent or temporary and are caused by (i) acquisition of land and other fixed assets, (ii) change in the use of land, or (iii) restrictions imposed on land as a result of an ADB operation. An "affected person" is one who experiences such impacts. The term affected person includes any people, households, firms, or private institutions who, on account of changes that result from the project, will have their (i) standard of living adversely affected; (ii) right, title, or interest in any house, land (including residential, commercial, agricultural, forest, and/or grazing land), water resources, or any other moveable or fixed assets acquired, possessed, restricted, or otherwise adversely affected, in full or in part, permanently or temporarily; and/or (iii) business, occupation, place of work or residence, or habitat adversely affected, with or without displacement. "Significant" means more than 200 affected persons.

#### D. Subproject Assessment Process

8. Potential subprojects are identified and prioritized in the NTP based on high-level assessments of (i) existing networks; (ii) technical feasibility of providing access by alternative modes; (iii) positive and negative economic, social, and environmental impacts; and (iv) the need for connecting infrastructure (Appendix 2).

9. The Executing Agency, assisted by the project management unit, will conduct and document an assessment of each subproject based on the criteria described above. Each assessment will involve collecting and analyzing baseline data to determine the detailed feasibility and impacts expected, using generally accepted transport planning methods. Community consultations will be conducted to (i) validate baseline data; (ii) identify positive and negative impacts; and (iii) evaluate technical, social, and environmental risks. Throughout the process, particular attention shall be paid to data collection to enable benefit monitoring.

10. Each subproject assessment will include (i) a technical feasibility assessment; (ii) an economic impact analysis; (iii) a social and poverty analysis; and (iv) for component A only, an initial environmental examination and environmental management plan in accordance with the environmental assessment and review procedure. Subprojects will be economically and financially viable. Subprojects for component A will demonstrate an economic internal rate of return of at least 12%. Subprojects for component B will demonstrate positive net present values using an assumed discount rate of 12%. Economic analyses will be conducted in accordance with the Asian Development Bank's (ADB's) *Guidelines for the Economic Analysis of Projects*.<sup>2</sup> Each part of the assessment will confirm acceptable ratings against the criteria, or recommend further work to complete the assessment.

11. The project steering committee will endorse the subprojects that meet all the eligibility criteria. Before the detailed design of any subproject, and its inclusion for financing under the Project, designs are subject to review and approval by ADB. Prior to contract award, the procurement process and tender evaluation report will be subject to review and approval by ADB.

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<sup>2</sup> ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila. Assessments will include alternative modes of transport, full life cycle costs of rehabilitation and maintenance, traffic forecasts based on forecast economic growth, and income elasticity of travel demand in project areas.

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country/Project Title:

Solomon Islands / Domestic Maritime Support (Sector) Project

Lending/Financing  
Modality:

Project / Sector

Department/Division:

Pacific Department  
Pacific Operations Division

### I. POVERTY ANALYSIS AND STRATEGY

#### A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

Solomon Islands does not have a formal poverty reduction strategy, but the Government's recent *Medium-Term Development Strategy 2008–2010*<sup>a</sup> places high priority on pro-poor development strategies aimed at revitalizing the rural economy. Poverty is defined as an inability for sustained self-sufficiency in terms of income, health, or nutrition, as well as "poverty of opportunity" through lack of access to basic social services.

Improved transportation has therefore been identified by the Government in its National Transport Plan (NTP) as a priority need for the estimated 84% of the population who live in rural areas. The NTP sets out a strategic framework to (i) develop transport services, (ii) develop and maintain physical infrastructure, (iii) improve the capacity of Government agencies, and (iv) develop the private sector. Maritime services and infrastructure are essential elements in the country's transport network and a prerequisite for supporting economic development and poverty reduction, as nearly 75% of the population does not have road access.

Improved transportation is also a priority in ADB's country partnership strategy,<sup>b</sup> which aims at rapid, pro-poor, and private-sector-led economic growth by providing transportation infrastructure and services, and strengthening the enabling environment for the private sector. Both aspects are addressed by the Project.

#### B. Poverty Analysis

#### Targeting Classification: Targeted Intervention—Geographical Poverty Issues

##### 1. Key Issues

The lack of regular shipping services to remote areas depresses rural production of commodities and undermines development. Services are unreliable and infrequent, with remote areas served on average only four times a year. Such communities cannot rely on shipping services for passenger travel or transport of cargo, and consequently demand is low. This has a negative impact on agricultural production in these remote provinces as there are strong financial and logistical disincentives to marketing produce outside the immediate local vicinity.

Remote communities in the project areas lack reliable maritime services and are among the poorest areas of Solomon Islands. The project areas have a higher incidence of poverty, lower agricultural productivity, and greater constraints in access to transport services than the national averages. Improved services in project areas can therefore have a disproportionate impact on poverty by catalyzing growth in poorer areas.

##### 2. Design Features

Improvements to domestic shipping services to remote areas are expected to transform local economies by providing opportunities to market copra, cocoa, marine products, and timber domestically and internationally, as well as to market smallholder produce such as betel nut, fish, fruit, and vegetables at larger, more profitable regional markets. This will stimulate increased local production of higher-value products, leading to increased household income and a high positive impact on poorer households. These opportunities will in turn generate demand for shipping services. Reliable and frequent shipping services to the outer islands will also improve people's access to employment and other income-earning opportunities, and contribute significantly to the health and wellbeing of people living in remote areas by enabling access to education, health care, public services, and social events.

