

Project Administration Manual

Project Number: 42392-01
February 2015

Vanuatu: Interisland Shipping Support Project

Contents

ABBREVIATIONS	5
I. PROJECT DESCRIPTION	1
A. Impact, Outcome and Outputs	3
II. IMPLEMENTATION PLANS	4
A. Project Readiness Activities	4
B. Overall Project Implementation Plan (Updated at Inception Mission)	6
III. PROJECT MANAGEMENT ARRANGEMENTS	8
A. Project Stakeholders—Roles and Responsibilities	8
B. Key Persons Involved in Implementation	8
C. Project Organization Structure	9
D. Partial Administration of Cofinancing	10
IV. COSTS AND FINANCING	11
A. Detailed Cost Estimates by Expenditure Category	12
B. Allocation and Withdrawal of Loan Proceeds	13
C. Detailed Cost Estimates by Financier	14
D. Detailed Cost Estimates by Outputs/Components	15
E. Detailed Cost Estimates by Year	16
F. Contract and Disbursement Projections	17
G. Fund Flow Diagram	18
V. FINANCIAL MANAGEMENT	19
A. Financial Management Assessment	19
B. Disbursement	19
C. Accounting	28
D. Auditing	29
VI. PROCUREMENT AND CONSULTING SERVICES	33
A. Advance Contracting	33
B. Procurement of Goods, Works and Consulting Services	33
C. Procurement Plan	34
D. Consultant's Terms of Reference	39
VII. SAFEGUARDS	55
VIII. SOCIAL AND GENDER DIMENSIONS	57
IX. PERFORMANCE MONITORING, EVALUATION, AND REPORTING	60
A. Project Design and Monitoring Framework	60
B. Monitoring	63
C. Evaluation	68
D. Reporting	69
X. ANTICORRUPTION POLICY	70
XI. ACCOUNTABILITY MECHANISM	71
XII. TECHNICAL ASSISTANCE	72
XIII. RECORD OF PAM CHANGES	81

ATTACHMENT 1. TERMS OF REFERENCE FOR VPMU STEERING COMMITTEE AND PROGRAM MANAGEMENT UNIT	82
ATTACHMENT 2. REPORTING REQUIREMENTS FOR THE PAYMENT OF NEW ZEALAND AID PROGRAMME GRANT FUNDING	84
ATTACHMENT 3. MASTER LIST OF WITHDRAWAL APPLICATIONS	86
ATTACHMENT 4. ASSET REGISTER AND ASSET MAINTENANCE PLAN	87
ATTACHMENT 5. EXECUTING AGENCY'S PROJECT PROGRESS REPORT	88
ATTACHMENT 6. PROJECT PERFORMANCE MONITORING	100
ATTACHMENT 7. PROJECT COMPLETION REPORT	106

Project Administration Manual Purpose and Process

The Vanuatu Interisland Shipping Support project is a joint partnership between the Government of Vanuatu, the Asian Development Bank (ADB), and the Government of New Zealand through the New Zealand Aid Programme administered by the New Zealand Ministry of Foreign Affairs and Trade.

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government of Vanuatu, ADB, and Government of New Zealand policies and procedures. The PAM includes references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Ministry of Finance and Economic Management (MFEM) as the executing agency and the Ministry of Infrastructure and Public Utilities (MIPU) as the implementing agency, are responsible for the implementation of the project, as agreed jointly between the Government of Vanuatu, ADB, and Government of New Zealand, and in accordance with the policies and procedures of all three partners. Moreover, the government established the Vanuatu Project Management Unit (VPMU) in 2010 to manage all externally-funded major projects. The VPMU operates under the oversight of the Vanuatu Project Management Unit Steering Committee (VPMU-SC) who in turn reports to the Council of Ministers. The project implementation team (PIT) engaged under the project assists VPMU in the day-to-day implementation of the project. ADB staff are responsible to support implementation including compliance by the executing agency of its obligations and responsibilities for project implementation.

At Loan Negotiations the Government of Vanuatu and ADB, in consultation with Government of New Zealand, shall agree to the PAM and ensure consistency with the Loan Agreement. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant administrative procedures of the Government of Vanuatu, ADB, (including the Project Administration Instructions) and Government of New Zealand, and upon such approval they will be subsequently incorporated in the PAM.

Abbreviations

ADB	=	Asian Development Bank
EA	=	executing agency
EMP	=	Environmental Management Plans
IA	=	implementing agency
ICB	=	international competitive bidding
ICS	=	Individual consultant selection
MFEM	=	Ministry of Finance and Economic Management
MIPU	=	Ministry of Infrastructure and Public Utilities
NCB	=	national competitive bidding
OMR	=	Office of Maritime Regulator
PIT	=	project implementation team
PWD	=	Public Works Department
QCBS	=	quality- and cost- based selection
SACBS	=	shipping administrator capacity building
SCS	=	shipping coordinator scheme
SEMP	=	site environmental management plan
SSS	=	shipping support scheme
SSU	=	shipping support unit
TA	=	technical assistance
VMSA	=	Vanuatu Maritime Safety Administration
VPMU-SC	=	Vanuatu Project Management Unit Steering Committee
VPMU	=	Vanuatu Project Management Unit

I. PROJECT DESCRIPTION

1. The overall project will improve the efficiency and effectiveness of interisland shipping services through provision of an integrated package of assistance.¹ The Vanuatu Interisland Shipping Project comprises three components: (i) civil works for rehabilitation of existing facilities and construction of new infrastructure, (ii) establishment of shipping support and coordination schemes for service provision on noncommercial routes, and (iii) project management services for efficient and effective project implementation. The project is complemented by associated technical assistance (TA) to improve sector governance and safety regulation and enforcement through institutional strengthening and legal and regulatory reforms. The project components and TA will support one another so that services to remote communities increase to self-sustaining levels.²

2. The first component will construct and rehabilitate new marine infrastructure. A new interisland shipping terminal will be constructed in Port Vila, with berthing capacity to simultaneously handle conventional vessels and landing craft, based on vessels currently in or likely to be added to the Vanuatu fleet. Four other new outer islands wharves will be constructed and two existing outer island wharves will be repaired.³ All sites will have ancillary infrastructure, as appropriate for each location to cater to the transit of passengers (including market shelters and separate facilities for children, women, men, and the disabled) and storage for transshipment of cargo.

3. All infrastructure will be designed and constructed to international standards, with special measures to remove barriers to access by women and the disabled and to ensure adaptation to the effects of climate change, and will have an expected design life of 50 years. Designs will adopt a low maintenance strategy in recognition of the risks of cyclones and earthquakes and the limited capacity for maintenance in outer islands. The government will ensure that its recurrent budget for maintenance of rehabilitated and new facilities is allocated and executed to preserve the assets and avoid deterioration (see Attachment 4 on Asset Register and Asset Management Plan).

4. Under the second component, the project will design and implement support to interisland shipping services to remote areas that are considered commercially unviable. Routes in two provinces 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 the possibility to move to a longer period for subsequent terms.

5. This second component will consist of two schemes: (i) a shipping support scheme (SSS) will provide subsidies for a fixed number of voyages at designated frequencies on otherwise commercially unviable routes based on a least-cost tender process⁴ and (ii) a shipping coordination scheme (SCS) that will appoint people in each province to promote and aggregate demand, and communicate needs for voyages to private sector vessel operators. The SSS will operate under an output-based approach, subsidies will be tied to performance,

¹ Project preparatory technical assistance was provided by ADB and the Government of New Zealand (ADB. 2009. *Preparing the Interisland Shipping Support Project*. Manila.)

² ADB. 2011. *Establishment of Vanuatu Maritime Safety Administration*. Manila (TA 7938-VAN).

³ Wharves to be constructed are Simonsen, Port Sanwich, Lolowai and Loltong and wharves to be repaired are Litzlitz and Lenakal. Waisisi wharf will not be constructed due to additional works outside the project scope and further site investigations associated with it.

⁴ Initially to five destinations in Tafea and Sanma provinces. The scheme will be flexible and allow revision.

including vessel suitability, franchise areas and routes, voyage locations and frequency, and substantiation of voyages. Vessels will be required to meet safety standards and to provide facilities to reduce barriers to use by women. The SCS has been slightly modified to complement the shipping support unit (SSU) established by the government to administer the SSS. Under this arrangement, shipping administrator capacity building services (SACBS) was approved under a minor change in implementation arrangements. A national consultant has been engaged for 18 months over 24 months to build capacity of SSU staff, in financial management, voyage data analysis and administration of SSS. The SSU staff will coordinate with provincial governments to appoint a shipping coordinator in the provinces. The contract documents for SSS required that the vessel operators appoint their shipping coordinators in each province with the responsibility of promoting and aggregating demand and communicating needs for voyages to private sector vessel operators.⁵ Demand for services will be differentiated by gender, and location and services will be required to facilitate access by women. Subsidies required will reduce over time, as routes become commercially viable. The overall support program is scheduled to be implemented over a 5-year period but will be regularly reviewed for adjustment during implementation.

6. The third component will be project management services and other implementing consulting services consisting of national and international consultants and Ministry of Infrastructure and Public Utilities (MIPU) and Vanuatu Project Management Unit (VPMU) counterpart staff (Attachment 1). Management of the shipping support scheme will also be included in the project management services. The project implementation team (PIT) comprising of international and national consultants will be fully integrated in the MIPU's/VPMU's management structure with government professional and technical staff as counterparts. PIT will assist MIPU/VPMU in the day-to-day implementation of the project.

7. The project will be complemented by associated TA to improve sector governance by establishing the Vanuatu Maritime Safety Administration (VMSA) as the fourth component. The VMSA was replaced by the Office of Maritime Regulator (OMR) under a minor change in implementation arrangements. The change was done to have an independent regulator model as opposed to an administration model. The change from VMSA to OMR encompasses a shift in the enabling legislation which provides a broader role of port regulation. A single maritime safety regulator (MSR) bill will be prepared which will also encompass port regulatory functions. The OMR model achieves international best practice principles, has a high degree of harmonization with other regulatory regimes (i.e., telecommunications and utilities regulators already in Vanuatu) and offers the opportunity to fully complement and establish a legislative framework for a maritime regulator that can include international and domestic ports regulation. The OMR will be established in January 2015 after the passage of MSR bill planned for November 2014. Activities will include (i) updating legislation and providing for adequate delegation of responsibility and authority to ensure compliance with safety regulations, (ii) drafting of new regulations to implement the new legislation, (iii) institutional restructuring in MIPU and its departments, and (iv) training and capacity development for staff assigned to new roles. A comprehensive training needs assessment will be conducted and used to develop an institutional development plan that includes measures for increasing the representation of women in the sector. The output will be improvement of institutional capacity for maritime safety compliance including vessel registry, inspection, survey, licensing of seafarers, and administration of ports and harbors.

⁵ The bid documents have been structured for the operators to undertake this tasks to maximize cargo and passenger supplies for revenue generation.

A. Impact, Outcome and Outputs

8. The impact is expected to be that people throughout Vanuatu have improved access to socioeconomic opportunities. The project will focus especially on the national capital of Port Vila and provinces of Malampa, Penama, Sanma, Shefa, and Tafea.

9. The outcome will be that private sector operators provide interisland shipping services that are reliable, safe, and adequately frequent. Outputs will include (i) improved maritime infrastructure in the capital and rural areas, (ii) establishment of shipping support and coordination schemes, and (iii) project management services for efficient and effective project implementation. With respect to item (i), two wharves and three jetties will be constructed and two wharves repaired; and (ii) a navigable channel will be dredged in South Paray Bay. The government will deliberate further on the construction of Waisisi wharf due to (i) 8 kilometers of road and three bridges that would need to be constructed from Waisisi village to the wharf site; and (ii) site conditions/location and wave actions require a more detailed investigation. Output 2 will have three routes and the shipping coordinator scheme has been modified to and is now supplemented by shipping administrator and capacity building services. This modification has been undertaken to align the shipping services being administer by MIPU's shipping support unit (SSU). A national consultant has been engaged to assist SSU staff in the administration of shipping services, build capacity of SSU staff in the analysis of voyage data, prepare voyage reports, collect sex dis-aggregated data and financial management of the shipping services scheme. A team of international and national consultants forming the PIT has been engaged by the government under output 3 to assist VPMU/MIPU in the day-to-day management and implementation of the project.

10. These outputs will be complemented by TA to enhance capacity for sector governance and maritime safety oversight through the OMR, described in Section XII.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

11. MIPU will be an Implementing Agency (IA), supported by the VPMU. The project will be overseen by Director General of MIPU and Director, VPMU. The IA and VPMU will be supported by international and national consultants, working alongside IA technical and administrative staff. The project readiness activities for consultant selection processes under advance contracting action commenced in November 2011. The overall project implementation period has been extended by 6 months to allow for 24 months contract period for the construction of the wharves. The revised physical completion and loan closing dates are 30 June 2017 and 31 December 2017 respectively. These are reflected in the updated implementation plan. The project readiness activities are summarized in Table 1 below.

Table 1. Summary of Current Project Readiness Activities

	Nov 11	Jan 12	May 12	Aug 12	Sep 12	Nov 12	Who responsible
Indicative Activities							
Partner Harmonization Framework				√			Government, Government of New Zealand, ADB
Grant Financing Agreement between government and New Zealand				√			Government & Government of New Zealand
Advance contracting actions for project implementation consultants							
• Recruitment commencement		√					ADB
• Recruitment completed			√				Government
ADB Board approval	√						ADB
Loan signing				√			Government & ADB
Government legal opinion provided				√			Government
Government budget inclusion						√	Government
Loan effectiveness					√		ADB

ADB = Asian Development Bank

Table 1a. Summary of Project Readiness Activities—Additional Financing

	Oct 14	Dec 14	Jan 15	Feb 15	Mar 15	Sep 15	Who responsible
Indicative Activities							
Partner Harmonization Framework				√			Government, Government of

	Oct 14	Dec 14	Jan 15	Feb 15	Mar 15	Sep 15	Who responsible
Indicative Activities							
							New Zealand
Grant Financing Agreement between government and New Zealand				√			Government & Government of New Zealand
ADB Board approval			√				ADB
Loan signing				√			Government & ADB
Government legal opinion provided				√			Government
Government budget inclusion						√	Government
Loan and grant effectiveness					√		ADB

ADB = Asian Development Bank.

Activities with Milestones	2012				2013				2014				2015				2016				2017			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
4.2 Evaluation and Award of Contract																								
4.2A Geotechnical Investigations																								
4.3 Preparation of Design and Bid Documents																								
4.4 Recruitment of Shipping Administrator																								
4.5 Tendering and Award of Franchise Shipping Scheme																								
4.6 Tendering and Award of Civil Works Contracts																								
4.7 Supervision of Civil Works																								
Overall at project approval																								
Individual activities at project approval																								
At project inception																								
Updated at additional financing project																								

III. PROJECT MANAGEMENT ARRANGEMENTS

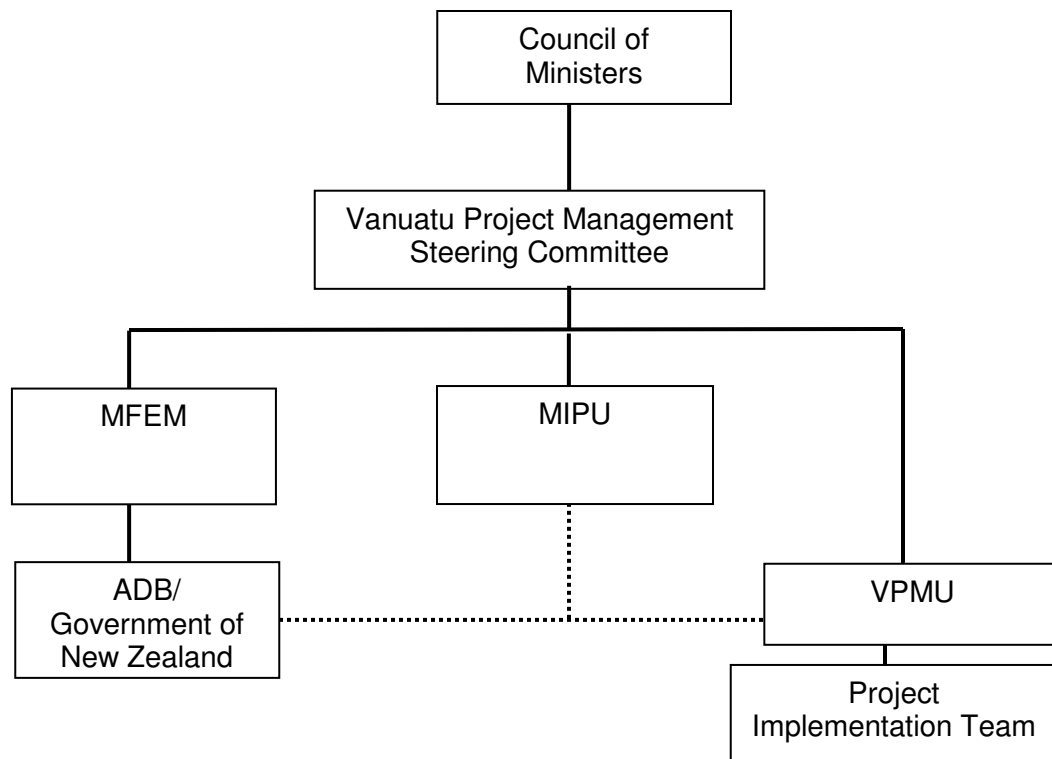
A. Project Stakeholders—Roles and Responsibilities

Project Stakeholders	Management Roles and Responsibilities
Ministry of Finance and Economic Management	Borrower and executing agency <ul style="list-style-type: none"> Ministry representing for external borrowing
Ministry of Infrastructure and Public Utilities	Implementing agency <ul style="list-style-type: none"> Project implementation, procurement, technical and financial management, withdrawal applications, reporting, audited statements Water transport sector infrastructure provision, maintenance, policy and regulatory formulation, and enforcement Funding balance of project cost and providing in-kind counterpart contributions
Vanuatu Project Management Unit	Oversee and provide overall project management support to MIPU
Asian Development Bank	Lender <ul style="list-style-type: none"> Project financier: concessional loan/technical assistance grant Administrator of Asian Development Bank funds Partial administrator of Government of New Zealand's financing
Government of New Zealand	Cofinancer <ul style="list-style-type: none"> Cofinancer through grant assistance

B. Key Persons Involved in Implementation

Ministry of Finance and Economic Management	George Maniuri, Director General Tel: +678 23032, email: gmaniuri@vanuatu.gov.vu
Ministry of Infrastructure and Public Utilities	Johnson Binaru lauma, Director General Tel: +678 22790, email: jbiauma@vanuatu.gov.vu
Vanuatu Project Management Unit	Johnson Wabaiat, Director, Tel: +678 33240, email: jwabaiat@vanuatu.gov.vu
Asian Development Bank	Andrea Iffland, Regional Director Tel: +61 2 8270 9444, email: aiffland@adb.org
New Zealand Government	Mikaela Nyman New Zealand High Commission, Port Vila Tel: +678 22933, email: Mikaela.Nyman@mfat.govt.nz

C. Project Organization Structure



ADB = Asian Development Bank; MFEM = Ministry of Finance and Economic Management; MIPU = Ministry of Infrastructure and Public Utilities; VPMU = Vanuatu Project Management Unit

12. The Executing Agency (EA) of project is the MFEM while MIPU is the Implementing Agency (IA). Under the Council of Ministers (COM) approval, the Vanuatu Project Management Unit (VPMU) was establishment in 2010 to manage all the externally funded major projects. The VPMU reports to the Prime Minister's Office (PMO). A VPMU Steering Committee (VPMU-SC) as specified in the VPMU Charter – September 2013 provides policy guidance and resolves implementation issues. It is also mandated by the COM as the decision making body to govern the overall VPMU operations and provide direction to the VPMU staff in order to conduct its duties. The Director General of PMO is the chairman of VPMU-SC which reports to the COM.⁶

13. VPMU/MIPU and PIT meets monthly to resolve technical issues as they arise during implementation. Progress reporting will be provided to the VPMU-SC for review and clearance before they are submitted to ADB and Government of New Zealand. Port Vila based ADB and Government of New Zealand officials attend regular monthly meetings.

14. The cost of additional staff (salary and direct costs relating to those positions) within VPMU required to oversee this project. The VPMU is an established office within the Prime Minister's Portfolio that has dual responsibility jointly to the Prime Minister's Office and MFEM.

⁶ The other members of VPMU-SC are: Director General, Ministry of Finance and Economic Management, Director General, MIPU, Director General, Ministry of Foreign Affairs, Director General, Ministry of Tourism and Trade, Director, Public Works Department, Director, Department of Strategic Planning, Policy and Aid Coordination, Director, Department of Finance and Treasury. The Director, VPMU is the Secretariat of VPMU-SC. Port Vila based ADB and Government of New Zealand officials are invited as observers in the VPMU-SC meetings but are non-voting members.

The VPMU provides secretariat support for the VPMU-SC. Any additional funding to support VPMU will be subject to agreement of a detailed budget by Government of New Zealand. Given that VPMU manages all externally funded projects, it has been strengthened by additional provisions from various sources of external funds for (i) an international expert as project management advisor, (ii) a national engineer/project manager (iii) an economist/monitoring and evaluation officer, and (iv) a communications/public relations officer. An executive secretary has been added to VPMU funded by the government.

D. Partial Administration of Cofinancing

15. ADB will partially administer grant cofinancing to be provided by the Government of New Zealand through the New Zealand Aid Programme. In doing so, ADB will review the procurement of works, goods, and services by MIPU (including but not limited to invitations to bid, bidding documents, specifications and other documents relating to procurement) as well as approve the award of contracts proposed by MIPU for such procurement in accordance with ADB's *Procurement Guidelines* (2013, as amended from time to time) and eligibility requirements and in consultation with Government of New Zealand. See Section VI for details.

16. ADB and Government of New Zealand will review the terms of reference for consultants to be engaged by MIPU, including tasks, qualifications and proposed terms and conditions of employment. ADB will review the selection and recruitment process and in consultation with Government of New Zealand approve the contract(s) negotiated between the consultants and MIPU. Consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time). See Section VI for details.

IV. COSTS AND FINANCING

17. The overall project (2014) is estimated at \$51.62 million. Civil works represent about \$38.47 million including dredging of a channel, the shipping support and coordinator schemes about \$1.05 million, project management about \$4.79 million, contingencies \$6.64 million and interest about \$0.67 million. The estimated costs will be subject to detailed design and procurement or bid pricing. The actual split of funds under these components will be updated at midterm review.

18. The current project was estimated to cost \$26.82 million.⁸ Civil works represent about \$18.22 million, the shipping support and coordinator schemes about \$1.05 million, project management about \$3.99 million, and contingencies and interest about \$3.56 million. The government requested a loan in various currencies equivalent to SDR 6,708,000 [\$10,820,000 equivalent] from ADB's Special Funds resources to help finance the project. The government requested for grant finance from the Government of New Zealand of NZ\$15.75 million (\$12.60 million equivalent) in joint cofinancing has been provided directly to the government. This arrangement will be mutually agreed between the Governments of New Zealand and Vanuatu. The executing agency will administer both the grants according to the terms and conditions of the grant agreements between the Government of Vanuatu and Government of New Zealand. ADB will provide partial administration of the Government of New Zealand grant following the Partial Administration Modality limited to procurement services as agreed under the current project.⁹ This may be paid in the currency requested by the government, up to the maximum New Zealand dollar value in this agreement. Any interest earned by the government on grant funds held, may be used for the project costs.

19. The additional financing project is estimated at \$24.80 million. Civil works represent \$20.25 million, project management services \$0.80 million and contingencies and interest about \$3.75 million. The government has requested additional loan in various currencies equivalent to SDR12,600,000 [\$18.48 million equivalent] from ADB's Special Funds resources to help finance the project. The loans will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement. The government has requested additional grant finance from the Government of New Zealand of NZ\$6 million (\$4.65 million equivalent) in joint financing directly to the government. Eligible expenditures such as local transportation, insurance, installation, commissioning, and initial maintenance will also be met from the Government of New Zealand grant funds.

20. The government will provide counterpart financing of \$5.07 million (\$3.40 under current project and \$1.67 million under additional financing project) equivalent including: (i) land for the Port Vila facility, (ii) contribution to the SSS, (iii) project management personnel and office space, (iv) contingencies, (v) interest during construction, and (vi) exempt the taxes and duties and the value added tax of 12.5% (\$6.36million) under its existing procedures. Details of the cost estimates and the financing plan are shown in Tables A (2011 & 2014) through E.

⁸ All financial figures are expressed in US dollars.

⁹ ADB will provide procurement supervision services. Government of New Zealand will pay ADB a 0.1% service charge based on the actual expenditures incurred under the project, or \$30,000, whichever is greater. Board paper on *ADB-Administered Grant Cofinancing Partial Administration Modality and Related Service Charges*, 9 December 2003.

A. Detailed Cost Estimates by Expenditure Category

		2011				2015				Total Increase/Decrease			
		(\$ million)				(\$ million)				(\$ million)			
		Foreign Exchange	Local Currency	Total Cost	% of Total Base Cost	Foreign Exchange	Local Currency	Total Cost	% of Total Base Cost	Foreign Exchange	Local Currency	Total Cost	% Increase/decrease
A.	Investment Costs^a												
1	Infrastructure (Civil Works)			18.22	67.9%			38.47	74.5%			20.25	111.1%
	A. Loan and grant funded investment costs	16.72	0.00	16.72		35.51	1.46	36.97		18.79	1.46	20.25	
	B. In-kind contribution of government land for Port Vila wharf	0.00	1.50	1.50		0.00	1.50	1.50		0.00	0.00	0.00	
2	Service Support (SSS & SCS)			1.05	3.9%			1.05	2.0%			0.00	0.0%
	A. Loan and grant funded subsidies	0.80	0.00	0.80		0.80	0.00	0.80		0.00	0.00	0.00	
	B. Cash contribution from government for subsidies	0.00	0.25	0.25		0.00	0.25	0.25		0.00	0.00	0.00	
3	Implementing Consulting Services			3.99	14.9%			4.79	9.3%			0.80	20.1%
	A. Loan & grant funded implementation assistance	3.37	0.00	3.37		4.17	0.00	4.17		0.80	0.00	0.80	
	B. In kind contribution from government of personnel, office space, etc.	0.00	0.62	0.62		0.00	0.62	0.62		0.00	0.00	0.00	
	Subtotal (A)	20.89	2.37	23.26	86.7%	40.48	3.83	44.31	85.8%	19.59	1.46	21.05	90.5%
B.	Contingencies												
1	Physical	1.27	0.34	1.61	6.0%	3.04	0.29	3.33	6.0%	1.47	-0.05	1.72	106.8%
2	Price	1.27	0.32	1.59	5.9%	3.03	0.28	3.31	6.0%	1.47	-0.05	1.72	108.2%
	Subtotal (B)	2.54	0.66	3.20	11.9%	6.07	0.57	6.64	12.9%	3.53	-0.10	3.44	107.5%
C.	Financing Charges During Implementation												
1	Interest during implementation	0.00	0.36	0.36	1.3%	0.00	0.67	0.67	1.3%	0.00	0.31	0.31	86.1%
	Subtotal (C)	0.00	0.36	0.36	1.3%	0.00	0.67	0.67	1.3%	0.00	0.31	0.31	86.1%
Total Project Cost (A+B+C)^b		23.43	3.39	26.82	100.0%	46.55	5.07	51.62	100.0%	23.12	1.67	24.80	92.5%

SCS = shipping coordinator scheme; SSS = shipping support scheme.

a In mid-2010 prices. Includes taxes and duties of \$300,000 to be financed by ADB and New Zealand resources, which are reasonable and not targeted at ADB-financed projects.

b Amounts and percentages may not sum precisely due to rounding.

Source: Asian Development Bank estimates.

