

# Project Administration Manual

Project Number: 44172-2  
27 June 2011

Kingdom of Tonga: Tonga-Fiji Submarine Cable  
Project

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### **Project Administration Manual Purpose and Process**

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 and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The executing agency and the implementing agency are wholly responsible for the implementation of ADB financed projects, as agreed jointly between the Government and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by the executing and implementing agencies of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Grant negotiations, the Government and ADB shall agree to the PAM and ensure consistency with the Grant Agreement. Such agreement shall be reflected in the minutes of the Grant negotiations. In the event of any discrepancy or contradiction between the PAM and the Grant Agreement, the provisions of the Grant 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 Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

## **Abbreviations**

ADB	=	Asian Development Bank
ADF	=	Asian Development Fund
EMP	=	environmental management plan
ICT	=	Information and communication technology
IFR	=	interim financial report
ISP	=	internet service provider
LAR	=	land acquisition and resettlement
MFNP	=	Ministry of Finance and National Planning
MIC	=	Ministry of Information and Communications
NRA	=	National Regulatory Authority
PAM	=	project administration manual
PIU	=	project implementation unit
PMU	=	project management unit
PRIF	=	Pacific Region Infrastructure Facility
RRP	=	report and recommendation of the President to the Board
SCCN	=	Southern Cross Cable Network
SCS	=	submarine cable system
TCC	=	Tonga Communications Corporation
TCL	=	Tonga Cable Limited

## **I. PROJECT DESCRIPTION**

1. The Tonga–Fiji Submarine Cable Project will support the development and operation of a submarine fiber optic communication cable system linking Tonga to Fiji where an existing international submarine cable network will provide onward cost-effective access to the rest of the world.<sup>1</sup> The infrastructure development under the project will be complemented by the World Bank’s technical assistance (TA) to improve the regulatory framework and develop the capacity of the regulator.

2. The impact of the project will be that widely available and affordable information and communication technology services improve Tonga’s economic performance and public service delivery. The outcome is that the population of Tonga will have access to good quality broadband internet services at a lower price.

3. Output 1 of the proposed project is the establishment and efficient operation of the Tonga submarine cable system by Tonga Cable Limited (TCL), a company established in late 2009 to develop submarine cable options for Tonga. The submarine cable system will comprise installation of an 827-kilometer cable link between Nuku’alofa (Tonga) and Suva (Republic of Fiji) and construction of a landing station in Tonga. In Fiji, the cable will use an existing landing station where the Tonga cable is connected to the Southern Cross Cable Network (SCCN) for data traffic to Australia, the United States, and the rest of the world. TCL will procure, own, and operate the cable; and it will be sole wholesaler of the cable capacity to the retail service providers. Output 1 will be jointly financed by the Asian Development Bank (ADB) and the World Bank.

4. Output 2 will ensure efficient and effective project management services by TCL. This output will mainly be financed by TCL, with some parallel financing from the World Bank. Appendix 1 presents the design and monitoring framework.

5. Since TCL will be a sole wholesaler with dominant market power for international connectivity, it needs to be regulated to maintain cost-based pricing and open and fair access to all retail service providers, thus maximizing market competition. In parallel to the project, the World Bank will provide TA to support the regulator, the Ministry of Information and Communications (MIC), to improve telecommunications policy and the legal and regulatory environment for internet access and e-transactions. The TA will also support MIC’s capacity development. It is financed by the World Bank and the Government of Australia through the Pacific Region Infrastructure Facility (PRIF). The regulatory and capacity development of the MIC is critical to achieve the outcome envisaged from the ADB-financed outputs. Therefore, close collaboration between ADB and the World Bank will be maintained during the development of the regulatory framework and the capacity development of MIC through joint review of both agencies on the terms of reference of consultants, inputs of consultants, reports, and recommendations.

## **II. IMPLEMENTATION PLANS**

6. The project will be implemented within 54 months from October 2011 to June 2016 with grant closing on 31 December 2016. An implementation plan is shown in Section II B.

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<sup>1</sup> ADB provided project preparatory TA, complementing preparatory activities by the World Bank and the Tonga Cable Limited (ADB. 2010. *Technical Assistance to the Kingdom of Tonga for the Tonga–Fiji Submarine Cable Project*. Manila.)