Increased frequency of shipping services, together with rehabilitated infrastructure at some key ports, will attract higher flows of traffic into and out of these centers, encouraging the development of small local markets and retail outlets, particularly near wharves. This will offer opportunities for local people, especially women, to generate additional income through the sale of food and other produce to passengers.

## II. SOCIAL ANALYSIS AND STRATEGY

### A. Findings of Social Analysis

Stakeholders in the Project include the Government, the Ministry for Infrastructure Development, provincial governments, vessel owners and operators, business owners and operators dependent on interisland shipping, passengers, and other transport users. Those whose primary purpose is to transport cargo potentially include agriculturalists (producers of cash crops such as cocoa, copra, marine precuts, and timber), subsistence farmers, fishers, and traders. Passengers may include professional people such as teachers, medical staff, and health care workers; government workers; and people with special needs such as women, children, the elderly, the disabled, and those in need of medical treatment. Other passengers include those attending social, family, religious, and recreational functions and sporting events, and tourists.

Communities living in remote outer islands currently suffering from very inadequate shipping services will be the main beneficiaries of more frequent, reliable services to be established under the proposed franchising scheme. These communities were most concerned about the infrequency of shipping services and unpredictability of services, and expressed the view that this was a major contributing factor to the poor status of health and educational services and depressed economic status of these areas. The establishment of improved services was seen as a key to stimulating economic development by providing opportunities for marketing produce, and access to employment and services, and enabling them to participate more effectively in economic and social life.

Findings from community consultations in less-remote areas indicate that safety and poor conditions on board vessels were a major concern. Cost was also a concern, but many believed that a modest increase in fares would be acceptable if the quality of service was correspondingly improved. Respondents also identified the value of competition as an incentive for ship owners and operators to improve the quality and frequency of service and to keep passenger fares and cargo charges low.

With regard to improving maritime infrastructure, demand for reconstruction of wharves was high in the selected subproject sites. The Project was expected to yield significant benefits and opportunities, including increasing incomes of local village households for both women and men. Economic benefits were perceived as the most important positive outcome resulting from the reconstruction of the wharves. At the individual household level, community members envisaged opportunities to earn income arising from casual employment in the construction work itself, together with opportunities to earn income from the sale of food and provision of lodgings to construction workers. Once the wharves were in operation, women in particular were expected to benefit from the opportunity to sell food and other produce to passengers from ships berthed at the wharf, and the presence of the wharf was expected to stimulate the establishment of local markets.

In addition to offering income-earning opportunities to villagers, the wharves were seen by community members as supporting economic growth at a broader level. In Kaonasughu, for example, the fact that the wharf would be linked directly to the new road, including linking the village and surrounds with the main provincial market at Kirakira, was viewed as particularly positive, resulting in direct improvements to access to markets and thus leading to an increase in the production of cash crops. The presence of a wharf was seen by some community members as highly likely to encourage more ships to stop at that site, and thus would lead to greater traffic passing through the site to stimulate economic growth and income-earning opportunities for local people.

Improved access to boats and shipping resulting from the wharf was also seen as benefiting everyone travelling for education and medical treatment. Due to long distances between home and school experienced by many secondary school students, it is usual for students in many areas to board during the school year and go home only two or three times a year. The presence of a wharf was seen as directly benefiting school students and teachers and was expected to greatly facilitate the offloading of school supplies from ships.

Boarding ships from small boats by sick persons, the elderly and disabled, pregnant women, and those carrying young children is often difficult and treacherous, particularly in bad weather and rough seas. While no reports of serious injury were noted, respondents did observe that the current practice of using small vessels to board or disembark from ships was unsafe and uncomfortable, especially given typically overcrowded conditions in the small vessels used to carry passengers between ship and shore. Respondents identified benefits resulting from the presence of the wharf in making boarding and disembarking much easier, quicker, and safer for all passengers.

**B. Consultation and Participation**

1. Provide a summary of the consultation and participation process during the project preparation.

Field research began with initial consultations with primary stakeholders, including provincial government staff and officials, teachers, health centre staff, chiefs and elders, and residents of the area near each proposed subproject site. These initial consultations gauged the general community response to the proposed Project and explained the need for further detailed surveys. These consultations were followed 2–4 weeks later by more detailed surveys, conducted through focus group discussions with women and men and interviews with key individual informants selected from the population living near or within catchment areas surrounding wharf sites. Participation in the focus group discussions represented 5%–20% of the estimated local community populations. Selection of individuals for interview targeted equal numbers of women and men representing a wide range of different age groups and socioeconomic, educational, employment, and occupational statuses.

In addition to the field research conducted at each subproject site, consultations were conducted with communities and individuals in Honiara who are from remote areas, focusing on the existing interisland shipping services to their home provinces, their concerns and needs, and their perceptions of the social and economic impacts of improved shipping services on the lives of people living in their home provinces.

2. What level of consultation and participation (C&P) is envisaged during the project implementation and monitoring?

- Information sharing     Consultation     Collaborative decision making     Empowerment

3. Was a C&P plan prepared?  Yes     No

A participation strategy, including identification of key issues affecting Project implementation related to community engagement and effective achievement of poverty reduction objectives, will be developed. The participation strategy will outline recommendations for ensuring any potential land disputes are dealt with appropriately prior to construction work and good relations are established with contracted construction workers. The engagement of facilitators (either by the Project or construction contractor) will be recommended to assist in drawing up community agreements, negotiate terms of employment (if any) and sale of aggregate (if appropriate); raise awareness of sexually transmitted diseases (STDs) and HIV/AIDS and environmental protection; and reduce the potential for conflict between communities and construction teams. Agreements with communities on maintenance of wharves and access roads will also be drawn up with the assistance of facilitators.