B. Allocation and Withdrawal of Loan Proceeds

1. Original Financing

CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage of Total
		Category	Subcategory	
1	Civil Works	5,939,000		57.3% of total expenditure
2	Shipping Support Scheme	236,000		36.3% of total expenditure
3	Unallocated	533,000		
	TOTAL	6,708,000		

2. Additional Financing

CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage of Total
		Category	Subcategory	
1	Civil Works	10,582,000		76.6% of total expenditure
2	Shipping Support Scheme	0		
3	Unallocated	2,018,000		
	TOTAL	12,600,000		

Note: Table will be updated with SDR equivalent.

C. Detailed Cost Estimates by Financier

Item	Original Financing							Additional Financing ^a							2015						
	ADB (ADF Loan)		New Zealand ^b		GoV		Total Cost	ADB (ADF Loan)		New Zealand ^b		GoV		Total Cost	ADB (ADF Loan)		New Zealand ^b		GoV		Total Cost
	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category		Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category		Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	
A. Investment Costs^a																					
1 Infrastructure (Civil Works)																					38.47
A. Loan & grant funded investment	9.59	57.4%	7.13	42.6%	0.00	0.0%	16.72	15.51	76.6%	3.28	16.2%	1.46	7.2%	20.25	25.10	67.9%	10.41	28.2%	1.46	3.9%	36.97
B. Government in-kind contribution of land	0.00	0.0%	0.00	0.0%	1.50	100.0%	1.50	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.00	0.0%	0.00	0.0%	1.50	100.0%	1.50
2 Service Support (SSS & SCS)																					
A. Loan and grant funded subsidies	0.38	47.5%	0.42	52.5%	0.00	0.0%	0.80	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.38	47.5%	0.42	52.5%	0.00	0.0%	0.80
B. Government funded subsidies	0.00	0.0%	0.00	0.0%	0.25	100.0%	0.25	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.00	0.0%	0.00	0.0%	0.25	100.0%	0.25
3 Implementing Consulting Services																					
A. Loan & grant funded implementation assistance	0.00	0.0%	3.37	100.0%	0.00	0.0%	3.37	0.00	0.0%	0.80	100.0%	0.00	0.0%	0.80	0.00	0.0%	4.17	100.0%	0.00	0.0%	4.17
B. Government in-kind contribution	0.00	0.0%	0.00	0.0%	0.62	100.0%	0.62	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.00	0.0%	0.00	0.0%	0.62	100.0%	0.62
Subtotal (A)	9.97	42.9%	10.92	46.9%	2.37	10.2%	23.26	15.51	73.7%	4.08	19.4%	1.46	6.9%	21.05	25.48	57.5%	15.00	33.9%	3.83	8.6%	44.31
B. Contingencies																					
1 Physical	0.43	26.7%	0.84	52.2%	0.34	21.1%	1.61	1.48	86.0%	0.29	16.9%	-0.05	-2.9%	1.72	1.91	57.5%	1.13	34.0%	0.28	8.4%	3.32
2 Price	0.42	26.4%	0.84	52.8%	0.33	20.8%	1.59	1.49	86.6%	0.28	16.3%	-0.05	-2.9%	1.72	1.91	57.5%	1.12	33.7%	0.29	8.7%	3.32
Subtotal (B)	0.85	26.6%	1.68	52.5%	0.67	20.9%	3.20	2.97	86.3%	0.57	16.6%	-0.10	-2.9%	3.44	3.82	57.5%	2.25	33.9%	0.57	8.6%	6.64
C. Financing Charges During																					
1 Interest during implementation ^c	0.00	0.0%	0.00	0.0%	0.36	100.0%	0.36	0.00	0.0%	0.00	0.0%	0.31	100.0%	0.31	0.00	0.0%	0.00	0.0%	0.67	100.0%	0.67
Subtotal (C)	0.00	0.0%	0.00	0.0%	0.36	100.0%	0.36	0.00	0.0%	0.00	0.0%	0.31	100.0%	0.31	0.00	0.0%	0.00	0.0%	0.67	100.0%	0.67
Total Project Cost (A+B+C)^d	10.82		12.60		3.40		26.82	18.48		4.65		1.67		24.80	29.30		17.25		5.07		51.62
% Total Project Cost		40.3%		47.0%		12.7%	100%		74.5%		18.8%		6.7%	100%		56.8%		33.4%		9.8%	100%

ADB = Asian Development Bank, ADF = Asian Development Fund, SCS = shipping coordinator scheme, SSS = shipping support scheme, TA = technical assistance.

a In mid-2010 prices. Includes taxes and duties of \$300,000 to be financed by ADB and New Zealand resources, which are reasonable and not targeted at ADB-financed projects.

b Administered by the Ministry of Finance and Economic Management as the executing agency. ADB will provide partial administration (see paragraph 13). New Zealand will also finance audit costs at an estimated \$30,000 per year.

c Interest during construction has been computed at 1% per year.

d Amounts and percentages may not sum precisely due to rounding.

e The additional financing will not be utilized until the original financing is fully disbursed for that category.

Source: Asian Development Bank estimates.

D. Detailed Cost Estimates by Outputs/Components

Item			2011 (\$ million)								2015 (\$ million)							
			Total Cost	Component 1: Infrastructure		Component 2: Support Services		Component 3: Project		Total Cost	Component 1: Infrastructure		Component 2: Support Services		Component 3: Project			
				Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category		Amount	% of Cost Category	Amount	% of Cost Category				
A.	Investment Costs ^a																	
	1	Infrastructure (Civil Works)	18.22							38.47								
		A. Loan and grant funded investment costs		16.72	91.77%	0.00	0.00%	0.00	0.00%	36.97	36.97	100.00%	0.00	0.00%	0	0.00%		
		B. In-kind contribution of land for Port Vila wharf		1.50	8.23%	0.00	0.00%	0.00	0.00%	1.50	1.50	100.00%	0.00	0.00%	0	0.00%		
	2	Service Support (SSS & SCS)	1.05							1.05								
		A. Loan and grant funded subsidies		0.00	0.00%	0.80	76.19%	0.00	0.00%	0.80	0.00	0.00%	0.80	100.00%	0	0.00%		
		B. Cash contribution from government for subsidies		0.00	0.00%	0.25	23.81%	0.00	0.00%	0.25	0.00	0.00%	0.25	100.00%	0	0.00%		
	3	Implementing Consulting Services	3.99							4.79								
		A. Loan & grant funded implementation assist.		0.00	0.00%	0	0.00%	3.37	84.46%	4.17	0.00	0.00%	0.00	0.00%	4.17	0.00%		
		B. In kind contribution of personnel, office & cash		0.00	0.00%	0	0.00%	0.62	15.54%	0.62	0.00	0.00%	0.00	0.00%	0.62	0.00%		
		Subtotal (A)	23.26	18.22	78.33%	1.05	4.51%	3.99	17.15%	44.31	38.47	86.82%	1.05	2.37%	4.79	10.81%		
B.	Contingencies																	
	1	Physical ^b	1.60	1.25	78.37%	0.07	4.39%	0.28	17.24%	3.32	2.89	87.05%	0.08	2.41%	0.21	6.33%		
	2	Price ^c	1.60	1.25	78.37%	0.07	4.39%	0.28	17.24%	3.32	2.89	87.05%	0.08	2.41%	0.21	6.33%		
		Subtotal (B)	3.19	2.50	78.37%	0.14	4.39%	0.55	17.24%	6.64	5.78	87.05%	0.16	2.41%	0.42	6.33%		
C.	Financing Charges During Implementation ^d																	
	1	Interest during implementation	0.36	0.28	77.78%	0.02	5.56%	0.06	16.67%	0.67	0.54	80.60%	0.02	2.99%	0.11	16.42%		
		Subtotal (C)	0.36	0.28	77.78%	0.02	5.56%	0.06	16.67%	0.67	0.54	80.60%	0.02	2.99%	0.11	16.42%		
Total Project Cost (A+B+C) ^e			26.82	21.00	78.30%	1.21	4.51%	4.60	17.15%	51.62	44.79	86.77%	1.23	2.38%	5.32	10.31%		

ADB = Asian Development Bank, ADF = Asian Development Fund, SCS = shipping coordinator scheme, SSS = shipping support services.

a In mid-2010 prices. Includes taxes and duties of \$300,000 to be financed by ADB and New Zealand resources, which are reasonable and not targeted at ADB-financed projects.

b Computed at 7.5% for civil works, shipping support, technical assistance, and project management.

c Computed at 7.5% on foreign exchange and local currency costs.

d Interest during construction has been computed at 1% per year.

e Amounts and percentages may not sum precisely due to rounding.

Source: Asian Development Bank.

E. Detailed Cost Estimates by Year

		Item	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017	Total Cost
A.		Investment Costs ^a						
	1	Infrastructure (Civil Works) ^b	0.00	0.00	13.00	18.20	13.53	44.73
	2	Service Support (SSS & SCS) ^b	0.00	0.08	0.36	0.43	0.35	1.21
	3	Implementing Consulting Services ^b	1.02	1.25	0.99	1.03	0.73	5.01
		Subtotal (A)	1.02	1.33	14.35	19.65	14.61	50.95
B.		Financing Charges During Implementation	0.10	0.12	0.15	0.15	0.15	0.67
		Total Project Cost (A+B)	1.12	1.45	14.50	19.80	14.76	51.62
		% Total Project Cost	2.17%	2.81%	28.08%	38.36%	28.58%	100.00%

SCS = shipping coordinator scheme; SSS = shipping support scheme.

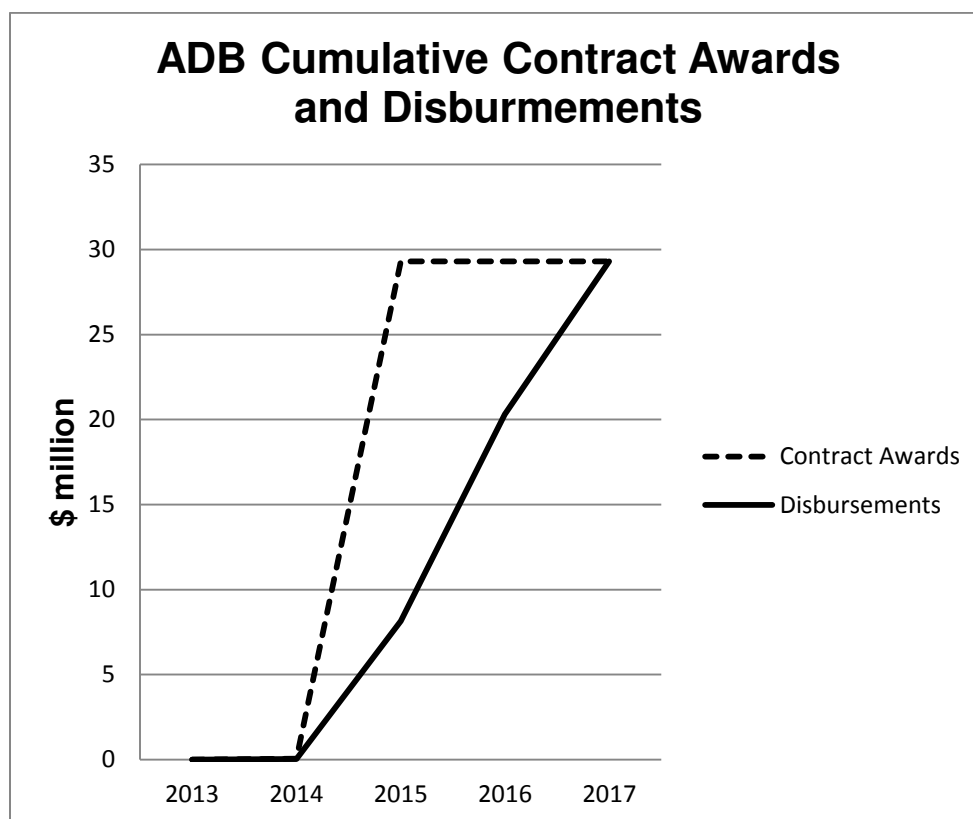
a The total cost amount represented in this table is the sum of all ADB and cofinancing funds for the project.

b Contingency is distributed in the investment costs.

Source: Asian Development Bank estimates.

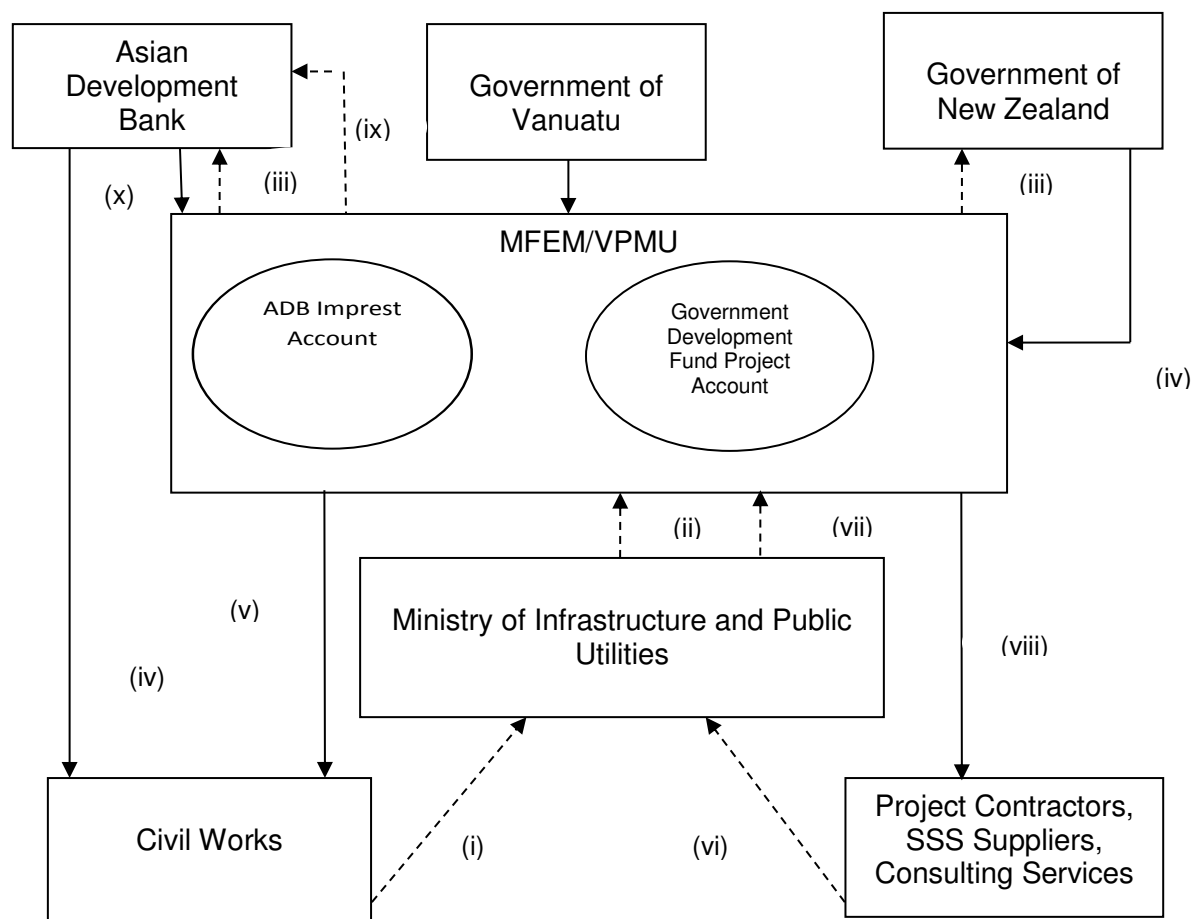
F. Contract and Disbursement Projections

21. The graph shows contract awards and disbursement over the life of the project, and annually based on the contract awards and disbursement projections.



G. Fund Flow Diagram

22. The following shows how the funds will flow from ADB, Government of New Zealand, and the Government of Vanuatu to implement project activities.



Direct Payment Procedure:

The Government of New Zealand pays its contribution to the Government Development Fund Project Account.

- (i) The project contractor/supplier/consultant issues invoice to MIPU, which checks the claim.
- (ii) The invoice is sent by MIPU to MFEM/VPMU for verification.
- (iii) MFEM/VPMU upon endorsement, submits invoices together with withdrawal applications to ADB and/or Government of New Zealand.
- (iv) ADB makes direct payments to contractors for civil works and for the Government of Vanuatu and Government of New Zealand contributions, MFEM makes payment to contractors for civil works from the Government Development Fund Project Account.

Imprest and Development Fund Procedures:

- (v) The project contractors/suppliers/consultants issue an invoice and submit them to MIPU for verification
- (vi) MIPU verifies invoices and submits them to VPMU for further verification and endorsement
- (vii) MFEM makes payment to project contractors/SSS/suppliers of goods/consultants of Government and Government of New Zealand from the Government Development Fund Project account, MFEM makes payment of ADB's share from ADB imprest account
- (viii) MFEM/VPMU sends withdrawal applications for replenishment to ADB
- (ix) ADB replenishes its imprest account

ADB = Asian Development Bank; MFEM = Ministry of Finance and Economic Management; MIPU = Ministry of Infrastructure and Public Utilities.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

23. Financial management assessment established that the government's policies and procedures are clear, unambiguous and focused on the control and accounting for revenue inflows and expenditure outflows. The government implements an integrated computerized and centralized financial management system. The government has adopted International Public Sector Accounting Standards including accrual accounting and double entry bookkeeping, and reporting via a Chart of Accounts tied to budgetary cycles. Further capacity development under the project will strengthen financial management capacity in the EA and IA.

24. A financial management assessment was completed as part of the current project.¹¹ The assessment concluded that overall inherent risk and overall control risk was *moderate* and a number of risk mitigating measures were proposed. Since the time of the original assessment, the VPMU has been established, with responsibility to manage project funds and report to financing partners. The VPMU is adequately staffed with qualified finance personnel and has appropriate financial management systems and reporting mechanisms for all externally funded major projects.

B. Risk Analysis

25. The following assessment of risks is based on the existing public financial management environment in the country and in MIPU, relying on existing staff and finance and accounting policies, procedures and practices. The risk-mitigation assessment considers the factors which will significantly reduce or eliminate the risks identified.

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
Inherent Risks			
1. Country-Specific Risks	S	<p><i>Weak Financial Management Environment</i> –while budget execution and reporting standards are generally sound, audit, planning, and transparency issues need further improvement</p> <p><i>Management and skill capacity issues</i>– in common</p>	<p>Vanuatu has recently started to reform its legal framework such as updating the PFMA Act in 2009 and the ERA Act in 2008 with the new Auditor-General being appointed in late 2009. Vanuatu will continue to reform its legal framework and ensure that the new legislations are enforced. Development partners' initiatives on improving financial management environment and promoting good governance will also continue to be implemented in the country.</p> <p>Various donor funded projects include an element of training and capacity building in their</p>

¹¹ ADB. 2011. Financial Management Assessment (unpublished). Manila.

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
		<p>with many developing countries, Vanuatu has a shortage of skills in financial management, financial analysis and management accounting.</p> <p><i>Corruption</i>—allegations of corruption and malfeasance have characterized some aspects of transport and trading in Vanuatu.</p>	<p>project activities which is directed towards upgrading, improving and strengthening the performance of public servants holding key finance positions in the Ministries. This proposed project is no exception.</p> <p>The project financial management arrangements established by the government through the Department of Finance and Treasury, and the VPMU under the oversight of the VPMU-SC, are considered to be operating effectively, and no change to those arrangements is proposed.</p> <p>The international consultants will assist both MIPU and VPMU with the day-to-day implementation of this project and the relevant training and capacity building will be provided to MIPU.</p> <p>ADB's Anticorruption Policy (1998, as amended from time to time) was explained to and discussed with the government under the current project and will continue to apply.</p> <p>ADB will include anticorruption provisions in the grant provisions and the bidding documents of the project, consistent with its commitment to good governance, accountability and transparency.</p> <p>ADB will reserve the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the project.</p> <p>MIPU will establish a grievances mechanism and committee to deal with any concerns arising from project implementation.</p>
2. Entity-Specific Risks	M	<p><i>Lack of Ni-Vanuatu project championship</i>—although the MIPU has been involved with ADB and other donor projects in the past, these projects have always been managed through a separate PMU and consequently, the Ministry has never been in direct charge of the financial management, accounting, financial reporting and audit</p>	<p>The Ministry of Finance and Economic Management (MFEM) as the executing agency and the Ministry of Infrastructure and Public Utilities (MIPU) as the implementing agency, are responsible for the implementation of the project.</p> <p>Moreover, the government established the Vanuatu Project Management Unit (VPMU) in 2010 to manage all externally-funded projects. The VPMU operates under the oversight of the Vanuatu Project Management Unit Steering Committee (VPMU-SC) who in turn reports to</p>

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
		<p>of these projects. The department's financial management, accounting and reporting capacity is therefore limited only to servicing the requirements of the government financial instructions and thus unable to accommodate the demands of complex financial management and information systems or reporting requirements of major financial institutions such as the ADB.</p>	<p>the Council of Ministers.</p> <p>The project implementation team (PIT) engaged under the project assists VPMU in the day-to-day implementation of the project. The PIT will assist MIPU with the day-to-day implementation of this project. The consulting firm will assist and train MIPU and VPMU to ensure that a good financial management system is instituted and that proficient and skilled staff is engaged on the project. They will also ensure that the more rigorous requirements of the ADB and other co-financiers are met.</p> <p>ADB staff will also support implementation including compliance by the executing agency of its obligations and responsibilities for project implementation.</p>
3. Project-Specific Risks	M	<p><i>Poor procurement arrangements</i>—Vanuatu has not been subject recently to a comprehensive review of public procurement operations. Moreover, given the absence of lending operations in the past decade, Government has little direct experience of procurement arrangements and operations.</p> <p><i>Procurement is not integrated at the project level with the government's financial management system.</i></p> <p><i>Lack of appropriate project management skills in the program/project administration staff.</i></p>	<p>Various donor funded projects include an element of training of procurement, disbursements and project management arrangements in their project activities. This proposed project is no exception. In addition, ADB will regularly conduct regional workshops to train staff from the relevant agencies on ADB procurement, disbursement arrangements and project management.</p> <p>Through the piggy back TA and coordination with Australia's Governance for Growth Program, the development and implementation of project management and information system will be supported</p> <p>MIPU and VMPU assisted by implementation consultants will have a significant knowledge of project management and be familiar with or have some experience in the management of procurement, disbursements arrangements from ADB. A training component in the implementation phase of the project will also provide an opportunity for staff engaged on the</p>

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
			project to acquire skills and get exposure to the procurement, disbursement arrangements and project management.
Overall Inherent Risk	M		
Control Risks			
1. Implementing Entity	M	The organizational structure of the MIPU is appropriate for implementing the operational needs of the project. However, <i>the accounting and financial management structure is inadequate</i> and needs tailoring to meet the project's administration, accounting and financial management requirements.	Since the time of the original assessment, the VPMU has been established, with responsibility to manage project funds and report to financing partners. The VPMU is adequately staffed with qualified finance personnel and has appropriate financial management systems and reporting mechanisms.
2. Funds Flow	M	Rigorous procurement procedures and introducing direct payments for high profile contractors may slow down the flow of funds and stall project progress. Existing accounts staff in MIPU do not have the capacity to manage foreign exchange risk but those in MFEM have.	VPMU staff and contractors will be provided training on their responsibilities and tasks as well as in ADB requirements to ensure that they perform their respective roles effectively and thus facilitate an efficient flow of funds. There will be some need for management of exchange risks, especially if overseas contractors are engaged on civil works contracts. MIPU and VPMU will engage staff who have the capacity to manage exchange risks.
3. Staffing	H	The organizational structure of existing accounts staff in MIPU is not adequate to serve the needs of the project due to lack of availability of skilled staff.	An organizational structure of the accounting department of the executing agency will be set up during the project implementation phase. The structure will ensure that there is proper segregation of duties and that staff capabilities commensurate with their responsibilities. MIPU will recruit finance and accounts staff that are adequately and appropriately qualified and experienced for the tasks. Some positions may also be contracted. The project implementation

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
		<p>The project accounts and finance staff currently not trained in ADB procedures</p> <p>Lack of performance review process for staff. Sanctions for poor staff performance (including financial breaches) are rarely used.</p>	<p>specialist will also prepare a training needs analysis for VPMU staff and extend the training to MIPU staff.</p> <p>A capacity building component in the implementation phase will conduct / coordinate appropriate training in ADB procedures for project staff and MIPU staff to ensure that relevant skills and knowledge of ADB procedures is sustained after project completion.</p> <p>Work plans/written position descriptions with nominated core activities for all MIPU personnel to be developed. Performance management process to be developed in order to retain and reward the right calibre of skilled staff. Project manager(s) to be informed of their performance responsibilities.</p>
4. Accounting Policies and Procedures	M	<p>Account and bank reconciliations are not performed in a timely manner, which fundamentally undermines internal controls.</p> <p>There are no documented policies on conflict of interests or related party transactions.</p>	<p>VPMU and MIPU will ensure that the bank reconciliations are done on a timely basis by an accounting staff different from the person(s) making or approving payments.</p> <p>Policy on conflict of interests or related party transactions to be documented. The MIPU and VPMU will recognize the need for segregation of duties and to ensure that various functional responsibilities are performed by different units or persons.</p>
5. Internal Audit	M	No internal audit in place in MIPU.	<p>To mitigate any risks arising from the absence of an internal audit function within MIPU, it will be ensured during planning stage that the internal control environment within the proposed VPMU office is strong. Assistance to reinvigorate the internal audit of government financial systems would be prudent to mitigate any possible risks in revenue collection and expenditure associated with loans project. MFEM's internal audit may be introduced subject to discussions with MIPU.</p>
6. External Audit	S	Annual audits not conducted and completed within 6 months from end of fiscal	Annual project accounts with detailed supporting documentation and reconciliations are to be produced by the VPMU immediately

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
		year as required by ADB grant covenants.	<p>after the end of each fiscal year to enable external auditors¹² to start their audit earlier and have it completed within the 6 months required period.</p> <p>The project accounts will be audited by the OAG or pending the workload of OAG's staff, they may be outsourced to external auditors acceptable to the ADB. The VPMU will decide on this in consultation with ADB. The OAG, entity's auditor, appears eligible to conduct the audit.</p>
7. Reporting and Monitoring	M	Financial reports not provided on a timely basis to enable regular management analysis and corrective actions to be taken in time to address any delays and / or deficiencies occurring during project implementation.	<p>The consultant will be required to produce monthly financial accounts and reports in conformity with International Accounting Standards.</p> <p>Month-end deadlines will be set for staff performing these roles to put them on alert.</p>
8. Information Systems	M	<p>The existing government integrated FMIS contains most of sub-ledgers, however, not all of them were implemented when it was established in 2002. Job costing, inventory, investments and borrowings sub-ledgers have yet to be installed as it may not be possible to integrate these with the original software.</p> <p>A software that is not integrated with the MFEM FMIS has been used to establish Asset Register. The Asset Register system uses an alphanumeric based code that does not align with capital expenditure accounts in the MFEM's charts of accounts. This leads to duplications of effort</p>	<p>The cost-benefits analysis will be prepared as to whether the whole system software may require replacement.¹³ Appropriate actions will be taken based on this analysis.</p> <p>As a result of structural differences between the financial system and the asset register system, reconciliations will be regularly performed by the MFEM to ensure that the two remain in balance with each other. The MIPU will perform an asset audit every six months to ensure that all assets are at their respective locations and in working condition. Periodic asset checks will be also carried out. Procedures for reporting fraud, waste, misuse of assets will be documented.</p>

¹² External auditors are selected by MFEM in liaison with the auditor general using Government procedures and approved by ADB before formal appointment.