**C. Gender and Development**

**1. Key Issues**

No negative gender issues are anticipated. Women are expected to benefit equally from the Project. Specific concerns of women relating to access to social services are expected to improve.

**2. Key Actions**

Measures included in the design to promote gender equality and women’s empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:

- Gender plan     Other actions/measures     No action/measure

No specific gender plan or other gender-related actions or measures are proposed.

**III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS**

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
<b>Involuntary Resettlement</b>	No involuntary resettlement is expected.	None required	<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input checked="" type="checkbox"/> Resettlement Framework <input type="checkbox"/> No Action

<b>Indigenous Peoples</b>	No adverse impact on indigenous peoples is expected.	None required. Inhabitants of targeted subproject sites are indigenous to areas and will be main beneficiaries.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action
<b>Labor</b> <input checked="" type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input checked="" type="checkbox"/> Core labor standards	Limited impact. Local labor may be engaged on maintenance work on wharves and access roads.	Construction contractor for rural wharves should be encouraged to engage local labor on construction work if appropriate, but requirements may be minimal due to engineering designs. Compliance with national labor laws and regulations are included in the loan assurances.	<input type="checkbox"/> Plan <input checked="" type="checkbox"/> Other Action <input type="checkbox"/> No Action
<b>Affordability</b>	Limited impact. Passenger fares and cargo tariffs could increase, but this is not expected as private sector operators already serve the target areas in a competitive market.	Passenger fare structures and cargo charges should be monitored.	<input type="checkbox"/> Action <input checked="" type="checkbox"/> Other Action <input type="checkbox"/> No Action
<b>Other Risks and/or Vulnerabilities</b> <input checked="" type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> Others	An increased risk of HIV/AIDS is possible around construction camps.  Land disputes could arise over wharf sites.	Public awareness of STDs and HIV/AIDS should be undertaken immediately prior to and during construction work on wharves. Communities, particularly women and girls, and construction teams should be the main target groups for awareness and education programs. These activities should be specified in contract documents.  The status of land ownership should be clearly established prior to final selection of sites, and agreements drawn up and signed by community leaders and landowners ensuring their cooperation and support for the work.	<input type="checkbox"/> Plan <input checked="" type="checkbox"/> Other Action <input type="checkbox"/> No Action
<b>IV. MONITORING AND EVALUATION</b>			
<p>Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>(i) Reported hardship in accessing social services, disaggregated by age and gender  (ii) Reported problems with reliability and safety, disaggregated by gender and age</p>			

<sup>a</sup> Solomon Islands Government. 2008. *Medium Term Development Strategy*. Honiara.

<sup>b</sup> ADB. 2006. *Country Strategy and Program Update (2007–2009): Solomon Islands*. Manila; ADB. 2007. *Country Operations Business Plan (2008–2010): Solomon Islands*. Manila; ADB. 2008. *Country Operations Business Plan (2009–2011): Solomon Islands*. Manila.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. Introduction

1. The project management unit (PMU) will provide day-to-day project management of the Solomon Islands Domestic Maritime Support (Sector) Project, within the Ministry of Infrastructure Development (MID) as the Executing Agency (EA). The project will consist of two major components: investments in rural wharves and jetties, and establishment of a franchise shipping scheme (FSS) to support rural transport services.

2. The team may include, but is not limited to, a project manager, a maritime operation specialist, a civil engineer, a social and poverty specialist, an environmental specialist, a procurement specialist, a field superintendent, and provisional technical services, along with appropriate levels of support staff. All international positions should have national consultants as counterparts. The PMU will follow national labor regulations, and is expected to offer equal opportunities to women and minorities. Consultant selection will be via quality- and cost-based selection procedures with 80:20 weighting for quality and cost respectively.

### B. Civil Works Project Management

3. The primary objective of this component is to assess, design, tender, and supervise construction of about 12 wharves and jetties. The PMU will consist of approximately 85 person-months of international consultants (i.e., project manager 42 person-months, civil engineer 6 person-months, environmental specialist 6 person-months, social and poverty specialist 6 person-months, procurement specialist 3 person-months, and field superintendent 22 person-months) and 72 person-months of national consultants (i.e., deputy project manager 42 person-months, environmental specialist 9 person-months, social and poverty specialist 9 person-months, and community development specialist 12 person-months). The PMU will support MID in managing the Project, particularly in the following areas:

- (i) Implementing the project according to the terms and conditions specified in the grant agreement between the Government and the Asian Development Bank (ADB), and insure that the specified assurances under the control of the PMU are met.
- (ii) Conducting subproject feasibility assessments, including baseline data collection, detailed feasibility studies, economic analysis, environmental assessment, and social impact assessments, in accordance with ADB's *Guidelines for the Economic Analysis of Projects, Handbook for Incorporation of Social Dimensions, Environment Policy* (2002), and *Environmental Assessment Guidelines* (2003).<sup>1</sup> Detailed terms of reference for the environment specialist are attached to the Environmental Assessment Review Procedure (Supplementary Appendix G).
- (iii) Preparing preliminary and final technical documentation, including engineering design and specifications, for subprojects. Technical documentation from ongoing projects can be adapted. Designs should be based on least-cost life cycle analysis of available local materials and procedures.
- (iv) Providing field supervision of subprojects and oversight for other services deemed necessary for implementing the civil works.

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<sup>1</sup> ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila; ADB. 1994. *Handbook for Incorporation of Social Dimensions in Projects*. Manila.

- (v) Preparing tender documents and conducting the tender process for all contracts for civil works, equipment, and consulting services under the Project, in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time) and *Sample Bidding Documents*.<sup>2</sup>
- (vi) Administering, implementing, and monitoring international and national contracts for civil works and consulting services under the Project.
- (vii) Preparing and implementing environmental management plans, as necessary, and ensuring compliance with all assurances under the Project.
- (viii) Assisting MID with initial and ongoing public consultations for subproject feasibility assessment and implementation of civil works.
- (ix) Preparing community participation plans for each subproject and reporting feedback as part of each subproject assessment and progress report.
- (x) Ensuring coordination with other projects being undertaken by MID, development partners, other Government ministries, and the private sector.
- (xi) Building the capacity of MID staff through on-the-job training and establishment of standard procedures that can be replicated for routine MID projects, as well as potential future externally funded projects.
- (xii) Assisting MID in the management and supervision of community participation contracts and training staff in the implementation.

### C. Implementation of the Franchise Shipping Scheme

4. The FSS will support rural transport services through an output-based approach. The PMU will consist of approximately 9 person-months of international consultants (i.e., maritime operation specialist 6 person-months, and procurement specialist 3 person-months), and 52 person-months of national consultants (i.e., deputy project manager 42 person-months [sharing with civil works project management deputy project manager], and accountant 10 person-months). The PMU will undertake the following FSS establishment activities:

- (i) Finalize the routes eligible for the FSS and identify the required level of service.
- (ii) Design a simple and efficient output-based subsidy mechanism that provides incentives for private operators to provide the required services at least cost to Government, and provides targeted support to isolated communities through a process of minimum-subsidy competitive tenders.
- (iii) Establish systems for performance monitoring and payment methods.
- (iv) Develop a competitive tendering scheme, prepare tender documents, and conduct the implementation of the tendering scheme for all contracts for the FSS, in accordance with ADB's *Procurement Guidelines* and *Sample Bidding Documents*.
- (v) Prepare workshops to provide technical assistance for operators and MID staff to participate in the tender process.
- (vi) Assist MID in the management and supervision of community participation.
- (vii) Design and implement an appropriate system of financial management for the FSS, including procedures for the operation of the project imprest bank account and the relationship with the National Transport Fund.
- (viii) Assist MID with monitoring the FSS in terms of finance, contract compliance, and service provision under FSS operation.
- (ix) Establish a management contract with a national accounting firm to manage the day-to-day operations of the FSS, and assist MID in implementing it.

<sup>2</sup> ADB. 2005. *Procurement of Works: Standard Bidding Document*. Manila.

## **D. Capacity Development**

5. Capacity development in MID is required to enable standards of design and implementation management to be sustained at a satisfactory level with minimal assistance after project completion. Also, capacity development is necessary for shipping operators to prepare tenders and manage business operations. Capacity development will be accomplished through on-the-job training conducted by the consultants, development and implementation of standard procedures for MID, and through training conducted by national business training providers for shipping operators. The PMU will undertake the following capacity-building activities:

- (i) Refine tools based on past achievements, including manuals, guidelines and procedures, software and project management tools, knowledge management, and communications.
- (ii) Provide opportunities through the Project for on-the-job training of MID staff in procedures, documentation, and systems developed under the Project and related activities.
- (iii) Provide hands-on training to national consultants and counterparts in the Transport Policy and Planning Unit on data collection, monitoring, and evaluation.
- (iv) Assist the private sector in increasing its participation in maritime transport service provision to enhance capacity, increase efficiency and compliance with regulation, and improve the quality of services.
- (v) Establish a contract with a local business training provider to deliver small-business training in accounting and financial management to shipowners and operators.
- (vi) Conduct workshops for shipowners and operators in preparing competitive tenders for the FSS, based on templates to be included in contract documents.

## **E. Monitoring**

6. MID and the PMU will establish a project performance and monitoring system under the guidance of a benefit monitoring and evaluation specialist (6 person-months of a national consultant). The PMU will conduct a baseline survey, monitor and evaluate the Project's progress annually, and provide a final report within 6 months of the end of the contract. Specifically, it will also undertake the following:

- (i) Prepare indicators for monitoring and evaluating project performance before project commencement, and refine and monitor these indicators during project implementation, in accordance with the design and monitoring framework, guidelines for project performance monitoring indicators, environmental management plans, and environmental assessment and review procedures, all of which are appendixes in the report and recommendation of the President to the Board of Directors (RRP) for the Project.
- (ii) Prepare all documentation required by ADB for monitoring the technical progress of the Project, including the budget and implementation schedule, as well as quarterly payment and disbursement forecasts.
- (iii) Monitor institutional strengthening and capacity building for incorporation into regular project progress reports.
- (iv) Report all activities and monitoring outcomes under the Project in accordance with the RRP and the relevant grant agreement, including, but not limited to, quarterly reports, annual reports, and project completion report.
- (v) Monitor service delivery and reporting by contractors for FSS activities and ensure timeliness and quality of reporting to support FSS management review.