¹³ ADB and New Zealand. March 2009. *Vanuatu Inter-island Shipping Support Project. (Phase II)*. Port Vila page. 223

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
		in data entry. Throughout the Government, including MIPU the management and maintenance of inventory records is weak and generally ineffective.	The MIPU's PWD would be marginally better informed if there was a better inventory control and job costing system in place. However, with the PWD contracting all larger projects out to qualified private sector companies, it is unlikely that the expenditure and effort required could be justified. The cost-benefits analysis will be undertaken by the consulting firm on this matter. Also for the project, a separate asset registry will be maintained.
Overall Control Risk	M		
* H = High, S = Substantial, M = Moderate, N = Negligible or Low.			

26. The Government notes that the risk assessment was conducted in 2010 and since then progress has been made which the Government has requested to be reviewed and updated during the midterm review.

C. Disbursement

27. Loan disbursement is a key element in the project cycle. ADB expects that proposed disbursement procedures and fund-flow mechanisms will be suitable for the project. ADB procedures for withdrawal of loan proceeds are standardized to facilitate disbursements under most loans. Loan proceeds from the ADB will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time),¹⁴ and detailed arrangements agreed upon between the government, ADB and Government of New Zealand.

28. New Zealand Aid Programme Grant Funding will be paid directly to the Development Fund or a specific project account established by MFEM for this project. Payments will be made under the Terms and Conditions set out in the Grant Funding Arrangement between the Government of New Zealand and the Government of Vanuatu. The financial and non-financial reporting requirements, and forecast timing for the release of each tranche payment are specified in Attachment 2. These include a bank reconciliation of New Zealand Aid Programme Grant funding, Project Progress report. All requisitions and local purchase orders must be authorized under the agreed process set out above.

29. Disbursements of the New Zealand Aid Programme grant for each component of the project will be directly made by MFEM, on receipt of a correctly authorized requisition and Local Payment Order from VPMU, to the consultants, suppliers and contractors in accordance with the financing plan as set out in this document and the grant agreement between the

¹⁴ Available at: http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf.

governments of Vanuatu and New Zealand. Alternatively, if requested by the Government of Vanuatu, Government of New Zealand will make payments directly to the consultants, contractors and suppliers for payments over \$100,000, in line with the direct payment procedures below, rather than by 6 monthly grant funding tranches in advance. The Grant Funding Arrangement will be updated to reflect this. For payments less than \$100,000 an imprest account for New Zealand funding may also be opened as per paras. 32-35.

30. **Direct Payment.** The direct payment procedure is a disbursement procedure where the ADB or Government of New Zealand (if applicable), at the borrower's request, pays a designated beneficiary (e.g., supplier, contractor, or consultant) directly. Disbursements from the loan proceeds under the civil works contracts will generally be by direct payment procedures. VPMU on behalf of MFEM (as executing agency) will review the claims submitted under the contracts by MIPU (as implementing agency) and prepare the withdrawal applications with complete supporting documents, and submit to ADB or Government of New Zealand (if applicable) for processing of payments.

31. ADB Loan Disbursement Handbook (2012, as amended from time to time) (Chapter 7) reflects the requirements of direct payment procedure. A signed withdrawal application (Appendix 7A of Loan Disbursement Handbook) must be submitted to ADB together with a summary sheet (Appendix 7B of Loan Disbursement Handbook or Attachment 3 of PAM) and the required supporting documents. A separate withdrawal application is required for each different currency. To prove the requested disbursement is for eligible project expenditures incurred, the supporting documents listed in Table 2 must be submitted to ADB together with the withdrawal applications. ADB will return withdrawal applications that do not meet the requirements. Additional supporting documents may be required depending on the transaction involved.

Table 2

Payment for	Payment Type	Required Supporting Documents
Goods	Goods One time or installment payment	Supplier's invoice, or purchase order (indicating date, amount, and bank account details)
Services	Advance payment	Consultant's or service provider's invoice (indicating amount of advance payment and bank account details)
	Progress payment	Consultant's or service provider's invoice (indicating date, amount, and bank account details)
Civil Works	Advance payment	Contractor's invoice (indicating date, amount, and bank account details)
	Progress payment	Contractor's invoice and interim payment certificate or summary of work progress (indicating period covered, amount, and bank account details)
	Retention Money or Performance Bond	Contractor's invoice (indicating date, amount, and bank account details) and unconditional bank guarantee (if required)

32. In addition, supporting documents summarized in Table 3 should be retained by the Borrower for annual audit of project financial statements and/ or ADB's review. ADB reserves the right to request submission of such documents if deemed necessary.

Table 3

Payment for	Payment Type	Required Supporting Documents
Goods	Goods One time or installment payment	Bill of lading or delivery receipts, bank guarantee if required under the contract, and other documents as required in the contract
Services	Advance payment	Consultant's or service provider's invoice (indicating amount of advance payment and bank account details), bank guarantee. Contract terms and conditions which refer to payment of advance and progress payments, breakdown of amount due, and other documents as required in the contract Consultant's or service provider's invoice (indicating date, amount, and bank account details)
	Progress payment	
Civil Works	Advance payment	Contract terms and conditions which refer to payment of advance, bank guarantee if required under the contract, and other documents as required in the contract
	Progress payment	Breakdown of amount due and other documents as required in the contract
	Retention Money or Performance Bond	Contract terms and conditions which refer to release of retention money, and other documents as required in the contract

33. **Imprest Account.** To expedite project implementation through the timely release of funds, the Borrower has established an imprest account under the original ADB loan (Loan 2820-VAN) immediately after the original loan effectiveness at the Reserve Bank of Vanuatu. MFEM and VPMU operate, manage, replenish, and liquidate the imprest account in accordance with the ADB's *Loan Disbursement Handbook (2012, as amended from time to time)*. The imprest account may not be used for additional financing as payments would be made directly to the contractor for the civil works.

34. VPMU, acting on behalf of the executing agency MFEM, with the assistance of the project implementation team (PIT) (consultants for project management and implementation supervision) and project accountant will administer the imprest account. The currency of the imprest account is the U.S. dollar. The imprest account is to be used exclusively for ADB's share of eligible expenditures. VPMU is accountable and responsible for proper use of advances to the imprest account. The maximum ceiling of the imprest account will not at any time exceed the estimated ADB-financed expenditures to be paid from the imprest account for the next 6 months or \$200,000, whichever will be lower. The request for initial advance to the imprest account was accompanied by an Estimate of Expenditure Sheet¹⁵ setting out the estimated expenditures for the first 6 months of project implementation, and submission of evidence satisfactory to ADB that the imprest account has been duly opened. For every liquidation and replenishment request of the imprest account, the borrower will furnish to ADB (a) statement of account (bank statement) where the imprest account is maintained, and (b) the imprest account reconciliation statement reconciling the above mentioned bank statement against VPMU's records.¹⁶ VPMU on behalf of MFEM will submit withdrawal applications with relevant supporting documents substantiating eligible expenditures for the replenishment and

¹⁵ Available in Appendix 29 of the *Loan Disbursement Handbook*.

¹⁶ Follow the format provided in Appendix 30 of the *Loan Disbursement Handbook*. All bank charges in the operation of the imprest account will be financed from the loan.

liquidation of the imprest fund.

35. Before the submission of the first withdrawal application, VPMU has submitted to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The Borrower has provided the details for the current loan but will also need to provide similar details for the Additional Financing Loan amount. The minimum value per withdrawal application is \$50,000, unless otherwise approved by ADB. Individual payments below this amount should generally be paid from the imprest account, or by the EA/IA and subsequently claimed to ADB through reimbursement. ADB reserves the right not to accept WAS below the minimum amount.

36. ADB's portion for claims under the Shipping Support Scheme component and national consultant for shipping administrator capacity building services (SACBS) will be paid from the imprest account.

D. Accounting

37. MFEM will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project following accrual-based accounting following the International Financial Reporting Standards. MFEM will prepare consolidated financial statements for each of the original project, and the additional activities to be financed under the additional financing in accordance with the government's accounting laws and regulations which are consistent with international accounting principles and practices.

38. Vanuatu public financial management arrangements have improved significantly since 2000. The government operates a centralized payments and payroll system using SmartStream financial software. The MFEM also established a Financial Management Information System that is generic to all government ministries in Vanuatu in 2002. Line ministries and some provincial offices in Santo, Espiritu Island, have direct access to the system through a wide area network. Comprehensive and detailed in year budget execution reports can be extracted as required by all users and financial accounts are now being prepared on an accrual basis and in accordance with most International Public Sector Accounting Standards.

39. The overall project will be implemented through existing institutions and using country systems as much as possible. In addition, the financial management arrangements for the proposed project will be significantly stronger than those for previous projects. Specific measures will include capacity building support and provision of independent accounting support, if needed, to ensure, among other things, timely and rigorous reconciliations, orderly record keeping, and strict adherence to financial management policies and internal controls. MFEM through VPMU will maintain separate project accounts and records by funding source for all expenditures incurred on the project. Project accounts will follow international accounting principles and practices.¹⁷

40. Project accounts will follow international accounting principles and practices will be authorized by the Director VPMU on behalf of MFEM and will include:

- (i) Quarterly progress reports in the format agreed and attached to this document
- (ii) Fund Account Activity Statement" specifying total revenue/expenditure to date for the overall project and total revenue/expenditure disbursement forecast

¹⁷ The Government of Vanuatu uses the International Public Sector Accounting Standards.

- (iii) Bank reconciliation of all development funds and project and imprest accounts for ADB and Government of New Zealand funds
- (iv) Audited annual consolidated project financial statements
- (v) Fixed asset register.

41. The format and detail of these reports may be revised through the life of the project, with agreement by all partners.

42. **Asset management and planning.** There is a need to keep a comprehensive and accurate Asset Register for all assets purchased or constructed under the project. This register must identify the useful life of the separate significant components of the infrastructure assets in accordance with *International Public Sector Accounting Standards – IPSAS 17: Property Plant and Equipment (Attachment 4)*. The asset register is required to be maintained, updated and reported quarterly as part of project reporting requirements during construction, and will be audited annually. As requested by the Government, an Asset Management Plan specifying the technical requirements and resourcing to carry out the ongoing maintenance and ultimate replacement of each asset or asset component at the end of its useful life should be prepared by PIT contracted by MFEM. The Asset Register and Asset Maintenance Plan will provide the Government information to comply with the obligations set out under the Partnership Framework for the Vanuatu Inter-Island Shipping Project 2012-2017 and the loan covenant on operation and maintenance requirements, to “ensure that recurrent budget funding for the maintenance of rehabilitated and new facilities is allocated and executed to preserve the assets and avoid deterioration” in the short, medium and long-term.

E. Auditing and Public Disclosure

43. MFEM will cause the detailed consolidated financial statements (referenced in para 37 above) to be audited in accordance with International Standards on Auditing, by an independent auditor acceptable to ADB. The audited project financial statements together with the auditors’ opinion will be submitted in the English language to ADB within six months of the end of the fiscal year by MFEM.

44. The annual audit report for the project accounts will include an audit management letter and audit opinions which cover (i) whether the project financial statements present a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; (ii) whether loan and grant proceeds were used only for the purposes of the project or not; (iii) the level of compliance for each financial covenant contained in the legal agreements for the project; and (iv) use of the imprest fund procedure in accordance with ADB’s Loan Disbursement Handbook and the project documents.

45. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

46. The Government, MFEM, MIPU and VPMU have been made aware of ADB’s approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.¹⁸ ADB reserves the right to require a change in the auditor (in a

¹⁸ ADB approach and procedures regarding delayed submission of audited project financial statements:

- When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six months,

manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

47. Public disclosure of the project financial statements, including the audit report on the project financial statements, will be guided by ADB's Public Communications Policy (2011).¹⁹ After review, ADB will disclose the project financial statements for the project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website. The Audit Management Letter will not be disclosed.

48. **Internal Audit.** There are no plans for the specific internal audit on this project, although it may be reviewed under the regular internal audit reviews undertaken within MFEM. MFEM and VPMU will ensure that the accounting staff qualifications, skills and experience commensurate with their duties and responsibilities. They will also ensure that there is a proper segregation of duties to separate authorization, custody and record keeping roles so as to limit the risk of committing fraud or error by any person performing dual roles. Other controls relating to the supervision or monitoring of operations, physical safeguards, review and analysis of results and output, IT security and proper retention of accounting records will also be established within the project staffing and organization structure. In addition, the grant funding for Implementation Assistance may be used for the costs of external audit outsourced by the Vanuatu Office of the Auditor General.

49. **External Audit.** The objective of an external audit is to ensure (i) the Government has capacity to fulfill obligations under the loan and grant agreements; (ii) the project is financially viable and sustainable; and (iii) funds and project assets are used for their intended purposes. ADB and Government of New Zealand require the borrower to have the project financial statements for each year audited by an independent auditor acceptable to ADB and Government of New Zealand, and in accordance with standards on auditing that also are acceptable to ADB and Government of New Zealand. ADB and Government of New Zealand require submission of audited reports for each financial reporting period (fiscal year) from the date of loan and grant effectiveness until the loan and grant account's financial closing as described in the loan and grant agreements.

50. **Financial Statements.** MFEM will subject the detailed consolidated financial statements (referenced in para. 43 above) to be audited in accordance with International Standards on Auditing by an auditor acceptable to ADB and Government of New Zealand. The audited project financial statements will be submitted in the English language to ADB within 6 months of the end of the fiscal year by MFEM. The MFEM should submit to ADB and Government of New Zealand:

requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.

- When audited project financial statements have not been received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (i) inform the executing agency of ADB's actions; and (ii) advise that the loan may be suspended if the audit documents are not received within the next six months.

- When audited project financial statements have not been received within 12 months after the due date, ADB may suspend the loan.

¹⁹ Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

- (i) the annual audit report
- (ii) audited project financial statements, and
- (iii) management letter.

51. An audit of project financial statements should include:

- (i) an assessment of the adequacy of accounting and internal control systems with respect to project expenditures and other financial transactions, and to ensure safe custody of project-financed assets;
- (ii) a determination as to whether the borrower and project implementing entities have maintained adequate documentation on all relevant transactions;
- (iii) confirmation that expenditures submitted to ADB and Government of New Zealand are eligible for financing and identification of any ineligible expenditures; and
- (iv) compliance with loan and grant covenants and ADB's and Government of New Zealand requirements for project management.

52. **Appointment of Auditors and Scope of Audit.** The borrower should appoint an independent auditor at or before the start of project activities; and for each year until the project is financially closed. The auditor's terms of reference (TOR) prepared by MFEM will include: scope and details of the audit to be conducted; require the auditor to provide an opinion on the project financial statements including whether or not ADB and Government of New Zealand funds were used by the EA for the purposes stipulated in the legal agreements; specify the period of time for submission of financial statements; audit report; and management letter. The TOR is to be approved by ADB and Government of New Zealand prior to the auditor being appointed.

53. To be considered as acceptable by ADB, auditors appointed by the borrower must satisfy the following criteria:

- (i) Auditors must be impartial and independent of the control of the entity to be audited and of the person appointing them. In particular, they should not—during the period covered by the audit—be employed by, serve as directors of, or have family, financial, or close business relationships with the entity, except as auditors, during the period of the audit;
- (ii) well established and reputable, use procedures and methods conformed to agreed International Auditing Standards, or of the national auditing standards of Vanuatu acceptable by ADB and Government of New Zealand;
- (iii) employ adequate staff with appropriate skills and competence;
- (iv) experienced in the types of assignments they are to undertake for the ADB project; and
- (v) able to fulfill their TOR within the specified timetable.

54. ADB and Government of New Zealand require that the borrower or Office of Auditor General select and appoint an acceptable auditor within sufficient time to carry out its responsibilities, including a review of the financial management systems at the beginning of project implementation, and periodically thereafter. ADB and Government of New Zealand do not normally advise on the selection of auditors, but prefer to review a list of several auditors submitted from whom an appointment will be made by the borrower, and indicate any auditor who may not meet ADB's and Government of New Zealand criteria. ADB and Government of New Zealand will indicate their agreement to a proposal to engage an auditor when it is satisfied that an existing auditor, or the auditor under consideration for engagement, would be acceptable to ADB and Government of New Zealand in terms of independence and competence to carry out the audit.

55. **Public Disclosure.** ADB revised Public Communication Policy (2011) requires uploading of audited financial statements in ADB website:

- (i) subject to government's approval,
- (ii) relevant to project only with audit report, not financial statement of Implementing Agency
- (iii) management letter, not disclosed
- (iv) disclosed within 30 calendar days upon receipt by ADB

56. The government and MFEM have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited accounts. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

57. **Financing Audit Costs.** The costs of annual audits to be undertaken by independent auditors will be funded by the Government of New Zealand as part of their contribution to the project or to be separately provided in accordance with any variations to the Grant Funding Arrangement.

VI. PROCUREMENT AND CONSULTING SERVICES

58. A procurement capacity assessment of MIPU and VPMU has established that it has satisfactory procedures and policies in place, and has considerable experience in implementing external assistance. Capacity development that will be provided through TA will strengthen MIPU's capacity for procurement under ADB guidelines with a focus on preparing and evaluating bidding documents. PIT will assist VPMU and MIPU in the procurement of works, goods and services.

A. Advance Contracting

59. Advance contracting will be undertaken in conformity with ADB's *Procurement Guidelines* (2013, as amended from time to time)²⁰ and ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).²¹ The issuance of invitations to bid under advance contracting will be subject to ADB approval. The borrower, executing and implementing agencies have been advised that approval of advance contracting does not commit ADB to finance the project. No retroactive financing is envisaged.

60. Advance action was encouraged under the current project to commence the recruitment of the PIT. The consultants were fielded in February 2013.

B. Procurement of Goods, Works and Consulting Services

61. All procurement of goods and works will be undertaken through the government's procurement systems, where appropriate, and in accordance with ADB's *Procurement Guidelines*. Procurement using government's systems and under national laws for national competitive bidding (NCB) will follow the procedures for NCB set out in the procurement plan in Section C below.

62. For civil works, a single contract package will be procured by international competitive bidding (ICB) procedures. There will be no NCB contract packages for civil works. With respect to the shipping services support schemes, shipping support schemes to services the designated routes to farthest southern and northern remote islands will be procured under NCB procedures

63. ICB procedures will be used for civil works contracts estimated to cost \$3 million or more, and supply contracts valued at \$500,000 or higher. Shopping will be used for contracts for procurement of works and equipment worth less than \$100,000 if required.

64. At the request of the government, ADB will select the consultants in accordance with its *Guidelines on the Use of Consultants*. Consultants will then be recruited through the government's procurement systems and in accordance with ADB's *Guidelines on the Use of Consultants*. The consultants for project implementation and shipping administration and shipping coordination will be engaged using the quality- and cost-based selection (QCBS) method with a standard quality:cost ratio of 80:20.²² The terms of reference for all consulting services are in Section D. Under changes in implementation arrangements the (i) national consultant for SACBS has been recruited under individual consultant selection method; and (ii)

²⁰ Available at <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>.

²¹ Available at <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>.

²² Checklists for actions required to contract consultants by method available in e-Handbook on Project Implementation at <http://www.adb.org/documents/handbooks/project-implementation/>.

the firm for geotechnical investigation of the five wharf sites and coastal process study for dredging the proposed channel has been selected under single source selection method. The Auditors for the project account has been selected under government's procedures by the Office of the Auditor General. A national firm has been engaged for the audit of the project accounts.

65. Before the start of any procurement ADB and the government, in consultation with Government of New Zealand, will review the public procurement laws of the government to ensure consistency with ADB's *Procurement Guidelines*.²³

66. The procurement plan for the overall project indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C.

67. An estimated 279.25 person-months (126.75 international, 128.5 national) of consulting services are required to (i) facilitate project management and implementation, (ii) undertake the shipping services scheme, (iii) strengthen the institutional and operational capacity of MFEM, (iv) geotechnical surveys at five wharf sites and coastal process studies arising from the proposed channel in South Paray bay, (iv) SACBS; (v) land acquisition/resettlement processes, and (vi) audit of project accounts. Consulting firm for project management and implementation 220.25 person-months (114.25 international and 106 national) have been engaged using the QCBS method with a standard quality:cost ratio of 80:20. Consulting firm for geotechnical surveys and coastal process studies for 9.5 person-months have been engaged under single source selection method. The consultant for SACBS for 18 person-months over 24 months has been engaged under individual consultant selection (ICS) method. A Resettlement Specialist will be engaged for 3 person-months over 9 months and a national consultant for land acquisition will be engaged for 24 months²⁴ under the (ICS) method. A national firm has been engaged for 4.5 person-months for the audit of the project accounts.

C. Procurement Plan

1. Process Thresholds, Review and Overall Project Procurement Plan

a. Project Procurement Thresholds

68. Except as ADB may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works	
Method	Threshold
International Competitive Bidding (ICB) for Works	Above \$3,000,000
National Competitive Bidding (NCB) for Works	Between \$100,000 and less than \$3,000,000
Shopping for Goods	Below \$100,000

²³ ADB. 2013. ADB's Board of Directors approved a blanket waiver of the member country procurement eligibility restrictions applicable to operations financed by the Asian Development Fund (ADF) and to operations financed from ADB-administered cofinancing resources in all cases. The blanket waiver and universal procurement apply, regardless whether ADB fully or partially administers the cofinancing resources. Manila.

²⁴ Subject to any savings identified during the midterm review of the project.

b. ADB Prior or Post Review

69. Except as ADB may otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the project.

Procurement Method	Prior or Post	Comments
Procurement of Goods and Works		
ICB Works	Prior	
Shipping Support Scheme	Prior	
Shopping for Goods	Post	
Recruitment of Consulting Firms		
Quality- and Cost-Based Selection (QCBS)	Prior	Advance action for recruitment will be encouraged, based on Full Technical Proposal
Single Source Selection	Prior	Geotechnical investigation and coastal process study of the proposed dredged channel due to change in implementation arrangements.
Government's Selection Procedures	Prior	Audit of project accounts. The Office of Auditor General has several short-listed firms and invites proposals from them and evaluates the firms.
Recruitment of Individual Consultants		
Individual Consultants	Prior	Individual consultant engaged for SACBS under a minor change in implementation arrangements.
	Prior	Individual consultants for land acquisition/resettlement will be engaged to complete processes of land acquisition for long term leases for maintenance of the wharves and build capacity within VPMU.

c. Goods and Works Contracts Estimated to Cost More Than \$1 Million

70. The following table lists goods and works contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value	Procurement Method	Prequalification of Bidders	Advertisement Date (quarter/Year)	Comments
Works	38,000,000	ICB	N	IV / 2014	Wharves
Shipping Support Scheme	1,050,000	NCB	N	I & II / 2014	Shipping services

d. Consulting Services Contracts Estimated to Cost More Than \$100,000

71. The following table lists consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value	Recruitment Method	Advertisement Date (quarter/year)	International or National Assignment	Comments
Project Implementation	3,370,000	QCBS, FTP 80:20	IV / 2011	Both	
Shipping Administrator & Coordinator Scheme	110,000	ICS	III / 2013	National	Change in implementation arrangements
Geotechnical Survey and Coastal Process Study	600,000	SSS	IV/2014	National	Change in implementation arrangements

e. Goods and Works Contracts Estimated to Cost Less than \$1 Million

72. The following table groups smaller-value goods, works and consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Value of Contracts (cumulative)	Number of Contracts	Procurement / Recruitment Method	Comments
Shipping Support Scheme	1,050,000	3	NCB	

f. Indicative List of Packages Required Under the Project

73. The following table provides an indicative list of all procurement (goods, works and consulting services) over the life of the project.

General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Domestic Preference Applicable	Comments
Works	38,000,000	1	ICB		
Shipping	1,050,000	3	NCB		
Support Consulting Services	3,670,000	5	QCBS, SSS, ICS		

2. National Competitive Bidding

74. The procedures to be followed for national competitive bidding shall be those set forth in the provisions on competitive bidding in Part 5 (Purchasing Approval and Payment for Goods and Services) of the Public Finance and Economic Management Act No. 6 (1998)²⁵ with modifications set forth below in order to ensure economy, efficiency and transparency and broad consistency with the provisions of Section I of the ADB *Procurement Guidelines* as required by paragraph 3.3 and 3.4 of the guidelines.

a. Eligibility

75. The eligibility of bidders shall be as defined under Section I of ADB's *Procurement Guidelines*; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by ADB for reasons other than those provided in Section I of the guidelines. Foreign bidders shall be eligible to participate in bidding under the same conditions as national bidders. In particular, no domestic preference over foreign bidders shall be granted to national bidders in bid evaluation, nor shall foreign bidders be asked or required to form joint ventures with national bidders in order to submit a bid.

b. Registration

76. Registration shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and, if determined to be the lowest evaluated responsive bidder, shall be given reasonable opportunity of registering, without any let or hindrance. The registration process shall not be applicable for subcontractors. Bidding shall not be restricted to any particular class of contractors, and non-classified contractors shall also be eligible to bid.

c. Advertising; Time for Bid Preparation

77. Invitations to bid shall be advertised in at least one newspaper of national circulation, allowing a minimum of 30 days for the preparation and submission of bids except for commodities and small goods contract. Potential bidders shall be allowed to purchase bidding documents up to any time prior to the deadline for submission of bids.

d. Standard Bidding Documents

78. Standard bidding documents that are acceptable to the government, ADB, and

²⁵ Government of Vanuatu. 1998. *Government of Vanuatu Financial Regulations*. Port Vila.

Government of New Zealand shall be used.

e. Qualification Criteria

79. Qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only such specified criteria, shall be used to determine whether a bidder is qualified. Qualification shall be assessed on a pass or fail basis and merits points shall not be used. Such assessment shall only take into account the bidder's capacity and resources to perform the contract, specifically its experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction and manufacturing facilities, and financial capacity. The evaluation of the bidder's qualifications shall be conducted separately from the technical and commercial evaluation of the bid.

f. Bid Submission, Bid Opening, and Bid Evaluation

80. Bidders may submit bids, at their option, in person, by courier service, or by mail. Bids shall be opened in public, immediately after the deadline for submission of bids. Bids received after the deadline for bid submission shall be rejected and returned to the bidders unopened. All bidding for goods and works shall be carried out through a one envelope procedure. Evaluation of bids shall be made in strict adherence to the criteria that shall be clearly specified in the bidding documents and quantified in monetary terms for evaluation criteria other than price; merit points shall not be used in bid evaluation. A contract shall be awarded to the technically responsive bid that offers the lowest evaluated price and no negotiations shall be permitted. Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations. No bidder shall be rejected on the basis of a comparison with the employer's estimate and budget ceiling without ADB's prior concurrence. A copy of the minutes of the public bid opening shall be promptly provided to all bidders, and to ADB and Government of New Zealand with respect to contracts subject to prior review.

g. Rejection of All Bids and Re-bidding

81. Neither shall all bids be rejected nor new bids solicited without ADB's prior written concurrence.

h. Extension of the Validity of Bids

82. Extension of validity of bids may be allowed in exceptional circumstances but there shall be no amendment of the price or any other condition of the bids. Bidders may refuse such an extension without forfeiting their bid securities, but bidders granting an extension shall provide extension of the validity of their bid securities.

i. Complaints by Bidders and Handling of Complaints

83. The recipient shall establish and implement an effective and independent protest mechanism allowing bidders to protest and to have their protests handled in a timely manner.

j. Fraud and Corruption

84. ADB shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by ADB.

k. Right to Inspect/Audit

85. Each bidding document and contract financed from the proceeds of a financing shall include a provision requiring bidders, suppliers, contractors and subcontractors to permit ADB and Government of New Zealand at their request, to inspect their accounts and records relating to the bid submission and performance of the contract and to have said accounts and records audited by auditors appointed by ADB in consultation with Government of New Zealand. The deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to obstructive practice.

D. Consultant's Terms of Reference

1. Project Implementation Team

86. **Project implementation team (PIT)** consultants (international and national) will provide day-to-day assistance in the management and implementation of the project. The project will consist of four major components (i) infrastructure investments in wharves; (ii) establishment of a SSS and associated SCS; (iii) capacity development; and (iv) project management services.