## F. Project Administration

7. For project administration, the PMU will fund approximately 76 person-months of national consultants, including an administrator 41 person-months, bookkeeper 23 person-months, and technical service provider 12 person-months. The PMU will support MID in administering the Project, particularly the following:

- (i) Ensure that the Project is implemented in accordance with ADB guidelines, these terms of reference, and the laws of Solomon Islands, exercising efficient, effective, and economic implementation methodologies.
- (ii) Prepare and maintain a detailed project implementation schedule for all project activities, and identify key milestones to be achieved, in accordance with the RRP and grant agreement.
- (iii) Provide the necessary secretarial and accounting services to ensure effective project administration.
- (iv) Establish and administer a financial management system for the Project in accordance with the relevant ADB guidelines<sup>3</sup> concerning administration of disbursements, imprest account replenishment, submission of withdrawal applications, and arrangement of direct payments to contractors.
- (v) Manage and facilitate the timely disbursement of project funds in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).
- (vi) Report regularly to the project steering committee, and assist the transport policy and planning unit in providing the project steering committee with the services of a committee secretary for its substantive tasks.
- (vii) Follow the Government's environmental assessment procedure and obtain development consent prior to start of civil works, and comply with ADB's *Environmental Assessment Guidelines*.
- (viii) Prepare and implement a public communication plan covering activities under the Project in accordance with ADB's *Public Communications Policy* (2005).

## G. Outputs

8. The PMU shall produce the following outputs:
- (i) subproject assessments, including technical, environmental, and social impact assessments, for all prioritized subprojects;
  - (ii) designs and specifications for all civil works;
  - (iii) evaluation reports for all proposed civil works contracts;
  - (iv) executed civil works contracts;
  - (v) project reports (as detailed in para. 9);
  - (vi) detailed project performance monitoring system (including detailed indicators);
  - (vii) public communications plan;
  - (viii) FSS operation guidelines, procedures, and regulations; and
  - (ix) FSS quarterly reports.

## H. Reporting

9. The consultants will support the MID with reporting requirements, including:
- (i) inception report, within 4 weeks of start of the Project;

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<sup>3</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

- (ii) quarterly progress reports in ADB format, submitted within 1 month of the end of the quarter;
- (iii) draft final report and draft project completion report in ADB format; and
- (iv) final report and final project completion report 1 month after receiving the comments on the draft final report from the Government and ADB.

**Table A9: Cost Estimates**  
(\$)

Item	Foreign Exchange	Local Currency	Total
<b>A. ADB Financing<sup>a</sup></b>			
1. Consultants	2,390,000	400,150	2,790,150
a. Remuneration and Per Diem	2,358,000	387,550	2,745,550
i. International Consultants	2,358,000		2,358,000
ii. National Consultants		387,550	387,550
b. International and Local Travel	32,000	12,600	39,400
i. International	32,000		32,000
ii. Local		12,600	12,600
2. Reports and Communication	5,000	5,000	10,000
3. Equipment	27,500	27,500	55,000
4. Workshops and Surveys	25,000	25,000	50,000
5. Administration and Support Costs	183,225	61,075	244,300
6. Contingencies	263,100	51,900	315,000
<b>Subtotal A</b>	<b>2,893,825</b>	<b>570,625</b>	<b>3,464,450</b>
<b>B. Government Financing</b>			
1. Remuneration Counterpart Staff	0	92,800	92,800
2. Office Accommodation	0	180,000	180,000
3. Per Diem of Counterpart Staff	0	0	0
3. Transport	0	20,000	20,000
4. Administrative Support, Others	0	24,000	24,000
<b>Subtotal B</b>	<b>0</b>	<b>316,800</b>	<b>316,800</b>
<b>Total</b>	<b>2,893,825</b>	<b>887,425</b>	<b>3,781,250</b>

ADB = Asian Development Bank.

<sup>a</sup> Financed on a pro rata basis by ADB (68.8%), European Commission (20.6%), and Government (10.6%).

ADB will administer all financing.

Source: Asian Development Bank estimates.

## TECHNICAL ASSISTANCE

### A. Rationale

1. Marine transport is a vital transportation mode for connecting the six main islands and smaller island groups and remote communities where there is no road alternative. However, lack of Government capacity in maritime administration and safety is recognized.<sup>1</sup> The lack of institutional capacity causes deficiencies in maritime infrastructure maintenance, safety, and administration. To comply with international standards and protocols, it is necessary to improve the Government's capacity.

2. There are institutional capacity constraints in the Marine Division of the Ministry of Infrastructure Development (MID), including lack of strategic direction and an incomplete and outdated regulatory environment. Without a clear strategic plan for improving maritime safety, the effectiveness of the Marine Division is low. There are also issues including inadequate delegation of responsibility and authority, lack of succession planning and a broad-based approach to skills development, and lack of a coherent plan for improving compliance. Because of ineffective maritime safety management, there are deficiencies in compliance with international protocols. A solution to improve the condition of maritime infrastructure, service provision, and safety, is reform of the Marine Division into the new Solomon Islands Maritime Safety Administration (SIMSA), which is urgently demanded.

### B. Institutional Reform Strategy

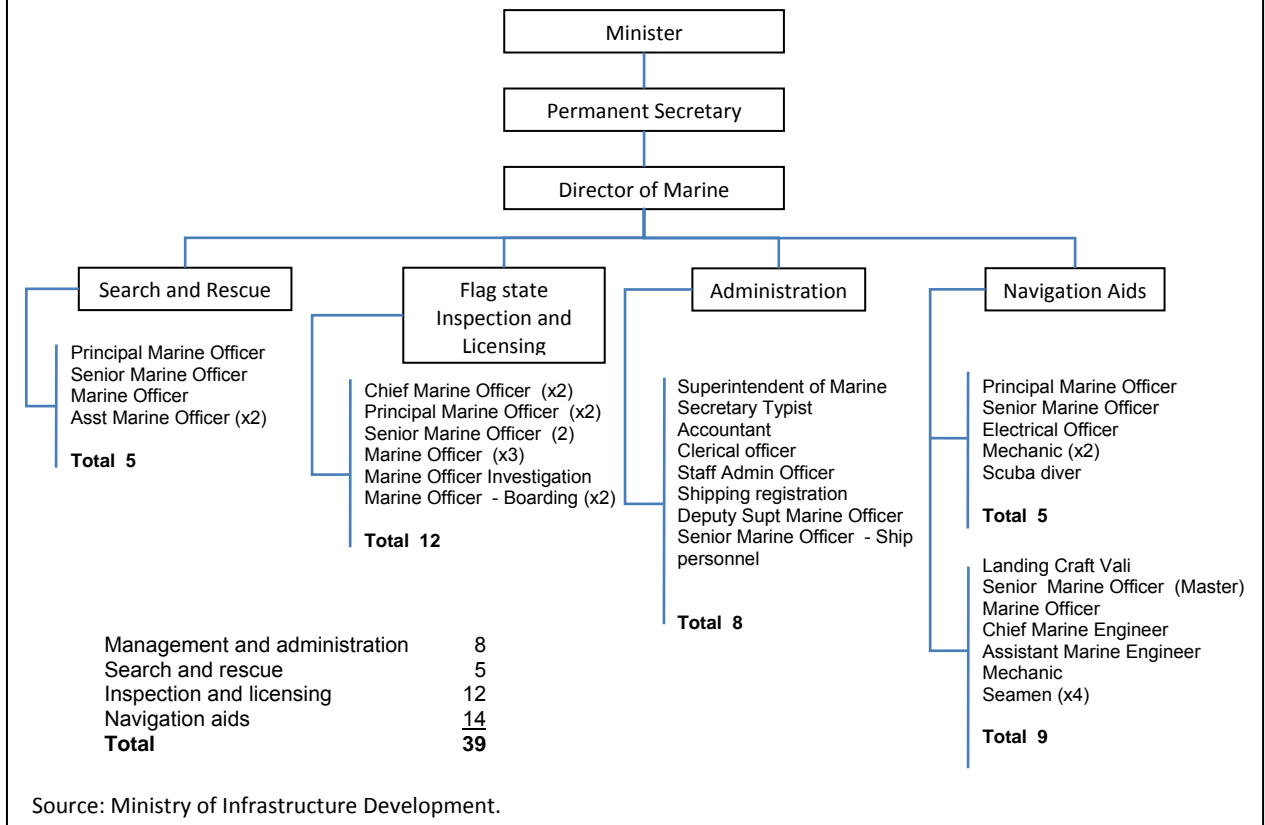
3. The current structure of the Marine Division is shown in Figure A10.1. A critical element missing from the structure is the area of compliance with international protocols and obligations. External reports have identified that the current level of service in areas such as maritime safety enforcement, aids to navigation, and flag state inspection and survey have been acceptable. Search and rescue has apparently operated effectively, but without adequate systems and support. Responsibility for maritime charts has been with the Department of Lands and Survey within the Ministry of Agriculture and Lands, which is not appropriate for this very specialized function. In each of these areas, there are international standards and protocols that should be met or complied with, and responsibility for compliance in specific areas is not clearly defined.

4. Reform of the Marine Division to establish responsibilities as shown in Figure A10.2 will address the central issue of establishing clear responsibility for compliance with national and international protocols and obligations, and provide a more logical structure for divisional responsibilities. The structure will clearly identify the entity as a regulatory administration. Using the proposed Maritime Reform Act to carry out the changes to the structure will give legislative support to the changes and give a clear perception of the nature of the reform to industry and the community. It will also assist in aligning SIMSA with similar entities elsewhere in the region, and allow the replacement of some archaic legislation relating to titles, fees, etc. Importantly, the new status of the entity as an administration, whilst still within the purview of MID, will limit the potential for political interference through its clearly defined regulatory role.