87. The minimum selection criteria for each of the international specialist are as follows:

- (i) Team Leader/Project Implementation Advisor - He/she will have (i) an advanced degree in transport planning or civil engineering, (ii) at least 10 years' experience in designing and analyzing development projects in general, and transport projects, in particular maritime transport and infrastructure, (iii) sound knowledge of project management and FIDIC contracts, (iv) have sound knowledge of shipping operations and (v) relevant work experience in Pacific developing member countries (PDMCs) or similar environments.
- (ii) Structural Design Engineer – He/she will hold (i) a tertiary degree in civil engineering, (ii) at least 10 years' experience in designing and analyzing development projects, particularly wharf designs for interisland shipping vessels of 30-60 meter long and (iii) relevant work experience in PDMCs or similar environments.
- (iii) Maritime Operations Specialist - He/she will hold (i) a tertiary degree in maritime and shipping operations, (ii) at least 10 years' experience in designing and analyzing with shipping services route, voyage data analysis, shipping operating and revenue costs and procurement of shipping services, and (iii) (iii) relevant work experience in PDMCs or similar environments.
- (iv) Environmental Specialist - He/she will have (i) a tertiary degree in environmental engineering, social science, or other related fields, (ii) at least 5 years' experience in development projects, and (iii) relevant work experience in PDMCs or similar environments.
- (v) Social and Poverty Specialist. He/she will have (i) a tertiary degree in, social science, or other related fields, (ii) at least 5 years' experience in development projects undertaking social and poverty assessments, and (iii) relevant work experience in PDMCs or similar environments.
- (vi) Procurement Specialist – (i) a tertiary degree in business administration, economics, engineering, or other related fields, (ii) at least 10 years' experience of procurement of civil works, goods, services and shipping services in development projects, and (iii) relevant work experience in PDMCs or similar environments.

- (vii) Resident Engineer - He/she will have (i) a tertiary degree in civil engineering, (ii) at least 10 years' experience in managing and supervision of civil works contracts in development projects, and (iii) relevant work experience in PDMCs or similar environments.
- (viii) Community Development Specialist - He/she will have (i) a tertiary degree in social science or other related fields, (ii) at least 8 years' experience in community liaison in development projects, (iii) ability to travel to outer islands and remote locations, and (iv) relevant work experience in PDMCs or similar environments.
- (ix) Field Superintendent – He/she will hold an advanced certificate in Civil Engineering or other related field, (ii) at least 10 years' experience in supervision of civil works contracts, particularly wharves under development projects, and (iii) He/she will have (i) a tertiary degree in social science or other related fields, (ii) at least 5 years' experience in development projects, and (iii) relevant work experience in PDMCs or similar environments.
- (x) Monitoring and Evaluation Specialist - He/she will have (i) a tertiary degree in social sciences, management, economics or related fields, (ii) at least 5 years' experience in development projects, and (iii) relevant work experience in PDMCs or similar environments.

88. The minimum selection criteria for national consultants is as follows:

- (i) Environmental Specialist (i) a tertiary qualification in environmental engineering/science or related fields, and (ii) relevant work experience in Vanuatu.
- (ii) Social and Poverty Specialist - (i) a tertiary qualification in social science or related fields, and (ii) relevant work experience
- (iii) Community Development Specialist - He/she will have (i) a tertiary qualification in social science or related fields, and (ii) relevant work experience in Vanuatu.
- (iv) Surveyor - He/she will have (i) a tertiary qualification in surveying and analysis of survey data, (ii) 3-5 year experience of surveying wharves under development projects or related fields, and (ii) have relevant work experience in Vanuatu.
- (v) Project Accountant - He/she will have (i) a tertiary qualification in accounting, finance or related fields, (ii) 3-5 years' experience in accounting and bookkeeping of development or related projects and (ii) relevant work experience in Vanuatu.

89. **Implementation of Infrastructure.** The primary objective of this component is to prepare detailed engineering designs, undertake tendering processes, and supervision and management of the construction of a new interisland shipping terminal in Port Vila and four new wharves in outer islands²⁶, and the repairs to Litzlitz and Lenakel wharves. The Government through MFEM, VPMU and MIPU will provide a project manager (60 pm), 1 resident engineers (18 pm) and 1 works supervisors (18 pm), and an accountant/administrator (48 pm) for the duration of the project. The Government through MFEM, VMPU and MIPU will establish a technical committee comprising the consultants and technical staff to evaluate all the tenders. The consultants will support MFEM, VPMU and MIPU in implementing the Project, particularly in the following areas:

- (i) Implement the project according to the terms and conditions specified in the loan agreement between the Government and the ADB, the grant agreement between

²⁶ The wharves are located at Lolowai, Loltong, Port Sandwich, and Simonsen.

- the Government and the Government of New Zealand, and ensure that the specified assurances under the control of MFEM, VPMU and MIPU are met;
- (ii) Engage a national surveyor with related technical support to carryout site and bathymetric surveys and prepare the site topography and drawings;
 - (iii) Prepare engineering designs and engineering drawings for all the wharf, jetties, causeways, and access roads, and storage facilities at each wharf and jetties including technical specifications, and baseline data collection. Detailed engineering designs should include climate adaptation measures;
 - (iv) Prepare 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* and *Standard Bidding Documents*,²⁷
 - (v) Provide field supervision of the civil works contracts and ensuring quality assurances and any oversight for other services deemed necessary for implementing the civil works;
 - (vi) Administer, implement, and monitor international and national contracts for civil works and consulting services under the Project;
 - (vii) Prepare and implement EMPs, undertake environmental audits of all the contract packages as necessary, and ensure compliance with all assurances under the Project;
 - (viii) Prepare community participation plans for each contract site and report feedback as part of each subproject assessment and progress report;
 - (ix) Ensure coordination with other projects being undertaken by MIPU, development partners, other Government ministries, and the private sector;
 - (x) Build the capacity of MIPU staff and national consultants through on-the-job training and establishment/improvement of procedures consistent with international best practice that can be replicated for routine MIPU projects, and future externally funded projects;
 - (xi) Verify the compatibility of the initial environmental examination prepared for each site against the final engineering designs and ensure compliance with environmental safeguards;
 - (xii) Ensure that social assessments are in compliance with any additional land acquisition with respect to final engineering designs;
 - (xiii) Strengthen the procurement unit within PWD in procurement of works, good and services including the preparation of a procurement manual;
 - (xiv) Develop terms of reference and engage a NGO or civil societies for HIV/AIDS education awareness program on civil works contracts for pre-contractor mobilization (if required) and during implementation of the contracts;
 - (xv) Cooperate with the Department of Health for education awareness to communities on HIV/AIDS at various contract sites;
 - (xvi) Assist MIPU in the management and supervision of community participation and train staff in the implementation; and
 - (xvii) Publish names of bidders, winning bidders and contract amounts awarded in a widely circulated national newspaper and other media to facilitate public disclosure of information and ensure transparency and good governance.

90. **Implementation of the Shipping Support Scheme (SSS).** A SSS will provide subsidies for a fixed number of voyages at designated frequencies on otherwise commercially unviable routes based on a least-cost tender process. Under an output-based approach, subsidies will be tied to performance, including vessel suitability, franchise areas and routes,

²⁷ ADB. 2005. *Procurement of Works: Standard Bidding Document*. Manila.

call locations and frequency, substantiation of calls and submission of voyage data. Vessels will be required to meet safety standards and to provide facilities to reduce barriers to use by women. The overall SSS program is scheduled to be implemented over a 3-5 year period but will be regularly reviewed for adjustment during implementation. The implementation of this component has been advanced by ADB and the Government through the piloting of the SSS in two prioritized service areas. The consultants will undertake the SSS and the piloting of the two schemes through the following activities:

- (i) For the prioritized service areas already identified and eligible for the SSS, identify the required level and frequency of service, if necessary;
- (ii) Following the output based subsidy under the pilot scheme prepare 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 on the identified routes and places through a process of minimum-subsidy competitive tenders;
- (iii) Establish systems for performance monitoring and payment methods;
- (iv) Based on the bid documents on the pilot scheme invite bids and available funds under the project, invite tenders for the prioritized shipping service areas, and conduct the implementation of the tendering scheme for all contracts for the SSS, in accordance with ADB's *Procurement Guidelines, Bid documents for Piloting SSS and Standard Bidding Documents*;
- (v) Provide assistance to MIPU and VPMU in the operation and management of Piloting of the SSS.
- (vi) Assist MIPU and VPMU in the management and supervision of community participation;
- (vii) Design and implement an appropriate system of financial management for the SSS, including procedures for the operation of the project imprest bank account;
- (viii) Assist MIPU and VPMU with monitoring the SSS in terms of finance, contract compliance, and service provision under SSS operation;
- (ix) Assist in recruitment of national consulting firm for Shipping Coordinator Scheme for management of the day-to-day operations of the SSS, and assist MIPU and VPMU in implementing it;
- (x) Assist MIPU and VPMU in the administration and management of the SSS contracts, including preparing variations on subsidy adjustment and
- (xi) Publish names of bidders, winning bidders and contract amounts awarded in a widely circulated national newspaper and other media to facilitate public disclosure of information and ensure transparency and good governance.

91. **Capacity Development** in MIPU and VPMU 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 understand the tendering processes and manage business operations. Capacity development of MIPU's shipping services Unit (SSU) is necessary for the successful implementation of the SSS and will be provided by PIT and SACBS. Capacity development will be accomplished through on-the-job training conducted by the consultants, development/improvement and implementation of standard procedures for VPMU and MIPU, and through training conducted by national business training providers for shipping operators. Capacity development in procurement of works, goods and services will be undertaken to strengthen MIPU's procurement unit. The consultants 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 VPMU, MIPU/PWD staff and national consultants in procedures, documentation, and systems developed under the Project and related activities;
- (iii) Provide hands-on training to national consultants, VPMU and MIPU counterparts 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 ship owners and operators, if necessary;
- (vi) Conduct workshops for ship owners and operators in preparing competitive tenders for the SSS, based on templates to be included in contract documents;
- (vii) Design the transport and trading awareness program and assist in its delivery to selected remote communities that would in the first instance be used as a pilot program;
- (viii) Develop communication networks and procedures between the vessel operator appointed shipping coordinators, onsite coordinators, MIPU's SSU, shipping companies, produce buyers, Provincial Secretaries and local area councils in order to keep all informed of transport and trading requirements;
- (ix) Establish systems to record ship calls, cargo types and volumes, and passengers embarked and disembarked at remote communities that are fall under the SSS;
- (x) Establish performance measurements to gauge the success and progress of the SSS;
- (xi) Promote the SSS to buyers of cash crops; and
- (xii) Provide on on-the-job training of to the staff of MIPU's SSU in procedures, documentation, and systems developed in the analysis of voyage data, financial systems and administration of shipping support scheme.

92. **Monitoring and Evaluation.** PIT will assist MIPU and VPMU in establishment of a project performance and monitoring system under the guidance of a project performance monitoring specialist. The consultants 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. The outline of TOR include the following tasks:

- (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 for the Project;
- (ii) Prepare all documentation required by ADB and MFEM, MIPU and VPMU 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 Project Administration Manual and the relevant grant agreements, including, but not limited to, quarterly reports, annual reports, and project completion report;
- (v) Monitor service delivery and reporting by contractors for SSS activities and ensure timeliness and quality of reporting to support SSS management review;
- (vi) Monitor that the voyages are conducted according to requirements of the contract, which will be checked by the shipping scheme administrator;
- (vii) Record voyage, cargo and passenger information on VPMU's and MIPU's database for domestic interisland shipping to assist in ascertaining or establishing the need for shipping services support, which will be facilitated by the SACBS and MIPU's SSU; and
- (viii) Assess the effectiveness of the SSS and SACBS in fostering social and economic development in terms of changes in quality of shipping services, which will be monitored by the SACBS and SSU.

93. **Project Administration.** The project manager will supervise administration, accounting, bookkeeping and payments during the implementation of the Project. A national consultant for the position of the project accountant and clerical support services will assist MFEM, VPMU and MIPU with the administration of the Project. The project accountant must hold a tertiary degree in accounting with at least 5 years of experience in accounting and booking records. The national consultant and clerical support staff will support MIPU and VPMU in administering the Project, through the following activities:

- (i) Ensure that the Project is implemented in accordance with these terms of reference, the laws of Vanuatu, the terms and conditions specified in the loan agreement between the Government and the ADB, and the grant agreement between the Government and the Government of New Zealand;
- (ii) Exercise efficient and effective implementation methodologies to ensure that the specified assurances under the control of MIPU and VPMU are met;
- (iii) Prepare and maintain a detailed project implementation schedule for all project activities, and identify key milestones to be achieved, in accordance with the Project Administration Manual and grant agreements;
- (iv) Provide the necessary secretarial and accounting services to ensure effective project administration;
- (v) Establish and administer a financial management system for the Project in accordance with Government of Vanuatu financial regulations and relevant ADB guidelines²⁸ concerning administration of disbursements, imprest account replenishment, submission of withdrawal applications, and arrangement of direct payments to contractors;
- (vi) Manage and facilitate the timely disbursement of project funds in accordance with ADB's *Loan Disbursement Handbook*;
- (vii) Report regularly on the project accounts to the project steering committee;
- (viii) Prepare project financial statements for auditors and submit the audited reports and financial statements to ADB and MFEM before their due dates, ensuring the financial covenants under the project are complied with;
- (ix) Assist the project manager in the providing quarterly disbursements against the projected target disbursement for the quarter;

²⁸ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

- (x) Follow the Government's environmental assessment procedure and obtain development consent prior to start of civil works, and comply with ADB's *Safeguard Policy Statement* (2009) and applicable policies of MFEM; and
- (xi) Prepare and implement a public communication plan covering activities under the Project in accordance with ADB's *Public Communications Policy* (2005) and applicable policies of MFEM.

94. **Outputs.** The consultants will produce the following outputs:

- (i) Detailed engineering designs, engineering drawings and technical specifications for all wharves and jetties;
- (ii) Tender documentation and tender evaluation reports for all proposed contract packages;
- (iii) Executed all civil works and SSS contracts;
- (iv) Project reports (as detailed in para. 90);
- (v) Detailed project performance monitoring system (including detailed indicators);
- (vi) Environmental management plans;
- (vii) Public communications plan;
- (viii) SSS operation guidelines, procedures, and regulations;
- (ix) A procurement manual/guide for works, goods and services; and
- (x) SSS quarterly reports.

95. **Reporting.** The consultants will support MIPU with reporting requirements to be submitted to MFEM and VPMU, including:

- (i) Inception report, within 4 weeks of start of the project;
- (ii) Quarterly progress reports, submitted within 1 month of the end of the quarter including the project performance report including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) environmental management and environmental audit reports, risks and mitigation undertaken, and progress against the Gender Action Plan;
- (iii) Draft project completion report in ADB format; and
- (iv) Final project completion report 1 month after receiving the comments on the draft final report from the government, ADB, and Government of New Zealand.

2. Shipping Administrator Capacity-Building Services (SACBS) Consultant

96. The Shipping Support Scheme (SSS) is one part of the project. It will provide subsidies for a fixed number of voyages at designated frequencies on otherwise commercially unviable routes on a least-cost tender basis. Under an output based approach, subsidies will be tied to performance, including vessel suitability, operating areas and routes, substantiation of calls and submission of voyage data. Vessels will be required to meet safety standards and to reduce barriers to use by women.

97. The overall SSS is scheduled to be implemented over a 3-5 year period, though the Consultant will be contracted to provide services only during the first two years.

98. The government has communicated to its development partners its desire to administer the SSS through its SSU, which was established at the request of MIPU, and approved by the COM in late 2012. The government has appointed three staff to the SSU and it expects to

appoint a further four. Four of these staff will be based in Port Vila and the other three in Luganville. Port Vila and Luganville are expected to be the bases out of which the ship owners will operate subsidized services.

99. The staff in the SSU will work under the oversight of the Manager, Maritime Affairs, MIPU. The SACBS consultant will, however, be responsible for training, capacity-building and technical advice. A Contract Administration Manual for the SSS has been prepared by PIT and has been made available to the SACBS consultant.

100. **Scope of Works.** The SACBS consultant will assist with training and the management of the VSSS and assist MIPU and VPMU with the administration and management of contracts. The SACBS consultant will work closely with, and will operate through, the office of the MIPU Shipping Unit and its director.

101. The SACBS consultant will also work closely with the VPMU and PIT, who are assisting to implement the project. As part of the SSS, two initial contracts are to be established for subsidy support - to the TAFEA Province outer islands and to the Torres Islands and Western Santo in TORBA and SANMA Provinces. The scheme will provide regular (monthly) services on predefined routes. These first two schemes will be pilots for a wider program that may involve up to five routes. It is expected that these contracts will be progressively awarded, with the first pilot operational in June 2014, and the second pilot operational later in the year.

102. The SSU will be expected to verify services and reports submitted to it by the contracted ship owners and operators. The SACBS consultant will however be employed for the purposes of training, technical assistance and ensuring the proper administration of the SSS and the SSU.

103. To complement the proposed consultant services, it is envisaged that provincial government and the vessel operators will appoint shipping coordinators to assist in promoting the shipping services in the isolated communities to be served by the SSS. These coordinators will promote trade and coordinate the provision of information and support between these isolated communities and the providers of the shipping services.

104. **Detailed Tasks.** The SACBS consultant will specifically assess the capacities and training-needs of staff in SSU and undertake training to counter any deficiencies. The intention is that the SSU staff (in conjunction with SACBS consultant during the first two years of operation) are capable of ensuring the SSU:

- (i) manages the SSS contracts on the routes and location identified and contracted, and ensures that the level of services required are complied with by the shipping operators;
- (ii) manages and supervises quarterly adjustments to the subsidy using the mechanism described in the bidding document for concessionaires;
- (iii) in conjunction with MIPU and its other consultants, rolls-out further concessions;
- (iv) assists MIPU staff monitor operational activity (before, during and after voyages) to ensure compliance with the SSS contracts, including undertaking/arranging verification activities regarding service quality and financial matters;
- (v) liaises with MIPU, shipping companies and project staff on advertisement of initial and subsequent six-monthly service schedules for each voyage contracted, and check that the advertised departure date publicized by the operator is compatible with the agreed service schedule;

- (vi) monitors progress of the operator's vessel by checking with MIPU's maritime staff, Provincial Government staff and shipping coordinators to confirm pre-booking passenger and cargo numbers with operators during the voyage;
- (vii) reviews and checks voyage reports, in conjunction with MIPU staff, to confirm compliance with the service schedule and voyage itinerary in timing and ports of call;
- (viii) obtains copies of Log Book pages for the duration of subsidized voyages; confirms that the Log Book copies have not been altered in any way; and checks all Log Book entries are consistent with the Voyage Report;
- (ix) provides Quarterly and Annual cash flow projections on the SSS scheme to MIPU for budget purposes;
- (x) collates data to establish a meaningful database of information relating to communities served and the subsidy routes, to assist in review of effectiveness and optimizing route design and works with PIT on analyzing this data;
- (xi) provides basic accounting and book keeping management training to the contracted operators;
- (xii) stays in contact with shipping coordinator(s) to monitor ship calls and cargo/passenger carriage, as well as auditing of Log Books and provides them with information for dissemination to communities available under the project;
- (xiii) provides for an exchange of information and views between shipping coordinators; and
- (xiv) verifies invoices required from contractors, and supporting documentation, to ensure accurate and timely payments are made by MIPU to contracted ship operators by:
 - a) checking all entries of the voyage, finance and statistics report (VFSR) including comparison with revenue and passenger/cargo volume calculations as per voyage subsidy;
 - b) collating data from passenger lists and cargo manifests, and checking against VFSR for errors and omissions;
 - c) collating data for calculation of revenue adjustments and computing adjustments, if required, and advising MIPU, VPMU and their other consultants;
 - d) collating, analyzing and reporting on data relating to cargo and passenger traffic volumes, freight rates, fare pricing from Government's price control units, and determining fuel cost adjustments and providing advice to MIPU;
 - e) compiling progressive performance reports from VFSR data - noting and reporting to MIPU and the PIT on favorable or adverse trends, and
 - f) endorsing shipping operator's invoices to MIPU, with revenue and fuel adjustments applied.

105. The SACBS consultant should also:

- (i) build capacity of SSU staff by workplace counselling and direction, and work with ship operators in better assessing costs and revenue projections; and
- (ii) assist MIPU to direct and supervise the shipping coordinators employed on the outer islands, and assist them in promoting the scheme while maintaining regular contact with provincial government staff in the target areas.

106. The SACBS consultant will also assist MIPU with the management the activities of the shipping coordinators, who will be local provincial government employees on each of the islands

served by the SSS. These local coordinators will be required to post notices of schedules and fares and to publish any variations in these should there be delays or alterations in timetabling. The island-based shipping coordinators will also verify that the ships have called at the island and certify/confirm the numbers of passengers (male and female separately) boarding and disembarking and cargo volumes loaded and off-loaded. Although MIPU will be responsible for appointing these island-based shipping coordinators, the SACBS consultant will be expected to monitor their performance and ensure that they undertake their duties diligently.

107. It is expected that the shipping coordinators will be located at wharves and jetties along, and relevant to, the shipping routes being subsidized. They are expected to provide services for up to four days per month and around the scheduled services being contracted. They will:

- i. establish programs of advice to provincial administrations and isolated communities on scheduled ship calls, based on the route and timetable established under the service contracts;
- ii. advise communities on the appointment of local networks for information flow and trade aggregation;
- iii. visit isolated communities to establish an education awareness program focused on promoting increased production of goods that can be traded, with the objective of maintaining and improving the frequency of ship calls through establishment of a minimum threshold volume of cargo that will attract ship calls;
- iv. audit the ship services in terms of passengers and goods being reported, in consultation with MIPU staff;
- v. ensure isolated communities are informed of shipping support measures, including ship schedules, freight rates etc.;
- vi. assist isolated communities so that they can have produce ready for loading and inwards goods (orders) properly ordered for delivery to the ship operators;
- vii. assist in educating isolated communities in ways to secure the maximum benefit from the VSSS;
- viii. represent isolated community views on matters related to shipping support measures; and
- ix. assist MIPU in the dissemination of information and education awareness on HIV/AIDS and human trafficking to the communities and other government departments.

108. **Project Outputs** will be:

- (i) seven SSU staff properly trained;
- (ii) provincial government coordinators trained and operating effectively in remote communities; and
- (iii) SSU effectively administering the SSS, including:
 - a) managing, and adjusting quarterly, the subsidy mechanism;
 - b) monitoring, checking and reviewing the compliance of operators with their contracts, including their social obligation;
 - c) monitoring, reviewing and checking the activities of provincial coordinators;
 - d) rolling out up to three additional subsidized services.

109. The SACBS consultant will be expected to provide the following reports:

- (i) Within 30 calendar days of the end of each quarter, Quarterly Progress Reports in a format to be provided by the MIPU which will outline activities during the previous Quarter and the successes and/or failures of the scheme. The reports will contain information on cargo and persons (males and females separately) carried, revenues earned and subsidy adjustments made. The report will highlight activities and any problems encountered. It will also highlight activities undertaken by the ship owners and operators and provincial shipping coordinators in regard to their awareness duties in regard to Gender Action Plan and the Prevention of Human Trafficking. Solutions will be proposed as appropriate to any problems encountered.
- (ii) One month before the conclusion of services a Draft Final Report setting out the achievements of the SACBS consultant will be provided.
- (iii) After comments by the VPMU, MIPU, Government of New Zealand and ADB, which shall be provided a maximum of two weeks after the submission of the Draft Final Report, a Final Report that will take into account the comments will be submitted.

3. Geotechnical Investigations

110. **Scope of Work required.** Investigative drilling is being considered for:

- (i) South Paray site, Port Vila harbor (up to 7 holes)
- (ii) Simonsen Wharf, Luganville, Santo (up to 5 holes)
- (iii) Lolowai Jetty, Lolowai Bay, Ambae (up to 4 holes),
- (iv) Lolong Jetty, Lolong Bay near Latano, North Pentecost (up to 4 holes), and
- (v) Port Sandwich, Malekula (up to 4 holes).

111. Most of the sites involve drilling over water, but with a two land based locations at Simonsen, as per the marked up plans attached. Design parameter reports for South Paray & Simonsen are also attached.

112. The objectives, as regards geotechnical requirements, are as follows;

- (i) Determine strata boundaries with descriptions of materials between them. The depths of the boundaries should be with respect to the datum for each wharf site given on the drawings.
- (ii) Comment should be made on the competency of the materials to support the structures shown on the drawings.
- (iii) Comment should be made on the expected depths of a set for the pile driving operations where refusal is expected.
- (iv) Comment should be made to the susceptibility of sands encountered to liquefaction.
- (v) In general the ground investigation requirements should be to at least those indicated in BS EN 1997-2.

113. It is expected that rotary drilling techniques will be employed with a diamond drill head, and that the core will be recovered and stored in core boxes for retention by the Public Works Department (PWD) and VPMU. Standard Penetrations Tests should be completed at 2m intervals and the value reported on borehole logs. The depth of investigation will generally be 20m below seabed level, but may need to be extended if soft materials or cavities are encountered.

114. Laboratory testing should be undertaken to ensure a clear description of the material

encountered and to determine geotechnical design parameters, including;

- (i) Particle size distribution
- (ii) Calcium Carbonate content
- (iii) Sulphate and Chloride content
- (iv) Unconfined Compressive Strength
- (v) Point Load tests.

115. **Reports Required.** The following reports are required:

- (i) A summary tabular report on each test hole, showing cross-sections and material descriptions, for each site, along with laboratory test reports
- (ii) Analysis of bearing capacity for wharf & jetty piles at the borehole locations, using a dynamic analysis computer design model, and an assessment on the level of risk under seismic loading. The geotechnical design report should summarize the recommended pile lengths necessary considering the design loading indicated.

4. Coastal Processes Study of Channel Dredging, Paray Bay, Port Vila

116. One of the locations for a new wharf is South Paray Bay in Port Vila, Efate. Improvements to navigation within Port Vila Bay are an important consideration for efficiencies for large shipping moving from Pontoon Bay to Paray Bay. An option to improve navigation is to increase accessibility through the sand bar extending from South Paray Wharf site to Iririki Island via a dredged channel.

117. A study is required to fully understand the existing conditions and characteristics of the area in order to potentially optimize the dimensions of a dredged channel and to assess the effects on the marine environment and coastal processes from dredging a channel across the sand bar.

118. Preliminary guidance on the dimensions and location of the channel, subject to the study, are:

- (i) two-way channel, 300 meters long, 50 metres wide, and 6.5 meters deep.
- (ii) Located at least 120m north of South Paray domestic wharf to allow for possible future extension of the wharf and ships turning circle.

119. The Project Steering Group is asked to approve the attached Terms of Reference (TOR) for the proposal and budget estimates for the study which include an environmental assessment (EA),²⁹ and the capital works should such work be recommended.

120. The Project Steering Group is, additionally, asked to request that VPMU (i) approaches ADB/Government of New Zealand for their concurrence in regard to funding; and (ii) approaches the Department of Environmental Protection and Conservation (DEPC) with a request that the TOR to be developed for the EA under the Environmental Management and Conservation Act, and the ensuing EA, be flexible enough to accommodate additional elements so as to also comply with ADB's Safeguard Policy Statement 2009 (SPS).

²⁹ An Environment Assessment will be required that will satisfy requirements of both Vanuatu's Environment Act and ADB's Safeguard Policy Statement (SPS). Even though the dredging is likely to be categorized as Category B as per ADB's SPS requiring the preparation of initial environmental examination, it will likely require an environmental impact assessment in accordance with the Environment Act, this need to be confirmed with DEPC.