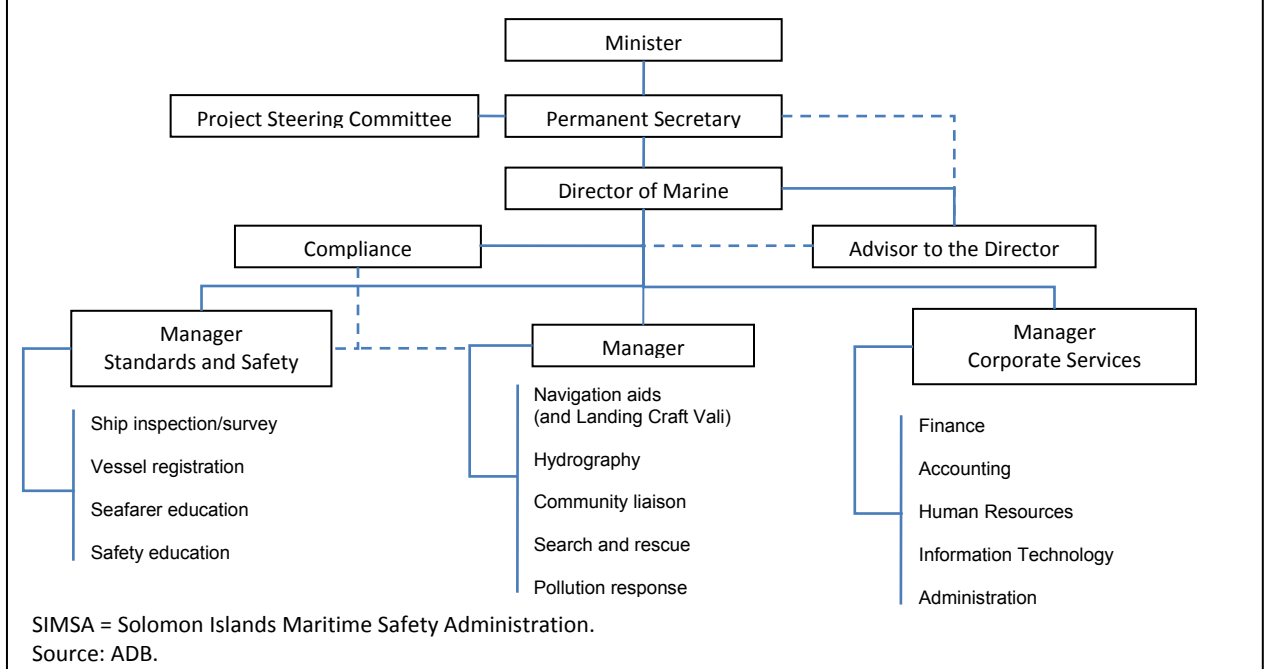
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<sup>1</sup> ADB. 2004. *Technical Assistance to Solomon Islands for Institutional Strengthening in the Ministry of Infrastructure and Development*. Manila (TA 4494-SOL); ADB. 2004. *Technical Assistance to Solomon Islands for Diagnostic Assessment of Interisland Transport*. Manila (TA 4527-SOL); ADB. 2005. *Technical Assistance to Solomon Islands for Implementation of Interisland Transport Reforms*. Manila (TA 4588-SOL); ADB. 2007. *Technical Assistance to Solomon Islands for Preparing the Domestic Maritime Support Project and Technical Support Program*. Manila (TA 4980-SOL).

**Figure A10.1: Current Structure of Marine Division**



**Figure A10.2: Proposed Structure of Responsibilities of SIMSA**



5. The technical assistance (TA) will rationalize the tasks belonging to MID and SIMSA as part of the institutional reform. There are four main tasks in the maritime sector: (i) infrastructure management including maintenance and rehabilitation; (ii) shipping service provision utilizing chartering; (iii) safety including search and rescue, navigation aids, and environmental protection; and (iv) regulation including registration, survey, and licensing. Currently, MID is in charge of all tasks with limited capacity. Once the institutional reform is accomplished, the tasks will be divided between MID and SIMSA. MID will be in charge of the infrastructure management and the service provision through the FSS; SIMSA will provide operational and regulatory oversight of safety. SIMSA may also be involved in operation with respect to monitoring of the infrastructure and service provision, as it can obtain reports regarding infrastructure condition and shipping services from operators. This separation will strengthen the capacities of marine transport authorities through clearer definition of responsibilities. In addition, SIMSA will be free from the task of chartering shipping for commercial purposes.

### **C. Impact and Outcomes**

6. The impact of the TA is frequent, reliable, and safe marine transport. The TA outputs will include enhancing the capacity of SIMSA to implement the Shipping Act 1998, the proposed Maritime Reform Act 2008, and other maritime laws and international convention obligations. It will do so by reforming the Marine Division of MID into SIMSA. The establishment of the maritime authority is expected to improve administration of vessel registry, inspection, survey, and the licensing and certification of seafarers, and improve regulation and oversight of marine safety such as search and rescue, navigation aids, and environmental protection. The TA will consist of three main components as follows:

#### **1. Component 1: SIMSA Establishment and Support Component**

7. This component shall support the establishment of SIMSA and facilitate its transition from the Marine Division. Its outputs shall be the preparation of a human resources structure and a staff development plan, a review of shipping fees and a revised fee structure, improvements to the maintenance of the Register of Vessels and to SIMSA's processes for registering maritime liens and mortgages, and increased access to and understanding of applicable maritime laws and conventions, and management of compliance.

#### **2. Component 2: Safety and Operations Component**

8. This component shall enhance the safety of shipping and port operations within Solomon Islands. Its outputs shall be the development of a search and rescue operations plan, new regulatory arrangements applying to navigational aids and to small craft, and improved procedures and increased capacity to undertake the inspection and survey of vessels.

#### **3. Component 3: Compliance and Enforcement Component**

9. This component shall increase the capacity of SIMSA to enforce the laws under its responsibility and to achieve compliance with the obligations arising under international maritime conventions and agreements. Its outputs shall include new regulatory arrangements applying to marine pollution prevention and response and the dumping of wastes at sea, comprehensive security requirements applying to ships and ports, training programs for Government and industry in relation to legal and compliance issues, and training programs for SIMSA officers in relation to the enforcement of laws and the prosecution of offenders.

## D. Outline Terms of Reference

10. Approximately 25 person-months of international consulting services (i.e., institutional specialist as a senior advisor to the director of SIMSA 22 person-months, and legal specialist 3 person-months) and 35 person-months of national consulting services (i.e., advisor to the director 20 person-months, legal specialist 6 person-months, and financial management specialist 9 person-months) are required in total. Consultant selection will be via quality- and cost-based selection procedures with 80:20 weighting for quality and cost respectively. ADB will engage consulting services for the TA in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time) for the selection and engagement of international and national consultants. Consulting services will be required for three components and capacity development as described below.

### 1. Institutional Reform

11. Consulting services will be required for activities to pursue institutional reform in the three main components as follows:

(i) **Component 1: SIMSA establishment and support component.** The consultant will undertake the following tasks:

- (a) design legal, regulatory, and institutional arrangements, roles, responsibilities, and financing arrangements for establishing SIMSA;
- (b) assist MID in implementing the designed legal, regulatory, and institutional arrangements, and the financing arrangements; and
- (c) implement required resources (e.g., vehicles and equipment) to accomplish SIMSA's tasks.