121. **Objectives.** The objectives of the study are:

- (i) To confirm appropriate parameters for a design vessel and channel dimensions. Presently adopted 'design' vessels are shown below:

Vessel ³⁰	LOA (m)	Beam (m)	Draft (m)	Dwt (tonnes)	Passenger capacity
Sarenfua	40	6	2.1	120	12
Dinh 1	43	8	1.8	400	60
Vanuatu Ferry/(aka Moorea Ferry)	55	13	3.1	364	300/400

- (ii) To provide an optimum channel arrangement to suit the design vessels' characteristics;
- (iii) To undertake an EA identifying the potential physical, ecological, and socio-economic environmental impacts of the dredging, including undertaking consultations, identifying suitable mitigation measures and presenting as an environmental management plan (EMP), and compiling the foregoing in a report;
- (iv) To recommend dredging methods which would minimize any potential impact; and,
- (v) To provide approximate cost implications of adopting the above.

122. The output will be a comprehensive report documenting the works undertaken and findings and recommendations of the study.

123. **Services.** A suitably qualified consultant should be appointed to: (i) undertake the coastal processes study; and (ii) prepare the EA (which will comply with Environmental Management and Conservation Act and ADB's SPS as to be agreed with DEPC).

124. The study will be undertaken by a suitably qualified consultant, direct sourced, following endorsement by VPMU and ADB. The study will be undertaken in parallel with the completion of the VISSP bid documents and award of the main civil works contract.

125. The dredging works will be undertaken by the civil works contractor as part of the main civil works contract for the construction of the seven wharfs. A provisional sum for the dredging works will be included in the VISSP bid documents.

126. The detailed activities are:

127. **Background data assimilation.** Available data is to be gathered and analyzed including available bathymetry, JICA Lapetasi study, Soros (2010) report, IDES (2012) report, South Paray Wharf geotechnical and other appropriate data.

128. **Bathymetric survey.** In the absence of appropriate bathymetric data, a localized bathymetric survey of the sand bar is to be undertaken to enable more accurate representation of the feature. This survey would be sufficient for detailed design.

129. **Preliminary channel optimization.** Based on the data resulting from the above and the

³⁰ The Sarenfua and Dinh were adopted as design vessels during the PPTA; the Vanuatu ferry has been adopted as a design vessel for South Paray wharf.

design vessel characteristics a preferred cross-channel dimension would be developed and tested with empirical relationship. This would also confirm locations of any future geotechnical investigations.

130. **Geotechnical field investigations.** In the absence of appropriate geotechnical information, geotechnical investigations comprising two shallow boreholes will be required in the vicinity of the proposed dredged channel. Laboratory testing of surficial samples would need to be undertaken.

131. **Coastal modeling.** To assess the effects on coastal processes, the following would be undertaken: (i) physical coastal process assessment; and (ii) assessment of dredging effects (turbidity).

132. **Physical Coastal Effects.** This assessment will be completed by means of a numerical hydrodynamic model study. A model is to be developed which includes Vila Bay and the majority of Mele Bay, and which will be forced by astronomical tides and representative winds. It will be necessary to consider the changes to the currents between the northern end of South Paray Bay and Iririki Island as a result of the presence of a wharf at South Paray Bay, and the possibility of natural scour and its potential risk to the ongoing stability of the sheet piles. The assessment will be via a comparative study that assesses relative changes pre and post development. The following scenarios are to be completed:

- (i) Existing situation;
- (ii) Existing situation + proposed South Paray Wharf; and
- (iii) Proposed Lapetasi Wharf Development + proposed South Paray Wharf.

133. The outcome of the study will be a comparative assessment which will define the relative changes in water level, flow, and currents. Due to the location the proposed development is not likely to affect waves, this will be confirmed during the study, and hence these will not be assessed.

134. **Assessment of Dredging Effects.** Using the numerical model, representative simulations are to be completed to assess the sediment release during the dredging process and the subsequent sediment plume. The assessment is to focus on suspended sediment in the form of Total Suspended Solids (TSS). The study will assess from an environmental impact perspective, the most suitable disposal method for use/disposal of the dredged material and provide estimated costs for the different methods. Should the material be disposed within the Bay a plume assessment is to be completed.

135. **Environmental assessment.** Based on a TOR to be approved by DEPC and ADB, compile the foregoing as required to undertake an environmental assessment that will comply with the requirements of Environmental Management and Conservation Act and ADB's SPS. The assessment will include consultations with affected parties and stakeholders, identification of baseline conditions, consideration of impacts including effects of different dredging methods and disposal options on the physical, ecological, and socio-economic environment, and propose mitigations measures through an EMP.

136. **Personnel and Qualifications**

137. Preparation of the coastal processes assessment and the EA will require a team of suitably qualified personnel with demonstrated experience in the following disciplines:

- (i) Coastal processes numerical modeling;
- (ii) Geotechnical expertise in marine surficial sediments;
- (iii) Physical and marine ecological environmental impact assessment of changes in coastal processes;
- (iv) Socio-economic impact of harbor dredging enabling changes in vessel movements and hydraulic modelling on water flows from the channel.

138. **Reports.** The consultant will provide the following reports:

- (i) a “Draft Report on the Coastal Processes Assessment”: with preliminary conclusions and recommendations for approval and comment by VPMU and ADB/Government of New Zealand;
- (ii) a “Draft Environmental Assessment”: integrating the Coastal Processes Assessment and complying with the requirements of Environmental Management and Conservation Act and ADB’s SPS for approval and comment by VPMU and ADB/Government of New Zealand
- (iii) a “Final Report” comprising the two completed documents, two weeks after comments are received from VPMU and ADB/Government of New Zealand.

139. It is anticipated that comments would be received within a maximum of 30 days after submission of the Draft Reports. If such comments are not received during this period, then the Consultant may finalize the report.

5. Land Acquisition/Resettlement Specialist

140. An individual international consultant will be recruited for a total of three (3) person-months (intermittent, over 9 months) by the Asian Development Bank (ADB) in accordance with ADB’s Guidelines on the Use of Consultants (2010, as amended from time to time).

141. The objective/purpose of the role of the resettlement specialist (RS) is to work closely with VPMU and PIT and coordinate the main outputs and deliverables in respect of negotiating and documenting the longer term access to sites, and monitoring and reporting of these aspects.

142. **Qualifications and experience.** The RS will be an international specialist with a postgraduate degree in social science, sociology, human geography, anthropology, development studies, or relevant field. The following are required: (i) at least 10 years of work experience in social/community development and resettlement planning and implementation; (ii) experience in preparing resettlement reports and RPs; (iii) international experience working with multi-stakeholders (government, development partners, private sector, and civil society) in several developing countries; and (iv) experience working in the Pacific. The following are considered an advantage: (i) experience in capacity building, organizational development and/or change management within public or private sector; (ii) resettlement report/RP preparation and/or implementation experience on a range of large projects to small projects; (iii) experience working in Vanuatu; and (iv) the ability to speak Bislama.

143. **Scope of services.** The RS will lead the process for obtaining longer term access to the wharf sites and documenting this in the updated DDR, monitoring and reporting, and provide mentoring and on-the-job training to staff of VPMU and MIPU and national specialists on the PIT.

144. **Detailed tasks.** The detailed tasks of the RS include:

- (i) Working closely with the VPMU Environment and Social Safeguards Officer, MIPU, and Department of Lands and Physical Planning arrange visits to the sites, undertake consultations with land owners, and agree the form of long-term access to the site preferred by the land owners;
- (ii) Facilitate the long-term access agreements and document the process in the updated DDR. This will include a budget covering payments that will be required for leases or negotiated settlements, as well as for monitoring of implementation etc., in order that it can be included in the government budget for 2015 (and subsequent years as required);
- (iii) Assist the government to establish and implement the process of effecting the leases or negotiated settlements;
- (iv) Establish the monitoring and reporting protocols and assist VPMU with monitoring implementation of the agreements; and
- (v) Provide on-the-job training to staff of VPMU, MIPU and Department of Lands and national consultants included on the PIT.

145. The RS will report to the Director VPMU, and under guidance of the Director VPMU will receive instructions from PIT Team leader as required.

146. **Outputs and deliverables.** The RS will provide the following outputs:

- (i) Updated DDR documenting the process of obtaining the agreements for long-term access to the wharf sites following the project's RF, including: (i) consultations with the land owners; (ii) verification that no one is forced to give their land or assets; and (iii) negotiated agreements (lease or negotiated settlement). The DDR will describe: (a) project scope and land requirements, including measures adopted to avoid or minimize land impacts; (b) land ownership, title and socio-economic information of landowners/APs; (c) consultations undertaken and written agreements with landowners/APs as to preferred agreement; (d) applicable policies and laws; (e) lease payments or settlement price; and (f) budget and financing;
- (ii) Documentation of monitoring and reporting requirements and schedule and first two monitoring reports; and
- (iii) Inputs to the quarterly progress reports as requested by VPMU.

VII. SAFEGUARDS

147. MIPU, as the implementing agency, will have overall responsibility for compliance with safeguard requirements. VPMU is an authorized representative of MIPU for the compliance with safeguards and overall project implementation. MIPU/VPMU will coordinate staff requirements for audit of safeguard activities with relevant government agencies, including the Ministry of Lands and the Ministry of Environment. The project manager of the VPMU will manage day-to-day activities.

148. MIPU/VPMU will implement environmental and social safeguards activities supported by an international specialist and a national consultant. The consultants will be responsible for strengthening MIPU's capacity in environmental management and social development, providing on-the-job training, and supporting MIPU/VPMU and safeguards agency staff so that at the conclusion of the project they are able to carry the safeguards programs through into MIPU systems.

149. The current project has been categorized as environment category B. Except for the Simonsen Wharf, the design modifications of the wharves will not result in any environmental impacts different from those described in the approved initial environmental examinations (IEE) because: (i) the location and footprint for each wharf remains the same; (ii) the increased depth of piles would not create any different impacts to those already identified and for which mitigations are proposed; and (iii) the transportation of plant and material, type of works/activities, and approximate period of the works (3-6 months at each site) will remain the same. These modifications will be updated in the environmental management plans (EMPs) and the updated EMPs will be included in the bid documents. The IEE for Simonsen wharf will be revised to accommodate the change from rehabilitation to construction of a new wharf at the same location. The overall project will now include a dredged channel and an environmental assessment review framework has been prepared, the IEE of the proposed dredging will be prepared as part of the coastal processes studies to be undertaken with funds from the additional financing.³¹ The environmental assessment will comply with Vanuatu laws and ADB Safeguard Policy Statement (2009) and be cleared by ADB as well as by the Department of Environment Protection and Conservation.

150. The current project is classified as category C for involuntary resettlement and for indigenous peoples. While two sites are on government land, access to other sites that are on customary land has been negotiated with customary landowner groups under memoranda of agreement (MOAs). The due diligence report is being finalized documenting consultations and MOAs on land access. While no involuntary land acquisition and physical displacement are expected, MOAs provides the government to either lease or acquire land. The VPMU is recruiting a land acquisition/resettlement specialist to assist the government in completing land acquisition process (lease or purchase) and to finalize the due diligence report. If it will involve land acquisition instead of lease, a resettlement plan will be prepared in accordance with the resettlement framework. The project will finance cost of preparation of due diligence reports and resettlement plan(RP), as required, while the government will finance the cost of lease or acquisition.

151. Civil works under the additional financing are expected to be undertaken at the locations that have been already identified and subject to access arrangements prepared under the overall project. While separate documentation is not required for the additional financing, the

³¹ Environmental Assessment Review Framework (accessible from the list of linked documents in Appendix 2).

due diligence report, including an RP if required, will be finalized for the overall project (as stated above) before the start of civil works in respective sites on non-state land.

152. A resettlement framework has been prepared. If land acquisition is required, a resettlement plan must be prepared in accordance with this framework. No involuntary resettlement impacts are expected. The project is classified as category C for resettlement.

153. Inhabitants of the subproject sites are indigenous and are the main beneficiaries. No adverse impacts on distinct and vulnerable groups of indigenous peoples are expected, so an Indigenous People's Plan is not required. The project has been classified as category C for indigenous peoples.

154. Pursuant to ADB's *Safeguard Policy Statement* (June 2009),³² ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the *Safeguard Policy Statement* (2009).

³² Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

VIII. SOCIAL AND GENDER DIMENSIONS

155. The geographic dispersion of Vanuatu, distributed over 65 scattered islands over an area of 12,000 km², presents particular challenges for internal transport and public service delivery. The poor state of existing transport infrastructure constrains economic growth and service delivery in Vanuatu by limiting cargo and passenger movement, reducing services, and in some cases even preventing services from reaching rural producers and moving commodities to the two main urban centers. There is a perceived lack of opportunity in rural areas where health, education and transport facilities are limited, employment opportunities lacking, and income and expenditure restricted.

156. Rural economic development can be significantly enhanced by improving access to water transport. In terms of infrastructure, new wharves and jetties will eliminate an impending bottleneck in Port Vila, improve access to disconnected communities, and reduce the hazards and loss of goods caused by the need to transfer by small craft to ships standing at sea unable to anchor. The safety aspect is particularly important for people needing health care, children travelling for education, and women who usually bear the responsibility to assist them.

157. With respect to service provision, interisland transport is infrequent and unreliable due to a mismatch between supply and demand, and due to information asymmetry. The project is designed to bridge this gap by providing private sector operators with an incentive to have more frequent shipping services, induce rural communities to increase agricultural production, and facilitate better terms of trade. By facilitating access to markets and social services, and enabling rural populations to market their produce and derive income from natural resources, the project will spur economic growth and reduce poverty. The beneficiaries will include people in the poorest parts of the country, although the nation as a whole is expected to benefit from the project as it will reform the whole of the water transport sector upon which the economy is largely dependent.

158. Women play an important role in economic life in Vanuatu, particularly in the rural sector where more women than men are engaged in subsistence agriculture. In addition to growing food and cash crops, women contribute to the rural economy the processing and sale of home produce such as clothing, baskets, mats and handicrafts. Women are increasingly active in the retail sector in rural and urban areas, including the management of markets, shops and stalls. From an economic perspective, therefore, transport services including interisland shipping are increasingly important for women.

159. Project activities will be implemented in accordance with the Gender Action Plan (GAP). MIPU will assign responsible staff and allocate resources for implementation of the GAP and will monitor and report against the targets. The GAP and the DMF indicators under the current project remain unchanged and will be applied to the additional financing project.

GENDER ACTION PLAN

Components and Outputs	Proposed Activities (target)	Primary Responsibility
Component 1. Infrastructure		
1. Construction of a new interisland shipping terminal in Port Vila	<ul style="list-style-type: none"> Wharf and jetty designs will include separate resting areas and sanitation facilities for women. Women will be actively encouraged to engage in construction and maintenance through contractors, labor groups, and community organizations. (At least 30% of labor-based workers will be women.) 	PIT, VPMU and MIPU PIT, VPMU, MIPU and CGS
2. Rehabilitation of four existing outer island jetties and construction of three new jetties	<ul style="list-style-type: none"> Contractors will provide institutional support for female workers such as separate resting areas and sanitation facilities. Contractors appointed for construction will be informed of the required facilities before bidding. Contractors will be required to provide equal pay for equal work for both male and female workers. Market spaces or shelters will be provided for female sellers/traders to run their businesses in completed facilities of all sites. Contractors will be required to provide awareness workshops on HIV/AIDS and gender issues for construction workers and nearby community members. 	Contractors, VPMU and MIPU Contractors, VPMU, MIPU PIT, VPMU and MIPU Contractors, MIPU
Component 2. Shipping Support and Coordination		
1. Establish a shipping support scheme	<ul style="list-style-type: none"> Selection criteria for routes will incorporate access to social services such as education and health facilities, as well as market access for women. Vessels must meet Vanuatu maritime safety standards. 	PIT, VPMU and MIPU Operators, DMA and MPIU
2. Establish a shipping coordinator scheme	<ul style="list-style-type: none"> Vessels must provide resting areas and sanitation facilities for women, especially for women in pregnancy and with small children. Provide awareness workshops on the use and benefits of vessel services for women (as well as for men) in local communities, including how demand for services is coordinated and how to do planning for markets and for use of social services. Assemble information on market opportunities along shipping service routes and provide to local women. Ensure demand for services are recorded by gender and location, and services are provided to facilitate women's access. Organize safety training workshops on the use of vessel services for women and children in local communities. 	Operators, VPMU, MIPU and DMA DMA, CGS, PIT, VPMU and MIPU PIT, VPMU, MIPU and CGS PIT, VPMU, MIPU and CGS PIT, VPMU, MIPU and CGS

Components and Outputs	Proposed Activities (target)	Primary Responsibility
Component 3. Capacity Development		
1. Enhance capacity for sector governance	<ul style="list-style-type: none"> The institutional development plan will include measures for increasing the representation of women in the sector. 	PIT, VPMU and MIPU
2. Enhance capacity for maritime safety oversight	<ul style="list-style-type: none"> Provide vessel operators with material regarding the risks of HIV/AIDS and other sexually transmitted infections among seafarers and potential impacts on their families. 	VPMU, DMA and Department of Health
Component 4. Project Management		
1. Project management services for efficient and effective project implementation	<ul style="list-style-type: none"> VPMU/MIPU will employ a community development/gender specialist(s) in the project team who will manage implementation of the gender action plan. 	VPMU and MIPU
	<ul style="list-style-type: none"> VPMU/MIPU will provide gender awareness training to all project staff. 	VPMU, MIPU and CGS
	<ul style="list-style-type: none"> Women will be encouraged to participate in community consultations and meetings (about 50% of participants should be women). 	PIT, VPMU, MIPU and CGS
	<ul style="list-style-type: none"> The PIT/VPMU/MIPU will collect and report sex-disaggregated data in the baseline, progress, and M&E reports. 	PIT, VPMU, MIPU and CGS
	<ul style="list-style-type: none"> The project performance monitoring system will include indicators measuring implementation and progress of the gender action plan. 	PIT, VPMU, MIPU and CGS
Implementation Arrangements <p>The implementing agency for the project will be MIPU. The PIT is responsible for day-to-day project implementation, will implement the GAP. VPMU/MIPU will hire a community development/gender specialist (CGS) in the project team to assist in the GAP implementation. The specialist will be responsible for incorporating the GAP into project planning and program, including awareness workshops and establishment of sex-disaggregated indicators for project performance and monitoring. VPMU/MIPU will include reporting on progress of GAP activities in regular progress reports on overall project activities to the government, ADB, and Government of New Zealand. Other consultants or local NGOs may be hired to implement different GAP activities under the guidance of the CGS.</p>		

ADB = Asian Development Bank; CGS = community development and gender specialist, DMA = Department of Maritime Affairs; GAP = Gender Action Plan; MIPU = Ministry of Infrastructure and Public Utilities; NGO = nongovernment organization; PIT = Project Implementation Team; VPMU = Vanuatu Project Management Unit.

IX. PERFORMANCE MONITORING, EVALUATION, AND REPORTING

REVISED DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (With Additional Financing)	Assumptions and Risks (With Additional Financing)
Impact Current project People throughout Vanuatu have improved access to socioeconomic opportunities	Current project 3% annual growth in cargo and passenger volumes from rural areas by 2020. (Baselines: Cargo baseline is 65,000 tons per annum in 2010, passenger baseline to be established during implementation.) Women in rural areas establish markets at more than half of the project jetties and wharves by 2018 (Baseline: zero in 2010)	Baseline survey and monitoring surveys at inception, midterm, and completion Shipping support scheme voyage reports Government socioeconomic monitoring reports	Assumptions Private sector operators continue to respond to opportunities Sufficient incentives for rural agriculture to grow in response to services Risks Deterioration in domestic and external economic conditions, constraining growth and development Inefficient franchise management could affect service provision
Overall project Unchanged.	Overall project Unchanged.		
Outcome Current project Private sector operators provide interisland shipping services that are reliable, safe, and adequately frequent	Current project Sailing schedules to all islands are published and 90% of vessel calls are delivered without cancellations or delays greater than 24 hours by 2017.(Baseline about 50% in 2010). All vessels in Vanuatu comply with national safety regulations by 2017 (Baseline: about 50% in 2008). Main population centers in project areas receive a vessel call at least once every two months. (Baseline: less than	Maritime regulatory authority reports Reports from provincial shipping coordinators Reports from the Vanuatu Maritime Safety Administration Shipping support scheme voyage reports	Assumptions Continued political stability and support Private sector operators respond to opportunities Risks Inefficient franchise management could affect service provision

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (With Additional Financing)	Assumptions and Risks (With Additional Financing)
	every 3 months in 2010).		
With additional financing Unchanged.	With additional financing project Unchanged.		
Outputs Current project 1.Improved maritime infrastructure is provided in the capital and rural areas. With additional financing Unchanged.	Current project 1.1. Construction is complete in Port Vila and at four rural sites by 2016. 1.2. Rehabilitation is complete at three rural sites by 2016. 1.3. All project facilities provide separate waiting areas and amenities for women by 2016. With additional financing 1.1. Construction is complete in Port Vila with a dredged channel and at four rural sites by 2017. 1.2 Repairs are complete at two rural wharf sites by 2017. 1.3 All project facilities provide separate waiting areas and amenities for women by 2016.	Quarterly reports from project steering committee.	Assumptions Government counterpart funding and Government of New Zealand cofinancing provided as planned. Risks Limited availability of capable contractors to complete projects on schedule.
Current project 2.Shipping support and coordination schemes have been established.	Current project 2.1 Shipping services provided to project areas by 2013. 2.2 Shipping coordinators appointed in each province by 2012. 2.3 At least 25% of shipping coordinators are women by 2012. 2.4 Shipping coordinators collect and maintain sex-disaggregated information on demand for services by 2012.	Shipping support scheme voyage reports	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (With Additional Financing)	Assumptions and Risks (With Additional Financing)
With additional financing Unchanged.	With additional financing Indicator 2.1 performance target date changed to April 2015. Indicators 2.2 and 2.3 performance target dates changed to December 2014. Indicator 2.4 remains unchanged but target date changed to April 2015. 2.5. New indicator added. Contract procurement and management systems documented and operational by December 2014.		
Current project 3. Project management services ensure efficient and effective project implementation. With additional financing Unchanged.	Current project 3.1 Project activities are completed on schedule by 2016. 3.2 At least 25% of national staff of the project management consultants are women by 2012. With additional financing 3.1 Unchanged. 3.2 Target date changed to 2013.	Quarterly reports from project steering committee	
Current project 4. The Vanuatu Maritime Safety Administration is established	Current project 4.1 Enabling legislation passed. 4.2 Budget approved and staff appointed.	Government gazette. Ministry of Infrastructure and Public Utilities annual work plan.	Risks Delayed or incomplete institutional restructuring Delayed passage of the appropriate regulations and legislation
With additional financing 4. Changed to "The Office of Maritime Regulator" is established	With additional financing Unchanged.		
Activities with Milestones (Overall Project)		Inputs	
1. Infrastructure improvements		ADB ADF Loan	
1.1 Implementation of civil works contracts (2015–2017)		\$10.82 million (current)	

1.2 Dredging of channel in South Paray Bay (2015–2017)	\$18.48 million (additional) \$29.30 million (overall)
2. Shipping support scheme	
2.1 Appointment of shipping administrator (2014)	Government of New Zealand Grant
2.2 Implementation of shipping support scheme (2014–2016)	\$12.60 million (current) \$4.65 million (additional) \$17.25 million (overall)
3. Project Management	
3.1 Short listing and finalization of requests for proposals (2012)—Completed in 2012.	Government
3.2 Evaluation and award of contract (2012)—Completed in 2013.	\$3.40 million (current)
3.3 Preparation of design and bid documents (2013)—Completed in 2014.	\$1.67 million (additional)
3.4 Recruitment of shipping support scheme administrator (2013)—Completed in 2014.	\$5.07 million (overall)
3.5 Tendering and award of franchise contracts (2014–15)	
3.6 Tendering and award of civil works contracts (2014–2015)	Technical Assistance Grant
3.7 Supervision of civil works (2015–2017)	ADB
	\$0.50 million (current) \$0.00 (additional) \$0.50 million (overall)
4. TA to establish the Vanuatu Maritime Safety Administration (Renamed as Office of Maritime Regulator)	
4.1 Review legislation and regulations/draft amendments (2013)—Completed in 2014.	Government of New Zealand Grant
4.2 Prepare organization development plan (2013)—Completed in 2014.	\$1.00 million (current)
4.3 Develop capacity of appointed staff (2013–2015)— Not yet started	\$0.00 (additional)
4.4 Enact revised legislation and regulations (2015–2016)—Draft bill prepared and is with State Law Office.	\$1.00 million (overall)
	Government
	\$0.48 million (current) \$0.00 million (additional) \$0.48 million (overall)

ADB = Asian Development Bank, ADF = Asian Development Fund, TA = technical assistance.

Source: Asian Development Bank.

A. Monitoring

160. **Project Performance.** Within 6 months of the loan effectiveness, VPMU and MIPU will establish a project performance and monitoring system. The government, ADB, and Government of New Zealand will agree on a set of indicators for monitoring and evaluating how well the project achieves its goals and purposes. These indicators will be refined and monitored during project implementation. The indicators will include data for monitoring economic development, water transport sector performance, socioeconomic development, environmental impact, gender impact, maintenance, and institutional development. Monitoring and evaluation will be based on gender-disaggregated data for social and poverty impact indicators.

161. PIT will provide hands-on training to VPMU and MIPU staff and national consultants in data collection, monitoring, and evaluation. VPMU and MIPU shall monitor and evaluate the indicators according to the agreed framework on a quarterly basis to determine the efficiency and effectiveness of the project. Disaggregated baseline data for output and outcome indicators gathered during project processing will be updated and reported quarterly through MIPU's quarterly progress reports and after each review mission. These quarterly reports will provide information necessary to update ADB's project performance reporting system.³³ Beneficiaries

³³ ADB's project performance reporting system is available at:
<http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltooland>.

will be involved in project monitoring and evaluation through the shipping coordinators.

162. The project will engage a project performance monitoring specialist who will provide guidance to VPMU and MIPU in developing and establishing an effective monitoring and reporting systems and processes. Baseline surveys will be undertaken at the start of project implementation and all indicators in the GAP will be continuously monitored and reported. These will be included in the quarterly reports and project monitoring reports. A midterm review will be carried out in April 2015 and a Project Completion Report will be undertaken at project end.

163. The VPMU-SC has been established to oversee the overall implementation of the project. The composition and terms of reference for the project steering committee are in Attachment 1.

164. **Compliance.** This will be monitored through regular quarterly progress reports and during regular joint review missions.

165. **Environmental.** An Environmental Management and Monitoring Plan has been prepared which shows the impacts, mitigation measures, monitoring requirements and responsibilities of the various persons or agencies that need to be addressed during design/pre-construction, construction and operation phases. During pre-construction, monitoring of these activities will be carried out by the Environmental Specialist (ES). The ES will be responsible for ensuring that the issues that are to be addressed are implemented as required in the Environmental Management and Monitoring Plan. Baseline monitoring will commence during pre-construction with a marine water quality measurements.

166. During construction, the contractor will have the initial responsibility for self-monitoring its work which will be undertaken according to the contractor's site environmental management plan (SEMP). The contractor will appoint a person who will have overall responsibility for ensuring that the SEMP requirements are complied with. Included as part of the contract supervision responsibilities, the Resident Engineer will supervise and monitor the contractor's work including compliance with the SEMP and direct the contractor accordingly. The ES will support and assist the Resident Engineer in monitoring the contractor's work. The ES will also independently monitor the construction activities and will issue Defect Notices for non-complying work to the contractor via the Resident Engineer. The contractor may arrange with the Department of Geology Mines and Water Resources to sample the water around the construction site on a weekly basis for turbidity. Sampling is to commence before work commences so as to develop a set of reference samples. The DEPC will also monitor construction work as required. During implementation, monitoring will be carried out by the ES and EO. The DEPC will also have a continuing role in monitoring operational requirements, especially waste disposal from the wharf.

167. Each month, the contractor will prepare a brief report on compliance with the SEMP which will be sent to the Resident Engineer and the ES. The Environmental Specialist will review the report and attach any additional information such as monitoring and forward the report to the Project Manager. The Project Manager will arrange for the monthly report to be (i) copied to Environmental Unit and (ii) include the report in a semi-annual report to ADB and Government of New Zealand.

168. **Involuntary Resettlement.** The VPMU with support from consultants will monitor all activities associated with land acquisition and resettlement (LAR). The monitoring will include

reporting on progress of LAR activities with particular focus on public consultations, land lease/acquisition, payment of lease premium/compensation, and level of satisfaction among affected persons. The VPMU will prepare and submit semi-annual monitoring reports to ADB and Government of New Zealand. The RF provides detailed arrangements for monitoring and reporting.

The consultants safeguard specialists will assist the VMPU in monitoring of safeguard activities and preparation, and review and disclosure of safeguard monitoring reports. The checklist for safeguard supervision and the outline of safeguard monitoring report on resettlement for ADB and Government of New Zealand missions and VPMU, respectively, are provided below.

Checklist for Safeguard Supervision/Monitoring (Land Acquisition/Resettlement)

[illegible]

Suggested Contents of Land Acquisition/Resettlement Monitoring Report

Heading/Section	Contents
Introduction	<p>Brief background on the project/subproject and progress status</p> <p>The project's category and planning documents (original, updated or new plans) on resettlement impacts</p> <p>Institutional arrangements and budget allocation for resettlement/social management</p> <p>Arrangement for the monitoring</p>
Monitoring Activities	<p>Methodology for monitoring (whether checklists prepared etc.)</p> <p>Period the monitoring covers</p> <p>Main activities: site visits, consultations, surveys, etc.</p>
Monitoring Results and Actions Required	<p>Progress and performance in implementation of Resettlement Plan (RP) and other programs (how these were implemented, what are the outputs, etc.)</p> <p>Results on consultations, disclosure, and grievance redress (whether they have been effective)</p> <p>Whether the implementation comply with the approved RP (e.g., whether compensation rates were at replacement cost, etc.)</p> <p>Results on outcome (whether Affected Peoples were able to restore livelihoods)</p> <p>Compliance on monitoring and disclosure (whether reports have been submitted and posted on website)</p> <p>Whether any issues and corrective measures were identified to achieve the RP objective. If yes, actions with target dates and responsible agency/person)</p> <p>Follow-up item/plan for next report</p>
Summary and Conclusions	<p>Summary of main findings</p> <p>Main issues identified and corrective actions noted</p> <p>A table on follow-up action which can be updated each period to track completion of actions required</p>
Attachments	<p>Monitoring checklist (based on items identified in the RP)</p> <p>Photographs</p> <p>Additional information as required</p>

169. **Indigenous Peoples.** Native Melanesians, who comprise the vast majority of the population, are the indigenous people of Vanuatu. The project is not expected to impact on distinct and vulnerable indigenous peoples that would trigger ADB's *Safeguard Policy Statement* (2009). The project is categorized as indigenous peoples Category C; therefore no separate monitoring report is required. However, it will be ensured through overall project monitoring and monitoring of land acquisition/resettlement activities that project is implemented in a participatory manner ensuring support of local communities

170. **Gender and social dimensions.** Action plans pertaining to Social, Gender, and Poverty issues will be implemented, monitored, and reported by MIPU/VPMU as required by the respective action plans and design and monitoring framework.

B. Evaluation

171. Soon after the receipt of the Consultant's inception report, ADB fielded a joint inception mission with Government of New Zealand to agree with VPMU and MIPU on a checklist of implementation requirements of the projects as well as discuss in detail the procedures relating to procurement of works and goods, recruitment of consultants, and disbursements, including the inception report. The government, ADB, and Government of New Zealand will undertake semiannual reviews of the project to consider in detail the (i) scope of the project, (ii) implementation arrangements, (iii) compliance with loan and grant covenants, (iv) physical achievements against targets and milestones, and (v) project implementation issues requiring resolution or action. The midterm review will be made after 2 years of the loan effectiveness date or April 2015. The midterm review will examine in detail the implementation progress and project design (institutional, administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, and financial aspects), and identify courses of action that would improve project performance, viability, and the achievement of targets and project objectives. All the assumptions and risks noted in the design and monitoring framework will be reviewed. Within 6 months of physical completion of the project, PIT will prepare and submit a draft project completion report (PCR) to VPMU, MFEM and MIPU for review and comments.³⁴ Within one month after receiving comments, PIT will finalize the draft PCR and submit to VPMU. VPMU will submit the PCR to ADB and Government of New Zealand.

172. ADB will undertake with Government of New Zealand a joint project completion review mission within 2 years of the physical completion date. The project completion report will evaluate the processing and design of a project, both by ADB and the borrower amongst others. It will assess and evaluate (i) performance of the borrower and MFEM in managing and implementing the project, in complying with ADB's guidelines, policies, practices, procedures, and loan covenants, and evaluate project costs, disbursements, and institutional improvements; (ii) the performance of consultants, contractors, and suppliers with respect to services, construction, supply, delivery, and installation; (iii) problems encountered during implementation and the effectiveness of measures to resolve them, by the borrower, MFEM, and ADB; (iv) whether the borrower, MFEM, and ADB monitored progress effectively in comparison with quantifiable and monitoring targets; (v) the financial and economic performance of the project at its initial stage of operation and compare with the qualified indicators in the design and monitoring framework and Project Performance Report; (vi) the project's transition to operations, and identify any remedial measures needed; (vii) future operation and maintenance schedules to ensure sustainability of the project; (viii) any other steps that the borrower and MFEM need to take to ensure the project's sustainable operation; (ix) the performance of the monitoring and evaluation system established for the project and reexamine the indicators selected for monitoring operations and assessing development impact; (x) significant environmental and poverty reduction impacts (include sociocultural impacts when applicable) of the project, and evaluate the implementation and effectiveness of any environmental control measures, resettlement plans, and poverty reduction measures; and (xi) whether the immediate development objective has been met as well as the likelihood of attaining the long-term development goal.

³⁴ Project completion report format available at <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>. VPMU may like to share the draft PCR with ADB and Government of New Zealand and seek their comments.

C. Reporting

173. VPMU (based on information submitted by MIPU and PIT) will provide to ADB and Government of New Zealand with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system last week of first month ending the quarter; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the project. To ensure projects continue to be both viable and sustainable, project accounts and the associated auditor's report should be adequately reviewed. These will be authorized by the Director of VPMU.

174. During implementation a communication strategy and communication plan will be prepared that will indicate the types of information, means of communication, who will provide and to whom including at what intervals to the stakeholders about the project as well as its implementation.

X. ANTICORRUPTION POLICY

175. ADB reserves the right to investigate, directly or through its agents, any violations of the *Anticorruption Policy* (1998, as amended to date) relating to the project.³⁵ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.³⁶

176. To support these efforts, relevant provisions are included in the loan agreement/regulations and the bidding documents for the project. Procurement will follow ADB's *Procurement Guidelines* (2013, as amended from time to time), consultant selection will adopt ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time), and disbursement will be made in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time).

177. Any suspect of fraud, waste; or misuse of project resources or property will be established through the Ombudsman's Office, Transparency International, government's internal auditors within MFEM, as well the Vanuatu Office of the Auditor General. Both ADB and Government of New Zealand should be notified immediately in the event or suspicion of fraud, waste or misuse of project resources.

178. To ensure transparency and good governance, VPMU will publicly disclose the use of the loan and grant proceeds on the government's website. For each procurement contract, VPMU will disclose (i) the list of participating bidders, (ii) the name of the winning bidder, (iii) basic details on the bidding procedure adopted, (iv) the amount of the contract award, (v) the list of goods or services purchased, and (vi) the intended and the actual amount of loan and grant proceeds under each contract. VPMU and MIPU will see to it that all of its consultants, contractors, and staff are fully aware of, and comply with, the procedures of the government and ADB, including those for implementation, procurement, use of consultants, disbursements, reporting, and prevention of fraud and corruption.

³⁵ Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>.

³⁶ ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>.

XI. ACCOUNTABILITY MECHANISM

179. People who are, or may in the future be, adversely affected by the project may address complaints to ADB, or request the review of ADB's compliance under the Accountability Mechanism.³⁷

180. A procedure for managing complaints and problems will be established by MIPU to (i) review and redress grievances and complaints of project stakeholders in relation to the project, any service provider, or any person responsible for carrying out the project; (ii) set the threshold criteria and procedures for handling such grievances, for proactively addressing them, and for notifying stakeholders about the mechanism or course of action chosen; and (iii) maintain the records on the above.

³⁷ For further information see: <http://compliance.adb.org/>.

XII. TECHNICAL ASSISTANCE

181. Associated technical assistance (TA) will be provided on a grant basis by ADB and New Zealand to improve the condition of maritime infrastructure, service provision, and safety. The TA will help the government to establish the Office of Maritime Regulator (OMR). The impact of the TA will be safe and secure marine transport.

A. Rationale

182. Water transport is vital for connecting Vanuatu's islands and remote communities where there is no road alternative. However, there is inadequate sector governance and a lack of government capacity in maritime administration and safety. These factors cause deficiencies in maritime infrastructure maintenance, safety, and administration and result in noncompliance with international protocols. To comply with international standards and protocols, it is necessary to reform sector governance and improve the government's capacity.

183. There are institutional and capacity constraints in the Ministry of Infrastructure and Public Utilities (MIPU), including lack of strategic direction and an environment of outdated and inconsistent legislation and regulation. There are also issues including inadequate delegation of responsibility and authority, a piecemeal approach to skills development, and no real plan for improving compliance. The technical assistance (TA) will advise and assist the government to improve the condition of maritime infrastructure, service provision, and safety by establishing the OMR.

B. Sector Governance, Institutional Reform, and Capacity Development Strategy

184. The impact of the TA will be safe and secure water transport. The TA will consist of three main components: institutional restructuring to rationalize the tasks belonging to MIPU (primarily the Department of Ports and Harbors and the Maritime Affairs Division), sector governance reforms to legislation and regulation, and capacity development of OMR staff.

1. Component 1: Institutional restructuring

185. This component will support the establishment of the OMR. Institutional restructuring is required for Vanuatu to meet its international obligations. Vanuatu needs a competent national maritime administration to fulfill its flag and port state responsibilities, and to ensure that ships comply with international and national maritime standards. These obligations, responsibilities and duties should be split between a maritime safety regulator and a new maritime policy unit within MIPU. The maritime policy unit will be the chief policy adviser to the government on all maritime matters. The national maritime administration needs to be supported by a number of policies, authority and a mandate to ensure that the government's obligations and responsibilities are carried out. This will be accomplished by establishment of the OMR. A comprehensive training needs assessment will be conducted and used to develop an institutional development plan for increasing the participation of, and benefits to, women in the sector. In addition to a completed restructuring, the outputs of this component will include human resources and staff development plans, a review of shipping fees, and improvements to the maintenance of the vessel registry. The TA will also assess options for management of operations and management of government-owned wharves and jetties.

2. Component 2: Sector governance reforms

186. Sector governance reforms will bring the current maritime legal framework up to date and into compliance with maritime industry developments within the region and improve the safety and economic performance of domestic shipping. The legal framework will separate economic requirements from safety and security requirements. Vanuatu's maritime law should be consolidated into three new acts, comprising (i) a Sea Transportation Act to provide for the transport (economic) requirements, (ii) a Maritime Safety Administration Act to provide for the safety and security requirements, and (iii) a Shipping Act to provide for the registration of ships, mortgages and liens in Vanuatu and the establishment of a shipping register in accordance with best regional practice. The outputs of this component will be draft legislation for consideration by Parliament plus regulations for implementation of the new acts.

3. Component 3: Capacity Development

187. The TA will provide training and capacity development for staff and vessel operators in the new legislation, regulations, and institutional structure. Where possible an increased use of regional providers and resource persons will be encouraged, potentially including close coordination with the programs managed by the Vanuatu Maritime College, Papua New Guinea Maritime College, and the Secretariat of the Pacific Community in Fiji. The output will be training programs for government and industry in relation to legal and compliance issues, and training programs for OMR officers in relation to the enforcement of laws and the prosecution of offenders.

C. Implementation Arrangements

188. The executing agency for the TA will be the Ministry of Finance and Economic Management (MFEM) while ADB will provide overall administration. The project steering committee will also serve as the steering committee for the TA. VPMU acting on behalf of MFEM 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.

189. Disbursements of ADB and Government of New Zealand funding will be done in accordance with ADB's Technical Assistance Disbursement Handbook (May 2010, amended time to time).

190. Major equipment to be purchased from the TA budget includes computers and networking, a large-format copier and scanner, radios, and test equipment. Equipment will be procured in accordance with ADB's Procurement Guidelines (2013, as amended from time to time) and turned over to the government after completion of the TA.

191. MFEM will administer funds provided by the government for training/seminars/conferences and surveys. The TA will be implemented over 3 years.

D. Consulting Services

192. Approximately 33 person-months of international consulting services and 43 person-months of national consulting services are required as shown in Table 1. Consultant selection for Component 1 will be done by ADB via quality- and cost-based selection procedures with 80:20 weighting for quality and cost respectively. ADB will recruit consulting services for

Component 1 in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time).

Table 1: Summary of Consulting Services Requirement

International		National	
Name of Positions	Person-months	Name of Positions	Person-months
Maritime Institutional Expert/Team Leader	16	Maritime Safety Expert	16
Legal Experts	14	Legal Expert	15
Financial Management Expert	4.5	Financial Management Advisor	6
Accountant	0.5	Training Advisor	6

Source: Asian Development Bank and Government of Vanuatu estimates

E. Outline Terms of Reference

1. Team Leader/Institutional Specialist

- a) Recommend and assist implementation of institutional structures, processes, and documentation regarding vessel registry, inspection, survey, and licensing and certification of seafarers
- b) Develop overview of Vanuatu-wide maritime sector regulatory regime, including business processing, marine safety such as search and rescue, navigation aids, and environmental protection. Develop options and recommend authorities and responsibilities
- c) Assist the major stakeholders in developing a regulatory regime covering the maritime sector, with primary focus on maritime safety policy and implementation
- d) In conjunction with other projects, develop advice on a framework to manage government owned port/maritime infrastructure focusing on maritime safety and security
- e) Provide recommendations in the areas of organizational structure, management responsibilities (job descriptions, staffing, budgets, strategic planning, etc.), addressing staffing issues under Public Service protocols, expanding the management information system, developing and documenting internal operating procedures and establishing an internal training, and procedures
- f) Formulate and draft organizational policies and procedures of the Vanuatu maritime regulator and facilitate and assist drafting of a quality manual (policies and related procedures) to respond to external and internal audit procedures
- g) In conjunction with Financial Management specialists, review and structure the financial and accounting arrangements for the maritime safety regulator to align to government systems and financial instructions
- h) Work closely with legal expert to:
 - Address regulatory issues that may relate to the above operational changes and ensure that appropriate sections of the relevant acts are amended
 - Identify issues pertinent to corporate governance within the maritime regulator, presenting recommendations for implementing reform based on regional and international best practices
 - Review the options for structuring the Regulator and develop policies and procedures in respect to the role and responsibilities of the board. Policies should clarify and make publicly known (through government's communication channels) the roles and responsibilities of the regulator and authorized officers to provide stakeholders with the required level of accountability

- Advise on further inputs necessary for effective implementation of the proposed recommendations, including requirements for additional analysis, implementation planning, and any necessary regulatory issues or approvals
- i) As team leader, organize extensive consultations with government officials and other key stakeholders; develop and deliver the training programs and workshops to help improve understanding and build ownership of the reform process
- j) Prepare and submit inception, progress, and final reports; effectively lead the consultant team; and take overall responsibility for and ownership of the delivery of expected TA outputs and outcomes
- k) In conjunction with the Legal Specialist review and recommend on the structure and management of ship registry, both domestic and overseas, with particular emphasis on compliance with international maritime safety protocols (e.g., IMO SOLAS, ISPS and STCW codes). Assist government's and other projects' awareness of issues relating to open registers.

2. Legal and Legal Drafting Specialist

- a) Identify all current and proposed laws of relevance to the maritime sector, and prepare consolidated versions incorporating all amendments, for use by the TA team and stakeholders
- b) Review and analyze all current maritime related laws, and prepare a gap analysis, a review of statutory offices and their functional responsibilities, and any other analysis or report to clarify the nature of necessary legislative reforms.
- c) Review and assess relevant reports and studies that relate to maritime policy, and identified governance and regulatory issues
- d) Review all applicable international maritime conventions of relevance to the regulation of the maritime sector, and prepare a report, which identifies the provisions of current laws, which apply and enforce these obligations and arrangements, and all gaps in the current legislative framework, which justify legislative reforms to achieve full legal compliance.
- e) Review current legal enforcement powers and arrangements, and propose options for reform. Improve enforcement mechanisms and capacities for effective regulation of the maritime sector.
- f) Provide advice in relation to the nature and structure of a new maritime regulator and identify all legal issues of relevance to such a body, and the law, which will provide it with mandates and powers.
- g) Consider other related projects relevant to the nature and role of "regulators" (and specifically in relation to a maritime sector regulator), and ensure that the proposals developed for the maritime regulator are consistent and harmonized with other similar arrangements.
- h) Coordinate closely with border and maritime security agencies on the development of recommendations for reform
- i) Undertake stakeholder consultations, and contribute to the raising of public awareness in relation to maritime sector reform
- j) Contribute to the formulation of policy relevant to all regulatory aspects of maritime sector regulation, with a particular focus on maritime safety and international compliance issues.
- k) Contribute to the formulation of the legislative reform agenda, and liaise with the State Law Office (SLO) and other key agencies to promote and facilitate the implementation of the legislative reform agenda
- l) Prepare a detailed report on the consultation process undertaken for the policy

- m) and legislative reforms, and any other report required for the purposes of the TA
- n) Prepare all necessary documents to secure approvals for the legislative reforms
- o) Prepare training materials and undertake training programs for stakeholders in implementing and applying the new policy and legislative reforms, with a particular focus on law enforcement
- p) Progressively evaluate the success of the reforms, and provide additional support and training in relation to matters where implementation is demonstrated as being ineffective
- q) Liaise with regional agencies and programs, which have roles and functions relevant to maritime regulation, and facilitate their involvement in the programs and activities undertaken under these reforms
- r) Assist the team leader to prepare and submit inception, progress, and final reports
- s) Prepare all necessary documents to secure necessary approvals for the drafting of the legislative reforms
- t) Draft the law for the establishment and empowerment of the new maritime regulator, and for the empowerment of MIPU in relation to maritime policy, port management and other related functions. Draft all other legislation and related instruments to give effect to the legislative reform agenda in the maritime sector
- u) Prepare any explanatory memoranda and other documents, which may be required to process the legislative reforms
- v) Prepare consultation and other information materials to involve stakeholders in the reform process, and to brief the Steering Committee, ADB's task manager and other stakeholders in relation to the nature and progress of the reforms

3. Financial Management Experts

- a) Prepare a detailed business plan for the regulatory Authority, providing a 10-year projection of key cost centers within the Authority and proposing a structure of fees for regulatory services that fully recover costs, to be collected from vessel operators and other maritime safety stakeholders
- b) Develop and submit OMR budget.
- c) Assist Team Leader and Legal Experts in developing recommendations in the areas of organizational structuring, management responsibilities (staffing, budgets, strategic planning, and establishing an internal training capacity).
- d) Monitor the effectiveness of implementation of the tariff of levies, fees and charges, and revenue collection.
- e) Ensure that the systems and procedures set up for role definition, training analysis and staff development and succession are operating and can be sustained after TA completion.
- f) Review the long term computer needs of the regulatory Authority for accounting, administration, and relevant technical work. Recommend future development as required.
- g) Ensure that the systems and procedures set up for role definition, training analysis and staff development and succession are operating and can be sustained after TA completion.

4. Accountant

- a) Based on the financial and institutional structure of the OMR, specify the design parameters of a computerized accounting system, and prepare specifications of an appropriate software package and associated hardware requirements for

procurement by the OMR. The software specification must meet the needs of the OMR and the accounting standards and policies developed above. The software should minimize training requirements for OMR staff.

- b) Review and design sound accounting standards, policies, and procedures incorporating internal control for OMR. In designing accounting standards, policies, and procedures the expert should ensure that they lead to the production of: relevant; reliable; neutral; and comparable financial information for the users of financial statements;
 - c) Address expanding the management information system requirements and develop and document internal operating procedures.
 - d) Design the form and content of the key financial reports and statements.
 - e) As required to meet the needs of the new OMR, develop standard procedures for procurement, control of finances, and payroll systems and capability.
- Component 3
- f) Following approval of the software specification and procurement of software by competitive tender, install the software in OMR computers, outline procedures for its use, and test its reliability, accuracy and integrity. These services may also be included in the tender.
 - g) Conduct on-the-job training sessions on government financial legislation and on application of the accounting policies and procedures manuals, including international accounting standards.
 - h) Develop an in-depth accounting training program for OMR staff to ensure that accounting staff understand the procedures and practices of the new accounting system.
 - i) Prepare a training manual for periodic refresher and new staff training by the Accounting Department on the new accounting procedures. The manual should include accounting standards, financial reporting formats and procedures, auditing procedures, procedures for data safeguarding, and operation and maintenance of the accounting software.

5. Maritime Safety Expert/National Staff (16 person-months). The expert will have a university degree in economics, maritime safety administration, or a similar field with at least 10 years' experience. He/she will:

- a) Provide technical advice to Vanuatu stakeholders on maritime safety and environmental issues;
- b) Support the Government and international experts in establishment of OMR; ensure the application and dissemination of the guidelines and processes of OMR;
- c) Assist in providing external training to inspectors and management staff in OMR;
- d) Provide advice to ship operators on routes, ship costs and marine management, particularly in relation to calls to remote (uneconomic) routes.

6. Financial Management Expert/ National Staff (6 person-months). The Financial Management Expert will have a university degree in accounting, business administration, information technology, or a similar field with at least 10 years' experience. The local expert will assist the international financial management expert to:

- a) Review and design sound accounting standards, policies, and procedures incorporating internal control for OMR. In designing accounting standards, policies, and procedures the expert should ensure that they lead to the production of: relevant; reliable; neutral; and comparable financial information for

- the users of financial statements;
 - b) Install the new systems and procedures in OMR and test the systems reliability, accuracy and integrity.
 - c) Develop and submit a OMR budget to input into MIPU's overall budget;
 - d) Develop new standard procedures for procurement and control of finances; develop payroll systems and capability;
 - e) Monitor the effectiveness of implementation of the tariff of levies, fees and charges, and ensuring that the potential for revenue collection set in place;
 - f) Ensure the dissemination of the business processing to OMR and ship operators;
 - g) Assist Maritime Institutional Expert in developing recommendations in the areas of organizational structuring, management responsibilities (staffing, budgets, strategic planning, etc.), addressing staffing issues, expanding the management information system, developing and documenting internal operating procedures and establishing an internal training, and procedures;
 - h) Conduct an in-depth accounting training programs for OMR staff to ensure that accounting staff understand the procedures and practices of the new accounting system;
 - i) Ensure that the systems and procedures set up for role definition, training analysis and staff development and succession are operating and can be sustained after TA completion.
- 7. Legal Expert/Local Staff (15 person-months).** The Legal Expert will be qualified lawyer with at least 10 years professional experience and extensive experience in maritime sector laws and regulations and managing legal reform processes. He/she will:
- a) Assist the Legal Experts in reviewing and updating the maritime law related legislation and regulations.
 - b) Assist the Legal Experts in assessing issues pertinent to corporate governance and the extent to which these should be incorporated into the new legislation;
 - c) Assist the Legal Experts in initiating stakeholder discussions, engage decision makers, and raise public awareness of the underlying problems and the need for maritime sector reform;
 - d) Assist in formulating a white paper for reform of the maritime law related legislation and regulations; lead related consultations;
 - e) Assist the Legal Experts in timely translation of the maritime law related legislation and regulations into French and Bislama;
 - f) Work closely with SLO in ensuring that maritime law related legislation and regulations are enacted by Parliament on time.
 - g) Provide advisory and mentoring role to Vanuatu stakeholders in the absence of the International Experts' intermittent time in-country.
- 8. Training Expert/Local Staff (6 person-months).** The expert will have a university degree in economics, maritime safety administration, or a similar field with 10 years' experience. He/she will:
- a) Assist the Maritime Institutional Expert and Legal Experts in developing training programs on compliance and law enforcement for OMR and the national maritime industry including private operators;
 - b) Deliver training courses on maritime safety and security through national and/or regional providers.
 - c) Provide structured training through workshops and intermittent on-the-job training to Vanuatu stakeholders.

- d) Facilitate participation of OMR in on-going capacity development activities to ensure skills transfer.
- e) Provide advisory and mentoring role to Vanuatu stakeholders in the absence of the International Experts' intermittent time in-country.

F. Reporting Requirements

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

- a) 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.
- b) Monthly activity reports to document inputs and accompany invoices.
- c) Quarterly progress reports, summarizing activities and progress to date against the work plan, submitted within 1 month of the end of the quarter.
- d) Draft final report, summarizing activities and achievements against the terms of reference, including recommendations for future activities, within 1 month of completion.

194. Final report 1 month after receiving the comments on the draft final report from the government, Government of New Zealand and ADB.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Amount
A. ADB^a Financing and New Zealand Financing^b	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (35 person-months)	963.0
ii. National consultants (43 person-months)	196.0
b. International and local travel	37.0
c. Reports and communications	35.0
2. Workshops, training, seminars, conferences	30.0
3. Equipment (computer, printer, etc.) ^c	30.0
4. Vehicle ^d	20.0
5. Workshops, training, seminars, conferences	20.0
6. Miscellaneous administration and support costs ^b	18.0
7. Contingencies	151.0
Subtotal (A)	1,500.0
B. Government Financing^d	
1. Workshops, training, seminars, conferences ^e	225.0
2. Surveys	225.0
3. Office accommodation and transport	24.0
4. Remuneration and per diem of counterpart staff	24.0
Subtotal (B)	498.0
Total	1,998.0

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-IV)

^b Financed jointly by the Government of New Zealand and 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 New Zealand.

^c Equipment

Type	Quantity	Cost (\$)
Server, networking, backup	1	3,000
Personal Computers	5	10,000
Copier / scanner – large format	1	2,000
Radio communications (VHF / UHF / SW)	Provisional sum	5,000
Vessel testing (electronics & materials test equipment)	Provisional sum	30,000

^d Vehicle

Justify the use of and the need to purchase or lease a vehicle:

OMR staff will need to undertake frequent site visits and consultations with vessel operators and repair facilities, as well as consult frequently with various agencies of government. Offices, wharves, and repair facilities are widely dispersed around Port Vila and the island of Efate. The OMR is yet to be established and the Maritime Affairs Division within the executing agency is newly formed. Neither organization has any vehicles of its own. Expected length of use: 2 years.

^e Workshops, training, seminars, and conferences

Purpose	Venue
Quarterly legal reform workshops (4)	Port Vila
Pacific Ports Association conferences (4)	Regional
Safety and security workshops (4)	Port Vila and regional
Provisional sum for resource persons (6 p.m.)	Port Vila

^f In-kind counterpart contribution

Source: Asian Development Bank estimates.