(ii) **Component 2: Safety and operations component.** The consultant will undertake the following.

- (a) prepare and implement processes and documentation regarding vessel registry, inspection, survey, and licensing and certification of seafarers;
- (b) develop maritime transport operation and management, including business processing, and marine safety such as search and rescue, navigation aids, and environmental protection;
- (c) purchase and provide mandatory safety and search and rescue equipment including life rafts, global positioning system units, and emergency beacons (equipment will be procured in line with ADB procurement guidelines and turned over to MID after completion of the TA); and
- (d) assist MID in developing maritime transport service operation guidelines focusing on safety and administration and FSS procedures.

(iii) **Component 3: Compliance and enforcement component.** The consultant will undertake the following:

- (a) improve the functions of compliance and enforcement in relation to maritime transport laws, and international conventions and agreements in SIMSA;

- (b) develop a learning system regarding compliance and law enforcement not only for SIMSA but for the national maritime industry including private operators; and
- (c) provide mandatory safety equipment to SIMSA and ship operators to improve compliance with national and international safety requirements.

## 2. Capacity Development

12. The primary objective of the TA is capacity development in SIMSA and the national maritime industry. In addition, the secondary objective is safety awareness for private operators. The objective is to enhance capability to a level that will enable standards of implementation to be sustained at a satisfactory level with minimal assistance after institutional reform. Some institutional strengthening activities have been completed. Activities under this component will refine, expand, and build upon past achievements (footnote 1).

13. The institutional strengthening and capacity building of SIMSA and the national maritime industry including private operators will be accomplished through on-the-job training, workshops and seminars conducted by the consultants, and development and implementation of standard procedures and codes of practice appropriate for operations and responsibilities in SIMSA and the maritime industry. The TA project will undertake the following capacity-building activities:

- (i) Assist SIMSA in developing systems and procedures for safety and environmental assessment, monitoring, and reporting.
- (ii) Advise and assist in implementing systems and procedures for procurement of services and equipment, including under international competitive bidding.
- (iii) Develop improved business processes in SIMSA's support functions, with respect to financial management, planning and programming, procurement, quality assurance, and monitoring.
- (iv) Provide opportunity for shipping operators to improve their shipping services in terms of safety and efficiency.
- (v) Provide external training for inspectors and management staff in SIMSA to obtain and strengthen knowledge and skills related to their tasks.

## E. Implementation Arrangements

14. The Executing Agency for the TA will be MID. The project steering committee will also serve as the steering committee for the TA. MID will be responsible for overseeing and monitoring TA implementation, including (i) policy guidance and coordination, (ii) specific outputs as described in the terms of reference, and (iii) project progress reports and other project documentation.

15. Consultants will be engaged in accordance with *ADB's Guidelines on the Use of Consultants*. The TA will be implemented over 2 years, beginning in July 2009, with an expected completion date of June 2011.

## F. Reporting Requirements

16. The consultants will report all activities and monitoring outcomes under the TA including, but not limited to, the following:

- (i) Inception report, within 4 weeks of start of the Project, including a design and monitoring framework, an outline program, and milestones; approach, methodology, and work plan; any cost implications for consulting services; and recommendations for changes in the implementation arrangements.

- (ii) Quarterly progress reports, summarizing activities and progress to date against the work plan, submitted within 1 month of the end of the quarter.
- (iii) Draft final report, summarizing activities and achievements against the terms of reference, including recommendations for future activities, within 1 month of completion.
- (iv) Final report 1 month after receiving the comments on the draft final report from the Government and ADB.

**G. Cost Estimates and Financing Plan**

17. The total cost of the TA will be \$1,925,000 equivalent. The TA will be financed on a grant basis by ADB's TA funding program which will contribute \$1,000,000. The European Commission will provide \$600,000 in joint cofinancing. ADB will administer all financing. The Government will contribute \$325,000 equivalent in counterpart contributions through the provision of counterpart staff, office space and administrative support, and logistics and local transport.

**Table A10: Cost Estimates and Financing Plan**

Item	Total
(\$)	
<b>A. ADB and EC Financing<sup>a</sup></b>	
1. Remuneration and Per Diem	816,200
i. International Consultants	704,000
ii. National Consultants	112,200
2. International and Local Travel	14,800
i. International	10,000
ii. Local	4,800
3. Reports and Communication	10,000
4. Equipment	445,000
5. Training, Seminars, and Conferences	100,000
6. Surveys	25,000
7. Miscellaneous Administration and Support Costs	54,000
8. Contingencies	135,000
<b>Subtotal A</b>	<b>1,600,000</b>
<b>B. Government Financing</b>	
1. Remuneration of Counterpart Staff	159,000
2. Office Accommodation	120,000
3. Per Diem of Counterpart Staff	0
3. Transport	20,000
4. Administrative Support	26,000
<b>Subtotal B</b>	<b>325,000</b>
<b>Total</b>	<b>1,925,000</b>

ADB = Asian Development Bank, EC = European Commission.

<sup>a</sup> EC funds will be front-loaded up to the maximum cofinancing amount of \$600,000 and will be administered by ADB. This amount also includes ADB's administration fee, audit cost, bank charges and provision for foreign exchange fluctuations (if any), to the extent that these items are not covered by the interest and investment income earned on this grant, or any additional grant by EC.

Source: Asian Development Bank estimates.