XIII. RECORD OF PAM CHANGES

Date	Name	Purpose of Change
1. August 2011	1 st version completed	
2. April 2013	<p><u>Updated the following:</u></p> <ul style="list-style-type: none"> - Change in the timing of the project, including the impact on the disbursement profile, key reporting dates, the Performance Monitoring Evaluation and Reporting Programme milestones; - The establishment and role of the VPMU, including the VPMU-SC Updated Terms of reference, role in the authorization and disbursement of funds, provision of reporting and oversight of the project; - The reporting requirements for the project including project progress report and fixed asset reporting; - Inclusion of a new Total Project disbursement profile, NZ and the government disbursement profile and revised ADB loan disbursement profile - Specific external audit arrangements for the project - Confirmation that Implementing Consulting Services Funds may be utilized for agreed VPMU staff and direct costs (acting on behalf of MFEM as the Executing Agency) and Office of the Auditor General Funding relating to this project. - Revision of the Technical Assistance Terms of Reference <p><u>Additional attachments:</u></p> <ul style="list-style-type: none"> - Terms of Reference for VPMU Steering Committee and Program Management Unit - Reporting Requirements for the Payment of New Zealand Aid Programme Grant Funding - Master List of Withdrawal Applications - Asset Register and Asset Maintenance Plan Requirements - Executing Agency's project progress report - Project Performance Monitoring - Project Completion Report Guidelines - Updated TOR of TA Consultants and person-months. 	To align with the requirement of OMR
2. 22 January 2014	<ol style="list-style-type: none"> 1. Detailed Cost Estimate 2. Procurement Plan 3. Design & Monitoring Framework 4. Terms of Reference (TOR) for Consultants 5. Section XII Technical Assistance: TOR and TA cost estimate 	Approval of additional financing

ATTACHMENT 1. Terms of Reference for VPMU Steering Committee and Project Management Unit

1. The Council of Ministers have approved the establishment of the Vanuatu Project Management Unit (VPMU). This constitutes a VPMU Steering Committee (VPMU-SC) and Program Management Unit, as specified in the VPMU Charter – September 2013. The VPMU, is an established office within the Prime Minister's Portfolio has dual responsibility jointly to the Prime Minister's Office and Ministry of Finance and Economic Management (MFEM) acting as Executing Agency of the government to oversee and manage major infrastructure development projects.
2. The VPMU-SC is mandated by the Council of Ministers as the decision making body to govern the overall VPMU operations and provide direction of the VPMU in order to conduct its duties. This project has been formally assigned to it by the Prime Minister and Minister, MFEM as joint Ministers Responsible for the VPMU. This will be the final decision making body for the Government of Vanuatu as set out in the Charter- February 2013.

VPMU-SC Membership

3. The VPMU-SC shall comprise
 - (a) 8 voting members representing Government ministries, departments and Public Service Commission; and
 - (b) Non-voting observers from development partner agency as may be required
4. The voting members shall comprise:
 - a. Director General, Office of the Prime Minister
 - b. Director General, Ministry of Finance and Economic Management
 - c. Director General, Ministry of Infrastructure and Public Utilities
 - d. Director General, Ministry of Foreign Affairs
 - e. Director, Department of Strategic Policy, Planning, and Aid Coordination
 - f. Director, Finance and Treasury Department
 - g. Director, Public Works Department
 - h. Secretary General, Public Service Commission
 - i. Director General, Ministry of Tourism and Trade
5. The non-voting observers shall comprise representatives from development partner agencies financing development projects managed by VPMU and selected stakeholder agencies (and replaced from time to time) from Government departments or agencies covered by the national development project by the VPMU. For the project the non-voting observers are:
 - a) Representative from New Zealand High Commission
 - b) Asian Development Bank – Development Coordinator
6. The Chairperson of the VPMU-SC shall be the Director General of the Office of the Prime Minister, or a person formally designated as acting in that position. The vice chairman of the SC, who shall act in the absence of the chairperson, shall be the Director General of the Ministry of Finance and Economic Management, or the person formally designated as acting in that position.

Responsibilities of VPMU-SC

7. The responsibilities and authority of the SC shall include the following:
 - a) Conducting oversight with respect to:
 - (i) the Program Management Unit;
 - (ii) The overall implementation of development projects; and
 - (iii) The performance by VPMU of some or all of the responsibilities or obligations of the Government or the exercise by the VPMU of any rights of the Government related to the execution of the development projects;
 - b) Performing such other obligations and oversight functions in respect of VMPU activities as contemplated by applicable Vanuatu laws and contracts as executed;
 - c) Setting in terms of employment (including compensation) and the employment agreement for all contract staff, and any amendments thereto; and
 - d) Hiring and dismissing members of the Program Management Unit, and of any employee, consultant or expert to be hired by VMPU whose gross monthly compensation is greater than (VUV 500,000)' and the applicable terms of employment (including compensation) and the employment agreement for such person, any amendments thereto.
8. Without limiting the foregoing provisions, each of the following actions of the VMPU are specifically subject to the prior approval of the SC:
 - a) Any change in the number of members of the SC;
 - b) The amendment to VPMU Charter; and
 - c) Any decision to:
 - (i) Reorganize the VMPU;
 - (ii) Dissolve, windup or liquidate the VMPU; or
 - (iii) To make any other change in the legal organization of the VMPU.

Meetings of SC

9. The SC shall meet as often as reasonably necessary to meet the requirements of the executing agency during implementation of the development projects but no less than once every quarter.³⁸ At all meetings of the SC, a simple majority of the voting members shall constitute a quorum for the transaction of business.

Reporting of SC

10. The SC shall periodically, but not less than quarterly, provide the Council of Ministers through the sponsorship of the Prime Minister's Office and the Minister of Finance and Economic Management, reports on the implementation of projects and such other information that may be requested.

Signing Authority

11. The chairperson of the SC shall be the designated signatory for and on behalf of the VMPU for the purpose of entering into any contracts in the name of the VMPU, provided that such contracts with a value in excess (VUV 5,000,000) have the prior approval of the SC and are in accordance with the Government Procurement and Tender Act and Financial Regulation.

³⁸ Given the number of development projects taking place in Vanuatu, the SC meets every month.

ATTACHMENT 2. Reporting Requirements for the Payment of New Zealand Aid Programme Grant Funding

When making a claim for payment of Grant Funding Tranche from the New Zealand Government, the following non-financial and financial is required:

Date report due on or before	Report to be submitted to MFAT Contract Manager prior to Government of New Zealand approving payment
On signing	Signed Arrangement between Government of Vanuatu and Government of New Zealand..
31 April 2013	<ul style="list-style-type: none"> • 1. A letter of request for funds authorised by the Director VPMU, specifying the total funding requested for the 5 month period 1 April 2013 to 31 August 2013 based on the forecast cash requirements, less funds held to date: • Bank reconciliation detailing the NZ Aid Programme funds held by the Government of Vanuatu at 31 March 2013 • Financial Summary as at 31 March 2013 – “Fund Account Activity Statement” specifying total revenue/expenditure to date for the Total Project and total revenue/expenditure relating to New Zealand Aid Programme Funding • Asset Register at 31 March 2013 • Forecast of cash requirements for the period 1 April 2013 to 31 August 2013
31 July 2013	<p>1. A letter of request for funds authorised by the Director VPMU specifying the total funding requested for the 6 month period 1 September 2013 to 28 February 2014 based on the forecast cash requirements, less funds held to date:</p> <ul style="list-style-type: none"> • Bank reconciliation detailing the NZ Aid Programme funds held by the Government of Vanuatu at 30 June 2013 • Financial Summary as at 30 June 2013 – “Fund Account Activity Statement” specifying total revenue/expenditure to date for the Total Project and total revenue/expenditure relating to New Zealand Aid Programme Funding • Asset Register at 30 June 2013 • Forecast of cash requirements for the period 1 September 2013 to 28 February 2014 <p>2. A Progress Report for the quarter 1 April 2013 to 30 June 2013 in the form. attached to this PAM and the Memorandum of Understanding signed April 2013 or subsequently agreed by all partners</p>
31 January 2014	<p>1. A letter of request for funds authorized by the Director VPMU with reports as specified above:</p> <ul style="list-style-type: none"> • actual expenditure for the period 1 July 2013 to 31 December 2013 and • a Forecast of cash requirements for the period for future period 1 March 2014 to 31 August 2014.

Date report due on or before	Report to be submitted to MFAT Contract Manager prior to Government of New Zealand approving payment
	<p>2. Quarterly Progress Reports for the quarters ending 30 September 2013 and 31 December 2013 in the form. attached to this PAM and the Memorandum of Understanding signed April 2013 or subsequently agreed by all partners</p> <p>3. Draft Annual Consolidated Project Accounts</p> <p>4. Any other reporting due under the PAM</p>
31 July 2014	<p>1. A letter of request for funds authorized by the Director VPMU with reports as specified above:</p> <ul style="list-style-type: none"> • actual expenditure for the period 1 January 2014 to 30 June 2014 and • a Forecast of cash requirements for the period for future period 1 September 2014 to 28 February 2015. <p>2. Quarterly Progress Reports for the quarters ending 31 March 2014 and 30 June 2014 in the form. attached to this PAM and the Memorandum of Understanding signed April 2013 or subsequently agreed by all partners</p> <p>3. Final Audited Annual Consolidated Project Accounts including a copy of the Audit Report.</p> <p>4. Any other reporting due under the PAM</p>
31 January 2015	<p>1. A letter of request for funds authorized by the Director VPMU with reports as specified above:</p> <ul style="list-style-type: none"> • actual expenditure for the period 1 July 2014 to 31 December 2014 and • a Forecast of cash requirements for the period for future period 1 March 2015 to 31 August 2015. <p>2. Quarterly Progress Reports for the quarters ending 30 September 2014 and 31 December 2014 in the form. attached to this PAM and the Memorandum of Understanding signed April 2013 or subsequently agreed by all partners</p> <p>3. Draft Annual Consolidated Project Accounts</p> <p>4. Any other reporting due under the PAM</p>
31 July 2015	<p>1. A letter of request for funds authorized by the Director VPMU with reports as specified above:</p> <ul style="list-style-type: none"> • actual expenditure for the period 1 January 2015 to 30 June 2015 and • a Forecast of cash requirements for the period for future period 1 September 2015 to 28 February 2016. <p>2. Quarterly Progress Reports for the quarters ending 31 March 2015 and 30 June 2015 in the form. attached to this PAM and the Memorandum of Understanding signed April 2013 or subsequently agreed by all partners</p> <p>3. Final Audited Annual Consolidated Project Accounts including a copy of the Audit Report.</p> <p>4. Any other reporting due under the PAM</p>
Reporting on the 6 monthly cycle as shown above, for the duration of the project	

ATTACHMENT 3. Master list of withdrawal applications

Loan No. XXX-VAN: *Interisland Shipping Support Project*

[illegible]

ATTACHMENT 4. Asset Register and Asset Maintenance Plan Requirements

During the Mission the need for a comprehensive and accurate Asset Register for all assets purchased or constructed under the project was confirmed.

This register must identify the useful life of the separate significant components of the infrastructure assets in accordance with *International Public Sector Accounting Standards – IPSAS 17: Property Plant and Equipment*. The asset register is required to be maintained, updated and reported on quarterly as part of project reporting requirements during construction, and will be audited on an annual basis.

As requested by the Government, an Asset Management Plan specifying the technical requirements and resourcing to carry out the ongoing maintenance and ultimate replacement of each asset or asset component at the end of its useful life should be prepared by the consultants contracted by MIPU. The Asset Register and Asset Maintenance Plan will provide the Government information to meet the obligations set out under the Partnership Framework for the Vanuatu Inter-Island Shipping Project 2012-2017, to “Ensure that recurrent budget funding for the maintenance of rehabilitated and new facilities is allocated and executed to preserve the assets and avoid deterioration” in the short, medium and long-term.

Specific Extract :*International Public Sector Accounting Standards – IPSAS 17: Property Plant and Equipment*

Depreciation

59. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

60. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

61. A significant part of an item of property, plant, and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

62. To the extent that an entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

63. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

Attachment 5. EXECUTING AGENCY'S PROJECT PROGRESS REPORT

A. Introduction

1. Loan regulations and loan and project agreements require the borrower and executing agency (EA) to provide ADB with reports and information it reasonably requests. These include the EA's periodic progress reports that enable the borrower, EA, and ADB to monitor project progress, become aware of problems during implementation, and assess whether the immediate project objectives will be met.

2. During loan processing or at inception mission, the borrower, EA, and ADB agree on the content, format, and timing for submitting progress reports, taking account of the nature of the project and the information and reporting systems of the borrower and EA. Generally, the borrower or EA submits the progress reports quarterly, regardless of progress achieved during the period. When little or no progress is achieved, the progress reports inform ADB of the reasons and problems delaying implementation or that may result in the immediate objectives not being met.

B. Content and Format

3. The content of the progress report includes sufficient information in summary form to be useful to ADB as a funding agency. The purpose of the report is to enable the borrower, EA, and ADB to monitor the latest progress, become aware of current problems, and assess whether the project's immediate objectives will be met. More detailed reports are prepared by consultants or contractors for the project management office (PMO) or project implementation unit (PIU), and by the PMO or PIU for the EA's management. These reports are held at the PMO or PIU and are made available for ADB review, midterm review, and project completion review missions.

4. The progress report sent to ADB is an executive summary of the detailed reports; with format and content permitting ADB staff to readily capture key information for inputting into the project performance report (PPR)¹ as suggested in Appendix 1. When ADB requires detailed information (such as background to a particular problem), this is included as an appendix. Simple charts such as a bar or milestone charts to illustrate implementation progress, a chart showing actual versus planned expenditures, and the relationship between physical and financial performance are included. A framework and guidelines for calculating project progress and a sample implementation schedule are shown in **Appendix 2**.

1	The eventual goal is to automate reporting on project performance by borrowers or EAs; the use of PPR templates and ADB web site are being considered. At present, not all EAs have Internet access and they can only receive PPRs through the Lotus Notes database in the regional or resident missions.
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C. Procedure

5. A pro forma progress report with format and content agreed to by the borrower, EA, and ADB is appended to the processing mission's memorandum of understanding. The sector division or the regional or resident mission (RM) responsible for implementing the project provides the borrower or EA with an updated sample report after the loan is approved and before the project inception mission. This reminds the borrower or EA of ADB's progress reporting requirements. The sample report will be then incorporated in the project administration memorandum to be

discussed and finalized during the project inception mission (PAI 1.05).

6. The PPR is the main tool for monitoring project implementation performance within ADB (PAI 6.05). PPRs for “satisfactory” projects are updated at least quarterly as well as after project review missions. PPRs for “unsatisfactory” and “partly satisfactory” projects are updated more frequently. The following procedures apply:

- The project staff captures key information from the progress report and updates the PPR.
- The project staff then recommends any proposed actions to the project administration unit (PAU) head.
- If the PAU head approves the recommendations, the sector division or RM responsible for implementing the project conveys ADB's comments or recommendations on the report to the borrower or EA. In so doing, a copy of the updated PPR resulting from the progress report may be incorporated.
- Where necessary, a special project administration mission is sent to resolve serious problems in advance of the next scheduled review mission,
- All departments and offices have access to the updated PPR, and a copy of the progress report is sent only to the concerned parties. For example, in the case of major changes or problems concerning financial matters, submission of the EA's progress report to the Loan Administration Division (CTLA) may help process withdrawal applications when the project involves force account works, or where a significant disparity is observed between progress and disbursement.

7. If a progress report is not received within two weeks of the scheduled date of receipt, the sector division or RM responsible for implementing the project sends a reminder immediately to the borrower or EA. Repeated delays in sending progress reports are recorded in the PPR and discussed with the borrower or EA by the project review mission.

Appendix 1

Pro Forma of the Executing Agency's Project Progress Report

A. Introduction and Basic Data

Provide the following:

- ADB loan number, project title, borrower, executing agency(ies), implementing agency(ies);
- total estimated project cost and financing plan;
- status of project financing including availability of counterpart funds and cofinancing;
- dates of approval, signing, and effectiveness of ADB loan;
- original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates; and
- date of last ADB review mission.

B. Utilization of Funds (ADB Loan, Cofinancing, and Counterpart Funds)

Provide the following:

- cumulative contract awards financed by the ADB loan, cofinancing, and counterpart funds (commitment of funds to date), and comparison with time-bound projections (targets) in total and by output;
- cumulative disbursements from the ADB loan, cofinancing, and counterpart funds (expenditure to date), and comparison with time-bound projections (targets) for the total project and by output ; and
- reestimated costs to completion, need for reallocation within ADB loan, cofinancing and counterparts fund categories, and whether an overall project cost overrun is likely.

C. Project Purpose

Provide the following:

- status of project scope/implementation arrangements compared with those in the report and recommendation of the President (RRP), and whether major changes have occurred or will need to be made;
- an assessment of the likelihood that the immediate development objectives (project purpose) will be met in part or in full, and whether remedial measures are required based on the current project scope and implementation arrangements;
- an assessment of changes to the key assumptions and risks that affect attainment of the development objectives; and
- other project developments, including monitoring and reporting on environmental and social requirements that might adversely affect the project's viability or accomplishment of immediate objectives.

D. Implementation Progress

Provide the following:

- assessment of project implementation arrangements such as establishment, staffing, and funding of the PMO or PIU;
- information relating to other aspects of the EA's internal operations that may impact on the implementation arrangements or project progress;
- progress or achievements in implementation since the last progress report;
- assessment of the progress of each project component, such as,
 - recruitment of consultants and their performance;
 - procurement of goods and works (from preparation of detailed designs and bidding documents to contract awards); and
 - the performance of suppliers, manufacturers, and contractors for goods and works contracts;
- assessment of progress in implementing the overall project to date in comparison with the original implementation schedule—quantifiable and monitorable target, (include simple charts such as bar or milestone to illustrate progress, a chart showing actual versus planned expenditure, S-curve graph showing the relationship between physical and financial performance, and actual progress in comparison with the original schedules and budgets, the reference framework or guidelines in calculating the project progress including examples are shown in Appendix 2); and

- an assessment of the validity of key assumptions and risks in achieving the quantifiable implementation targets.

E. Compliance with Covenants

Provide the following:

- the borrower's compliance with policy loan covenants such as sector reform initiatives and EA reforms, and the reasons for any noncompliance or delay in compliance;
- the borrower's and EA's compliance with financial loan covenants including the EA's financial management, and the provision of audited project accounts or audited agency financial statements; and
- the borrower's and EA's compliance with project-specific loan covenants associated with implementation, environment, and social dimensions.

F. Major Project Issues and Problems

Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of immediate development objectives.

Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements, and reallocation of loan proceeds).

Appendix 2

Framework and Guidelines in Calculating Project Progress

A. Introduction

1. To ensure that all implementation activities are reflected in measuring implementation progress against the project implementation schedule, the term "physical completion" in the PPR has been changed to "project progress."

2. Physical and pre-commencement activities are considered in calculating project implementation progress. These activities, which may include recruitment of consultants, capacity building, detailed design, preparation of bid and prequalification documents, etc., could constitute a significant proportion of overall implementation and therefore should be counted.

3. Each activity in the implementation schedule will be weighted according to its overall contribution (using time as a reference) to progress of project implementation. These weights will then be used to calculate the percentage of project progress along the entire time span of the project. This is to provide a holistic view of the pace of implementation.

B. Framework for Compiling Activity List and Assigning Weights

4. As implementation activities and their corresponding weights will vary according to the type of project, sector, and country, sector divisions or RMs will be responsible for determining and including them in the project administration memorandum. The actual project implementation progress of these activities should be reported regularly through the EA's quarterly project progress report. To ensure ADB-wide consistency, the following framework has been established; its application will be monitored through the PPR.

1. Compilation of Activity List

5. Sector divisions or RMs concerned should identify major implementation activities and include them in the implementation schedule, which is attached as an appendix in the report and recommendation of the President (RRP). The implementation schedule should follow the critical path of the project's major activities in project implementation taking account of various country, sector, and project constraints.

2. Assignment of Weights

6. Corresponding weights for each activity should be assigned to ensure that "project progress" measures the percentage of achievement (nonfinancial except when the project has credit components) for all events during the entire duration of the implementation schedule. To avoid disproportionate assignment of weights, to the extent possible these should be evenly distributed along the implementation schedule. When activities are concurrent, avoid "double counting."

3. Computation of Project Progress

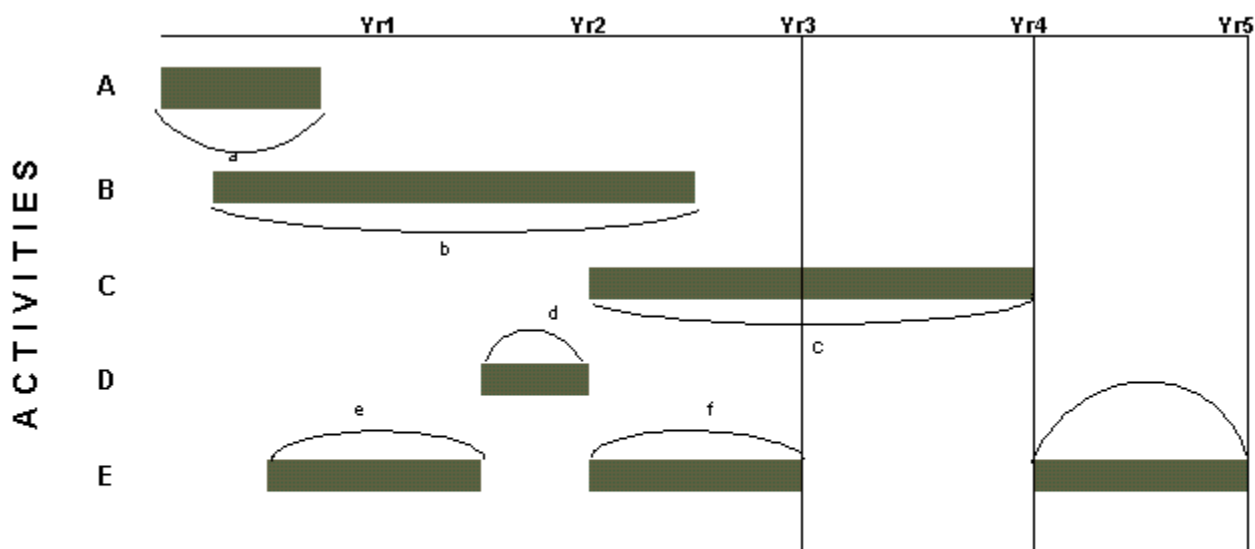
7. Once all activities are identified and corresponding weights assigned, project progress should be calculated using the following steps:

- (i) Determine the actual percentage progress (nonfinancial) of each activity.
- (ii) Multiply these percentages by the assigned weight of each activity to arrive at the weighted progress.
- (iii) Add up the resulting weighted progress of all activities to determine the project progress.

Appendix 3 below is an illustration of this calculation using a generic sample implementation schedule. Appendix 4 is a specific example in the education sector. Appendix 5 is a sample example of PPR but does not include all information specified above.

Appendix 3













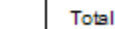
Implementation Schedule with Activities and Weights



1. Sum of all weights should equal 100 percent ($a+b+c+d+e+f+g = 100\%$)
2. When calculating the percentage of "project progress," all completed activities should be counted as accomplished, regardless of when they were scheduled to be completed. For example, when calculating the percentage of "project progress" after year 3, if activity D is completed in year 3 rather than in year 2, it should still be included in the computation.
3. Total weight of each activity is as follows: Activity A— a ; Activity B— b ; Activity C— c ; Activity D— d ; and Activity E— $e + f + g$
4. Project progress of a project is the summation of the actual percentage of progress for each activity multiplied by the total weight of each activity.

Appendix 4

Sample Implementation Schedule

Activities	Year 1	Year 2	Year 3	Year 4	(a) Assigned Weight	(b) Actual Progress	(a) x (b) Weighted Progress
Establish PIU					5%	100%	6%
Establish Accreditation Board, etc.					5%	0%	0%
Appoint Staff and Budget					4%	75%	3%
Adopt Architecture Plans					2%	100%	2%
Shortlist Consulting Firms					6%	100%	6%
Prepare Fellowship Program					6%	76%	4%
Prepare Civil Works Tendering					30%	0%	0%
Civil Works: Classrooms, Dorms, etc.					6%	0%	0%
Procurement of Furniture and Equipment					16%	10%	2%
Field Work of Consultants					7%	0%	0%
Provide Fellowships					6%	0%	0%
Conduct Study Tours					6%	0%	0%
Provide Curriculum Standards					6%	0%	0%
				Total Weight Imp. Progress	100%		24%

(a) As signed weight for each activity

(b) Actual progress of each activity

(a) x (b) weighted progress for each activity

Project progress = sum of all weighted progress for each activity

Appendix 5

PROJECT PERFORMANCE REPORT																																																																			
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(ALL AMOUNTS IN US\$ MILLION)																																																																			
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Legend: EGD - Economic Growth HD - Human Development GD - Gender and Development GG - Good Governance EPW - Environmental Protection PSD - Private Sector Development RG - Regional Cooperation CAD - Capacity Development																																																																			

IMPACT AND OUTCOME					
Impact					
Description					
Outcome					
Description					
Performance Targets/Indicators			Rating (H, S, P, U)	Progress/Status	
Key Assumptions/Risks			Rating (H, S, P, U)	Assessment of Current Status	
Assumptions:					
Risks:		Mitigated (Y/N)			
Overall Rating			NOTE: Overall Rating is based only on Assumptions and Risks until project completion. Thereafter, immediate DO assessment will be included.		
Rating Upon Suspension (for COBO use only)					
New Impact and Outcome Rating:			Effective Date:	Date of Lifting:	
Remarks:					
Recent Development (Date:)					
Problems with Impact and Outcome					
Description			Action Taken/Proposed		
Project Quality (one time input)					
Capacity Building Component	Training Component	Participatory Process	Project Manager/Project Office prior to Loan approval	Incorporated Lessons Learned in Sector/Country	Logical Framework

IMPLEMENTATION PROGRESS

Project Outputs

Description	Indicators / Targets	Status

Key Project Inputs

(Loan Categories from LFIS/Logical Framework)	Remarks

Key Assumptions/Risks (Input-Output)	Assessment of Current Status

Implementation Progress

Rating Criteria	Rating (H3, 3, P3, U)	Remarks
1. Project Implementation		
2. Change in Project Scope		
3. Change in Implementation Arrangements		
4. Project Costs		
5. Counterpart Funding/Cofinancing		
6. Major Covenants (exclude #7 below)		
7. Audited Project Accounts and Corporate Financial Statements		
Overall Rating		

Design Changes

--

Recent Development (Date:)

--

Problems with IP

Description	Action Taken/Proposed

POTENTIAL PROBLEM PROJECT

Rating Criteria	Flag (Yes/NO)	Actual Rating	Remarks
1. Project Implementation Delays			
2. Poor Compliance with Covenants			
3. Established, Staffed, and Operating PMU/PIU			
4. Fielding of Consultants			
5. Shortage of Counterpart Funds/Cofinancing			
6. Cost Overrun			
7. Poor Compliance with Audited Project Accounts and Agency Financial Statements			
8. Environmental or Social Problems			
9. Significant Disbursement Delays			
10. In Risk Sector in a Country with History of Past Problems			
11. Project Fielded Missions			
Overall Rating			

Override PP Rating (for COSO use only)		
New PP Rating:	Effective Date:	Date of Lifting:

Justification for Override	Justification for Lifting

COVENANTS

Project and EA Accounts

Project and EA Accounts										
EA	FY End	FY	Months Due After FY	Due	Date Received	Months Delayed	Acceptable Y / N	Auditor's Opinion (Q, U or A)	Status of Compliance	Rating
Submission of Audited Project Accounts (APA):										
Submission of Agency Financial Statements (AFS):										
						Overall Compliance and Rating:				
Findings/Actions Taken or To be Taken and other Remarks:										

Project Specific Covenants

Project-specific covenants	Date Due	Date Complied	Delays (mo.)	Status of Compliance	Rating (S,PS,U)	Remarks/Issues
Sector						
Environmental						
Social						
Financial						
Economic						
Others						
Overall Rating						

Problems/Remarks/Issues with Covenants

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ATTACHMENT 6. PROJECT PERFORMANCE MONITORING

A Introduction

1. This Appendix describes how the performance of ADB financed and administered sovereign projects financed by loans and/or grants, and technical assistance projects, will be monitored and rated using the eOperations project implementation module. A project is defined by its unique design and monitoring framework (DMF) regardless of the number of its financing instruments or sources. The eOperations is an integrated information technology solution that records country and project level information from concept to ex-post evaluation. The eOperations produces uniform project-related documentation and customized reports based on data that automatically moves through the system along a project cycle.

B Design and Monitoring Framework

2. Each ADB financed and administered project is required to have a DMF that provides a logical structure for results focused project design. It is drafted in the project concept note and finalized with the borrower during negotiations prior to Board approval. The DMF summarizes how, assuming risks do not eventuate and assumptions hold true, approved inputs will resource activities to achieve measurable outputs, outcome, and contribute to a sector level impact. The DMF provides project managers with a framework to monitor and evaluate the achievement of development results (Appendix 1).

3. **Impact** A project's impact describes the expected beneficial consequences of achieving the outcome on sector performance three–five years after project completion. The impact links a project with the relevant sector or thematic results framework in the country partnership strategy. There should be one succinct impact statement, phrased as an end situation, reflecting a direct means-end relationship with the project's outcome.

5. **Outcome** describes what the project aims to achieve using the delivered outputs by the end of project implementation, thereby addressing one or more development problem identified in the problem tree. The phrasing of the outcome statement determines the nature and scope of the outputs that will be sufficient to achieve the outcome. There should be one succinct outcome statement, phrased as an end situation, describing institutional or organizational performance change, or behavioral change of beneficiaries, which is necessary but not sufficient to achieve the impact.

6. **Outputs** are the physical and/or tangible goods and/or services delivered by the project and describe the scope of the project. The outputs must be necessary to achieve the outcome with a clearly identified means-end relationship. Outputs are phrased as an end situation, not an action. They must be achievable during the life of the project within the available resources. Components are headings that describe a collection of outputs, and are often used when costing a project. It is useful to include an output for project management.

7. **Activities and Milestones** Activities are the key actions (groups of tasks) carried out using project inputs to successfully achieve the planned outputs. Activities reflect the approach used to deliver the output and are the basis for implementation plans. Each activity should have a completion date/milestone. Procuring goods, hiring consultants, reporting, conducting surveys, etc. are activities recorded under a project management output.

8. Performance Targets and Indicators identify how the successful achievement of an output, outcome, or impact will be measured. Indicators are quantifiable with a target value that identifies how much will be achieved in a specific timeframe. A baseline is required for each indicator, although for many numeric output indicators the baseline may be zero. Target values and baselines should be gender disaggregated where appropriate. Including existing government indicators strengthens the government's capacity to monitoring results during and after project completion. ADB should pay attention to executing agency capacity to monitor results and provide capacity building support, or additional resources for this purpose within the project as appropriate.

9. Data Sources and Reporting Mechanisms The data sources describe where information on the status of each indicator can be found, who provides the information, and how the information is collected. The use of existing government data sources will help institutionalize good information management practices.

10. Assumptions and Risks are external factors that are not within the control of the project and complete the cause-effect logic of the DMF. For example, the completion of activities will result in the outputs only if certain assumptions hold true and the risks do not eventuate. This logic applies up the results chain to the impact. Assumptions are positive statements of conditions, events or actions that are necessary to achieve results at each level of the DMF. For example, loan covenants are often crafted to obligate the borrower to ensure that assumptions are valid or achieved—they may be outside the scope of the project but are necessary for its success—and hence should be reflected in the DMF. Risks are negative statements of conditions, events, or actions that would adversely affect achievement of the intended results.

11. Inputs are the main resources required to undertake the activities to produce the outputs. In the DMF, inputs are listed by financier and main cost categories in financial and physical terms, including the in-kind contributions for other stakeholders.

12. Recording the DMF A project's DMF is first entered into the e-Operations prepare project module under the Contents tab by the project team leader when the draft project concept paper is prepared. The DMF is updated during project processing in consultation with the executing agency as the project's report and recommendations of the President (RRP) and the project administration manual (PAM) are finalized and approved by the ADB Board. After Board approval, the DMF is locked in the eOperations project implementation module and can only be changed through activating the change request procedure.

C. Project Performance Reporting

13. After project approval, the project team will regularly update project performance information for each ADB administered project financed by loan(s) and/or grant(s). Project performance information is updated in the e-Operations project implementation module under the Performance tab.

14. Content In the e-Operations project implementation module under the Performance tab the status of project implementation is recorded under the following six sub-tabs:

- a. **Overview** includes the rating of each of the five project performance indicators (Section D), a summary of major issues or problems, and project and loan/grant product(s) details. It has links to (i) the S-curve sub-tab where the disbursement and contract award projections for the life of the project as defined in the PAM

(Section IV.F) are recorded, (ii) financial details updated from the financial system, and (iii) review mission information updated from eTrip.

The TA performance overview includes project and product(s) details updated from the financial system, and a summary of major issues or problems. It is not required to rate the status of TA projects.

b. Impact and Outcome (i) The impact statement as listed in the DMF is automatically captured from the Contents tab. For each impact indicator the following information is recorded: the type of indicator measurement, the baseline year and value, the year the target value will be achieved, and the performance target value. All impact level assumptions and risks are recorded. (ii) The outcome statement as listed in the DMF is automatically captured from the Contents tab. For each outcome indicator the following information is recorded: the type of indicator measurement, the baseline year and value, the year the target value will be achieved, and the performance target value. All outcome level assumptions and risks are recorded.

c. Outputs and Activities (i) Each output statement as listed in the DMF is automatically captured from the Contents tab. For each output indicator the following information is recorded: the type of indicator measurement, the baseline year and value, the year the target value will be achieved, and the performance target value. All output level assumptions and risks are recorded. (ii) The activities for each output listed in the DMF are automatically captured from the Contents tab. The start and end dates as defined in the PAM (Table 2.2, Overall Implementation Schedule) are entered.

d. Covenants detailed in legal agreements for a project are all manually entered by the team leader under the following categories—audited accounts,⁵ safeguards, social, sector, financial, economic, implementation arrangements, and other.

e. Inputs are automatically sourced from financial system.

f. History provides a monthly snapshot of performance after project approval.

15. Contract awards and disbursement S-curves Projections of contract awards and disbursements for the ADB portion of project finances are based on the procurement plan for the project's duration. Projections are calculated during processing for all projects including those financed by Japan Fund for Poverty Reduction, but excluding program loans/grants, and TA projects. A project's S-curves are recorded in the PAM. The quarterly projection data is recorded under the e-Operations project implementation module Content/Baseline Projections sub-tab, which generates the project's contract awards and disbursement S-curve projections.

16. With specific reference to portfolio performance indicators and rating system (Section D), at the time of loan effectiveness both the contract awards and disbursement projections for the life of the project are locked in the project implementation module. These projection targets can only be revised during a midterm review (MTR), after a major change of scope, or approval of an extension of project duration of more than 12 months.

17. Using information received from the executing agency, the project team leader prepares annual projections by quarter of contract awards, commitments, and disbursement for projects they administer. This includes all active projects effective as of 31 December each year, and each project expected to be approved and effective in the following year. The project team leader also prepares a separate statement of projections for each project expected to be approved during the year.

18. Updating the PPR At least quarterly, throughout the life of the project, the project team leader will review the PPR and update as required based on information provided in executing agency progress reports, ADB staff administration mission back-to-office-reports, reports from mid-term reviews, and updated financial records. Progress and back-to-office-reports should always review progress status of activities, output indicators' target values, and covenants, and where appropriate the outcome indicators' target values. The PPR must be updated on or before the last Friday of the month following each quarter. Updates are validated by the sector director.

19. The project team leader ensures that findings and assessment of the progress status of activities, outputs, and compliance with all loan covenants are discussed with the borrower or executing agency. Where necessary remedial measures with an action plan will be agreed and included in the aide memoire or memorandum of understanding, such measures will also be recorded in the PPR.

20. Impact and Outcome (i) Impact is not expected to be updated during project implementation. Progress may be reported in the project completion report if appropriate. (ii) Outcome progress status is expected to be recorded upon completion of a MTR and updated subsequently. This would include recording progress status on the achievement of each outcome indicator target value, the outcome assumptions and risks, and whether it is necessary to amend the outcome or indicators. The analysis will also be used to identify problems with implementation progress and proposed actions, which is not disclosed. It will be used to record progress towards the outcome for public disclosure through the project information document.

21. Outputs and Activities The progress status on the achievement of each output activity, indicator target value, and assumptions and risks is updated quarterly or as information is available. Based on the update in these three areas, problems with implementation progress and proposed actions at the activity and output level should be recorded.

22. Covenants The status of compliance of each loan covenant is assessed as either *Yes*—the covenant is being or has been implemented, or *No*—the covenant is not being implemented. The compliance field under the performance/covenants tab automatically reports the status as “not yet due” based on the recorded due date for a covenant. For rating purposes, from the time of project approval, whether due or not, the system will compute a default position that a covenant is being complied with (*Yes*). Covenants are categorized in the project performance information system under the following categories—audited accounts, safeguards, social, sector, financial, economic, and others. Covenant compliance is rated by category by applying the following criteria: (i) **Satisfactory (Green)**—all covenants in the category are being complied with (*Yes*), with a maximum of one exception (*No*) allowed, (ii) **Partly Satisfactory (Amber)**—a maximum of two covenants in the category are not being complied with (*No*), (iii) **Unsatisfactory (Red)**—three or more covenants in the category are not being complied with (*No*).

23. Noncompliance with covenants While the status of covenants must be regularly monitored, a MTR will include a detailed assessment of the status of all covenants. In the case of persistent noncompliance with loan covenants, ADB may, by notice to the borrower and guarantor, suspend all or part of their rights to make withdrawals from the loan account..

24. Project completion report On completion of implementation, the final PPR record will be incorporated into the draft project completion report.

D. Portfolio Performance Indicators and Rating

25. The purpose of portfolio performance rating is to establish the implementation status of each project. This will enable executing agency project managers and project team leaders to identify implementation problems and design effective remedial measures to get the project back on-track.

26. Projects are rated using the following five performance indicators. These indicators have equal weight.

a) **Technical** Are problems, if any (e.g. quality standards, key project conditions, implementation arrangements, cost overruns that require additional financing, etc.) identified in external supervision consultants and/or review mission reports being addressed? (Yes/No) Where more than one problem is being addressed, each problem is rated as either being addressed (Yes) or not (No). To calculate the overall technical indicator rating, a Yes rating is given a value of 1 and a No rating a value of 0. The sum of these ratings is divided by the total number of problems and the threshold levels in para. 32 are applied to define the indicator status.

b) **Procurement** The difference between the cumulative actual and the original projected contract award values starting at loan effectiveness over the life of the project. The original projected contract award 'S-curve' is derived from the PAM (Section IV.F). The actual contract award values are derived quarterly from the financial system.

c) **Disbursement** The difference between the cumulative actual and the original projected disbursements starting at loan effectiveness over the life of the project. The original projected disbursement 'S-curve' derived from the PAM (Section IV.F). The actual contract award values are derived quarterly from the financial system. Disbursement data will be automatically sourced from the loan and grant financial information systems to trigger the application of formula related to disbursement.

d) **Financial management** Compliance with audit/accounts covenants: Has an acceptable annual audit report been received on time? (Yes/No). The default is Yes until the due date as defined in the loan agreement. If the audited project accounts and agency financial statements have not been uploaded, and the indicator status has not been updated on or before the due date, then compliance will be rated No. An audit report is *unacceptable* if either partial or incomplete audited project accounts or agency financial statements are submitted, or only unaudited project accounts and financial statements are submitted. An audit report qualification need not imply unacceptability. The acceptability of an audit report with audit qualifications will be assessed by an ADB financial management specialist based on the nature of the qualification. (PAI 5.07 defines the parameters of an assessment of acceptability.) Their assessment will be recorded in the PPR. Where there is more than one set of audited project accounts and agency financial statements the rating method for covenants described in para. 25 will apply.

e) **Safeguards** Compliance with safeguard covenants: (i) Environment (Yes/No) (ii) Resettlement (Yes/No) (iii) Indigenous people (Yes/No). The default for each covenant is Yes. Use the rating method for covenants described in para. 25.

27. The portfolio performance indicators and rating system applies to all projects. This assessment will be recorded in the PPR.

28. **Rating** will use a three-level traffic light applied to each indicator, and to the aggregation of the individual indicators into a single project rating.

Status	Rating	Threshold
On track	Green	The S-curve for either 'actual' disbursement or contract award is within >90% of original projection; Technical – overall rating ≥ 0.9 ; Financial management are rated <i>Yes</i> ; Safeguard compliance is rated satisfactory (i.e. all <i>Yes</i> or with a maximum of one <i>No</i>)
Potential Problem	Amber	The S-curve for either 'actual' disbursement or contract award is 75%–90% of original projection; Technical – overall rating 0.7–0.89; Safeguard compliance is rated partially satisfactory (i.e. has a maximum of two <i>No</i> 's)
Actual Problem	Red	The S-curve for either 'actual' disbursement or contract award is less than 75% of original projection; Technical – overall rating ≤ 0.69 ; Financial management ratings are <i>No</i> ; Safeguard compliance is rated unsatisfactory (i.e. has three <i>No</i> 's)

29. **Project rating** The five indicator ratings is aggregated into a single project rating by generating an average rating score for the project. The following values will be assigned to each rating Green = 1 point, Amber = 0.5 point and Red = 0 points. The assigned values for each of the five indicators are summed and divided by 5 to produce an overall project rating score between 0 and 1. Applying the percentage thresholds only, a project with a total rating score greater than or equal to 0.9 is *on-track (Green)*; a project with a total rating score of 0.7–0.89 is a *potential problem (Amber)*; and a project with a total rating score of less than 0.69 is an *actual problem (Red)*, and is 'at-risk' (see Table 1).

ATTACHMENT 7. PROJECT COMPLETION REPORT

Objective and Scope

1. The main objective of a project completion report (PCR) is to learn from the experiences of borrowers, EA, ADB and cofinanciers in implementing projects, and to use the lessons to improve the performance of ongoing and future projects. The PCR will also be used as a measure of ADB's development effectiveness and as an input to country strategy formulation. It:
 - provides a concise description and assessment of the project from identification to completion;
 - evaluates the adequacy of preparation; design; appraisal; implementation arrangements; and performance of the borrower, EA, cofinanciers and ADB, including how problems were handled, whether they were foreseen as potential risks, and the adequacy of the solutions adopted during implementation;
 - provides a preliminary evaluation of (i) initial operation, and achievement and sustainability of benefits; (ii) the extent of achievement of the outcome of the project and the project's contribution to achieving the expected impact;
 - suggests follow-up actions required during project operation; and
 - makes recommendations—based on the evaluation and lessons—for future project implementation and operation, as well as improvements in related ADB procedures.

Timing of PCR preparation

2. The percentage of ADB financing of projects is decreasing with the increasing availability of cofinancing and counterpart funding. In this context, ADB financing could be at the front-end of a project. Therefore, commencing a PCR based on the ADB loan closing date (i.e., after disbursement of the ADB loan) may not be appropriate. The whole project, and not just ADB disbursements, must be either complete or substantially complete. The Development Effectiveness Committee of the Board is to be kept informed of when project administration staff expect each project to be completed and the estimated date by which the PCR for each project will be prepared.

A project is deemed complete when its facilities and components are substantially completed and are ready to operate (regardless of closure of its financial account). If revenue streams are envisaged, then these should be occurring.

A PCR is kept concise by

- concentrating on analyzing project inputs and activities, implementation arrangements, costs, outputs, and impacts;
- focusing on the principal determinants of performance;
- using condensed analytical tables and supporting appendixes;
- using cross-referencing to source documents; and
- avoiding repetition.

Determining Project Completion

Assistance in preparing the PCR is usually a part of the terms of reference of project implementation consultants. Other agencies may help prepare the PCR, especially for projects they cofinanced, following ADB's PCR format. Major topics to be included in PCRs and a description of their contents are shown below.

Project Completion Report General Guidelines for Preparing Project Completion Reports

CONTENTS

BASIC DATA

MAP¹ (Title)

1 A revised map showing the impact of the project is to be included. Do not use the map in the report and recommendation of the President (RRP).

I. PROJECT DESCRIPTION

II. EVALUATION OF DESIGN AND IMPLEMENTATION

- A. Relevance of Design and Formulation
- B. Project Outputs
- C. Project Costs
- D. Disbursements
- E. Project Schedule
- F. Implementation Arrangements
- G. Conditions and Covenants
- H. Related Technical Assistance
- I. Consultant Recruitment and Procurement
- J. Performance of Consultants, Contractors, and Suppliers
- K. Performance of the Borrower and the Executing Agency
- L. Performance of the Asian Development Bank

III. EVALUATION OF PERFORMANCE

- A. Relevance
- B. Effectiveness in Achieving Outcome
- C. Efficiency in Achieving Outcome and Outputs
- D. Preliminary Assessment of Sustainability
- E. Impact

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

- A. Overall Assessment
- B. Lessons
- C. Recommendations

BASIC DATA

A. Loan Identification

1. Country _____
2. Loan Number _____
3. Project (Program) Title _____

4. Borrower _____
5. Executing Agency _____
6. Amount of Loan (Give SF loan in SDR) _____
7. Project Completion Report Number _____

B. Loan Data

1. Appraisal
 - Date Started _____
 - Date Completed _____
2. Loan Negotiations
 - Date Started _____ – Date Completed _____
3. Date of Board Approval _____
4. Date of Loan Agreement _____
5. Date of Loan Effectiveness
 - In Loan Agreement _____
 - Actual _____
 - Number of Extensions _____
6. Closing Date
 - In Loan Agreement _____
 - Actual _____
 - Number of Extensions _____
7. Terms of Loan
 - Interest Rate _____
 - Maturity (number of years) _____
 - Grace Period (number of years) _____
8. Terms of Relending (if any)
 - Interest Rate _____
 - Maturity (number of years) _____
 - Grace Period (number of years) _____
 - Second-Step Borrower _____

9. Disbursements

a. Dates

Initial Disbursement Final Disbursement Time Interval

xxx xxx xxx

Effective Date Original Closing Date Time Interval

xxx xxx xxx

b. Amount _____

		(loan currency) (US\$ equivalent)				
Category No.	Category or Subloan	Original Allocation	Partial Cancellations	Last Revised Allocation	Amount Disbursed	Undisbursed Balance ¹
(1)	(2)	(3)	(4 = 3 - 5)	(5)	(6)	(7 = 5 - 6)
Total (loan currency)						
Total US\$ Equivalent						
		a	b	c	d	e

¹ For final cancellation

a = US\$ equivalent per RRP

b = US\$ equivalent as of date of approval of cancellation

c = Total of (d + e)

d = Actual US\$ equivalent

e = US\$ equivalent as of report preparation

10. Local Costs (Financed)

– Amount (US Dollars)

– Percent of Local Costs

– Percent of Total Cost

C. Project Data

1. Project Cost (\$_____)

Cost		Appraisal Estimate		Actual
Foreign Exchange Cost				
Local Currency Cost				
Total				

2. Financing Plan (\$_____)

Cost	Appraisal Estimate		Actual
Implementation Costs			
Borrower-Financed			
ADB-Financed			
Other External Financing			
Total			
IDC Costs			
Borrower-Financed			
ADB-Financed			
Other External Financing			
Total			

ADB = Asian Development Bank, IDC = interest during construction.

3. Cost Breakdown by Project Components (\$_____)

[illegible]

4. Project Schedule

Item	Appraisal Estimate	Actual
Date of Contract with Consultants ^a		
Completion of Engineering Designs		
Civil Works Contract		
Date of Award		
Completion of Work		
Equipment and Supplies		
Dates		
First Procurement		
Last Procurement		
Completion of Equipment Installation		
Start of Operations		
Completion of Tests and Commissioning		
Beginning of Start-Up		
Other Milestones ^b		

a If more than one, show dates for each contract.

b Show key events not listed above, particularly for projects with elements not involving construction or supply of materials and equipment.

5. Project Performance Report Ratings

Implementation Period	Ratings
	Development ObjectivesImplementation Progress
(i) From to	
(ii) From to	
(iii) From to	
(iv) From to	
(v) From to	
(vi) From to	

these affected project costs, time schedules, expected benefits, or other measures of efficiency.

C. Project Costs

5. Discuss project costs and explain significant overruns or underruns (in a tabular form, by year, currency, and major components or categories) and any major shifts between foreign and local costs. State the reasons for cost changes (design inadequacy, external factors, delays, etc.) and their likely effect on the project's economic and financial rates of return.

D. Disbursements

6. Assess whether the appraisal disbursement schedule was realistic. Assess any delays and corrective actions taken by the borrower, executing agency (EA), and ADB if disbursements did not follow the schedule made at appraisal. Where imprest fund and/or statement of expenditure dispensation was used, evaluate the impact (negative or positive) of these procedures on implementation and the experience of the EA or ADB.

E. Project Schedule

7. Explain the causes of significant delays, referring to discussions in other paragraphs (e.g., those dealing with procurement or performance of contractors).

F. Implementation Arrangements

8. Discuss the project's implementation as designed at appraisal and any major changes in the arrangements caused by changes in the project. Assess the adequacy of implementation arrangements to deliver project outputs and achieve the project purpose.

G. Conditions and Covenants

9. Explain causes of significant delays in meeting the conditions of effectiveness with attention to procedural problems in the borrower's country that may affect other projects.

10. Assess the relevance of covenants. Indicate the status of compliance with all general and special covenants. If covenant compliance was delayed or breached, discuss the reasons and impact, and whether the covenant was realistic. Discuss the impact of partial or noncompliance of covenants on project performance. Recommend actions for achieving compliance.

11. Indicate if any covenant has been modified, suspended, or waived, and the justification for such actions. Where relevant, undertake a financial analysis of the EA and compare the financial ratios to check compliance with financial covenants. Review the borrower's and EA's compliance with reporting requirements. Discuss any relevant changes in amortization between the borrower and EA, and conversion of the loan to equity.

H. Related Technical Assistance

12. A project preparatory TA resulting in a loan should be evaluated in the PCR for the loan project.

13. A separate TA completion report (TCR) should be prepared for any advisory TA processed in conjunction with a loan. When preparing the project completion report (PCR), an assessment

of the advisory TA performance should be reported and incorporated in the overall assessment of the project.

(i) If the TCR is prepared and circulated before the PCR, the PCR should discuss the salient features of the TCR, including any variations from appraisal, in its text; note the TA rating; and provide a complete citation for the TCR in a footnote.

(ii) If the TCR is prepared concurrently with the PCR, the TCR should be appended to the PCR and salient features, including any variations from appraisal, should be noted in the PCR text. When PCR Board circulation is requested, the Office of the Secretary (OSEC) should also be informed that a TCR is appended to the PCR. This will ensure that the TCR is recorded in OSEC's database and that it is noted in OSEC's circulation memo to the Board.

I. Consultant Recruitment and Procurement

14. Discuss arrangements for consultant recruitment, any deviations from agreed procedures, and the causes of disagreements between the borrower or EA and ADB on consultant selection (state how the differences were resolved). Describe any significant problems encountered with packaging contracts, preparing tender documents, and evaluating bids. State how they were resolved.

J. Performance of Consultants, Contractors, and Suppliers

15. If any of the consultants, contractors, or suppliers used by the borrower or EA failed to perform well, or vice versa, describe these instances and estimate their negative or positive effects on the quality of the project outputs, schedule, or costs.

K. Performance of the Borrower and the Executing Agency

16. Summarize the performance of the borrower and EA in meeting the responsibilities assigned in the implementation plan, and discuss any weaknesses in performance. Indicate whether the assessment of the EA's capabilities at appraisal was reasonably accurate.

17. Assess the present institutional capacity and development of the EA, including specific strengths and weaknesses, and whether institutional development measures envisaged at appraisal were adequate or successful. Assess how the project and advisory TA, if any, assisted in improving institutional capacity.

18. Rate the performance of the borrower and EA as highly satisfactory, satisfactory, partly satisfactory, or unsatisfactory.

L. Performance of the Asian Development Bank and Government of New Zealand

19. Review ADB's part in project implementation (e.g., approvals, disbursements, and monitoring) to determine whether any ADB failure to act promptly, or disagreements with the borrower or EA on terms of reference, bid documents, awards, or other matters affected the implementation procedures, project costs, or implementation schedule. If the effects are insignificant or do not permit generalized conclusions, note such instances but do not include the analysis.

20. State the type of advisory services (including training) provided by ADB and whether the

assistance was adequate and timely.

21. Rate the performance of ADB as highly satisfactory, satisfactory, partly satisfactory, or unsatisfactory.

III. EVALUATION OF PERFORMANCE

A. Relevance

22. Assess the relevance of design (para. 3) and the impacts of changes made at midterm review or any other point that aimed to improve relevance.

B. Effectiveness in Achieving Outcome

23. Assess the extent to which the project achieved its outcome.

C. Efficiency in Achieving Outcome and Outputs

24. Assess the efficiency of investment (wherever possible, by financial and economic reevaluation or other cost-effectiveness measures) and efficiency of process. For program loans, efficiency of investment is not usually assessed (see program performance evaluation report guidelines).

D. Preliminary Assessment of Sustainability

25. Assess requirements for, and likelihood of, project sustainability. Provide the rationale for recommended follow-up actions to enhance the likelihood of sustainability.

E. Impact

26. Provide a general assessment of significant poverty, institutional, economic, environmental, social, and other impacts (positive and negative whether intended or not) generated during project implementation. If the project included environmental control and other safeguard measures, evaluate their implementation and effectiveness.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

28. Describe briefly (in one or two short paragraphs) whether the project was implemented as conceived and, if not, explain the difficulties and remedial measures undertaken. Analyze the design and monitoring framework and the project performance monitoring and evaluation system, and provide an overall project performance rating. The project should be rated as highly successful, successful, partly successful, or unsuccessful, in accordance with the definitions and guidelines provided by the Independent Evaluation Department.

29. The calculations for deriving the ratings and the summary table do not need to be included in the PCR, but should be retained on file for reference during preparation of the PPER.

B. Lessons Learned

30. Clearly describe all major lessons learned. Support identified lessons learned using the results of the project and provide the basis for drawing such lessons in relevant sections of the PCR.

C. Recommendations

31. Include project-specific and general recommendations that may affect projects or may be generally applicable to ADB practices. Recommendations should be specific and within the power of the nominated entity and person responsible to carry them out. Include the name of the entity or person responsible for taking action, time frame, and responsibility for monitoring and reporting compliance.

1. Project-Related

32. Recommendations should include the following:

- **Future monitoring.** Describe aspects of project operation (technical, financial, personnel, management, etc.) that require monitoring, and recommend monitoring tools (specific reports by the borrower or EA, missions, consultants, etc.) and, at least initially, time intervals for project review.
- **Covenants.** Recommend whether the covenants in the loan and project agreements should be maintained in their existing form. Indicate the specific period to maintain such covenants or whether any should be changed or waived, identifying covenants to be changed or waived and the substance or wording of any change recommended.
- **Further action or Follow-up.** Indicate actions that may be needed to complete project implementation (including action needed to complete disbursements and close the loan account), support its initial operation, achieve project benefits, or ensure its sustainability.
- **Additional assistance.** Indicate any additional assistance under new financing arrangements (TA or loan assistance) required to substantially improve the project's performance and sustainability.
- **Timing of PPER preparation.** Indicate the appropriate timing for preparing the PPER. In exceptional cases (e.g., where some works have still to be completed or where supplemental assistance may be proposed, or to allow some time for operations to settle down), the PPER is not to be undertaken before a certain date. Give reasons for proposing deferment.

2. General

33. For project appraisal, the recommendation could focus on
- ensuring the design and monitoring framework is complete and comprehensive; assessing the EA's capacity;
 - estimating costs, including allowance for contingencies;
 - preparing financing plans;
 - planning implementation; and
 - project scheduling.

34. For project implementation, review

- ADB's identification and discussion of design and monitoring framework performance targets with the EA;
- the borrower's and EA's contracting procedures; and ADB approval of procurement documentation, including shortlists, prequalification documents, contract documents, awards, and contracts;
- disbursement procedures;
- monitoring and reporting; and
- special assistance provided.