## A. Project Readiness Activities

Indicative Activities	2011						Responsible Party
	Jul	Aug	Sep	Oct	Nov	Dec	
Finalizing bidding documents for submarine cable system	X						TCL, ADB and WB
Limited international bidding for submarine cable system	X	X	X				TCL with concurrence from ADB and WB
Establish project implementation arrangements	X						MFNP, MIC, TCL, ADB, WB
ADB Board approval		X					ADB
Co-financiers' Board approval		X					WB
Grant signing			X				MFNP, ADB
Government legal opinion provided			X				MFNP, MoJ
Grant effectiveness				X			ADB

ADB = Asian Development Bank, MFNP = Ministry of Finance and National Planning, MIC = Ministry of Information and Communications, MoJ = Ministry of Justice, TCL = Tonga Cable Limited, WB = World Bank.  
Source: Asian Development Bank.

## B. Overall Project Implementation Plan

	Year 1				Year 2				Year 3				Year 4				Year 5				Year 6			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>A. Design Monitoring Framework</b>																								
<b>Output 1:</b> Establishment and efficient operation of the Tonga submarine cable system by TCL																								
Activity 1.1: Carry out marine survey and complete marine operations for laying cables																								
Activity 1.2: Train TCL staff on landing facility operation and maintenance and update skills and knowledge periodically																								
Activity 1.3: Establish monitoring and supervision guideline for regular maintenance and other contractor services																								
Activity 1.4: Continue regular monitoring and supervision																								
<b>Output 2:</b> Efficient and effective project management services by TCL																								
Activity 2.1: Tender, award contracts and manage contracts																								
Activity 2.2: Provide timely progress reports																								
Activity 2.3: Carry out regular accounting and annual audits																								
Activity 2.4: Follow up safeguard issues and risk management plan in timely manner																								
<b>B. Management Activities</b>																								
Recruitment of TCL Project Manager																								
Inception mission																								
Annual/Mid-term review																								
Project completion report																								

PMU = project management unit, TCL = Tonga Cable Limited.

Source: Asian Development Bank.

### III. PROJECT MANAGEMENT ARRANGEMENTS

#### A. Project Stakeholders – Roles and Responsibilities

Project Stakeholders	Management Roles and Responsibilities
Executing agency Ministry of Finance and National Planning	Recipient of funds from the cofinanciers. Responsible for overall quality of financial management of the project and submission of withdrawal applications and annual audit reports.
Cabinet Subcommittee	Chaired by deputy prime minister; consists of ministers of MFNP, MPE, and MTEYS and chief secretary and secretary to cabinet, the subcommittee provides overall guidance to strategic issues in ICT development including the submarine cable project.
Implementing agency: Tonga Cable Limited	Responsible for implementation of Output 1: efficient operation of Tonga submarine cable system <ul style="list-style-type: none"> <li>• Construction of the Tonga submarine cable system and the landing station</li> <li>• Operation of the cable system and the landing station</li> <li>• International connectivity supply on wholesale basis</li> </ul>
Tonga Communications Corporation	Support TCL in procurement management, accounting, and auditing for the project
Ministry of Information and Communication	Responsible for legal and regulatory environment and effective implementation of regulations on open and fair access and transparent cost-based pricing and other enabling regulatory environment for increased use of Internet. Partner to the technical assistance to be financed by the World Bank and PRIF
ADB & World Bank	Facilitating implementation and reviewing the progress on regular basis

ADB = Asian Development Bank; ICT = information and communication technology; MFNP = Ministry of Finance and National Planning; MPE = Ministry of Public Enterprises; MTEYS = Ministry of Training, Employment, Youth, and Sports; PRIF = Pacific Region Infrastructure Facility; TCL = Tonga Cable Limited.

Source: Asian Development Bank.



## B. Key Persons Involved in Implementation

### Executing Agency

Ministry of Finance and National Planning

Officer's Name: Tiofilusi Tiueti

Position: Secretary of Finance

Telephone: +676 27579

Email address: [ttiueti@finance.gov.to](mailto:ttiueti@finance.gov.to)

Office Address: P.O. Box 87, Nuku'alofa, Tonga

### ADB

Urban, Social Development, and Public Management Division

Staff Name: Andrea Iffland

Position: Director

Telephone No.: +63 2 632 6126

Email address: [aiffland@adb.org](mailto:aiffland@adb.org)

Mission Leader

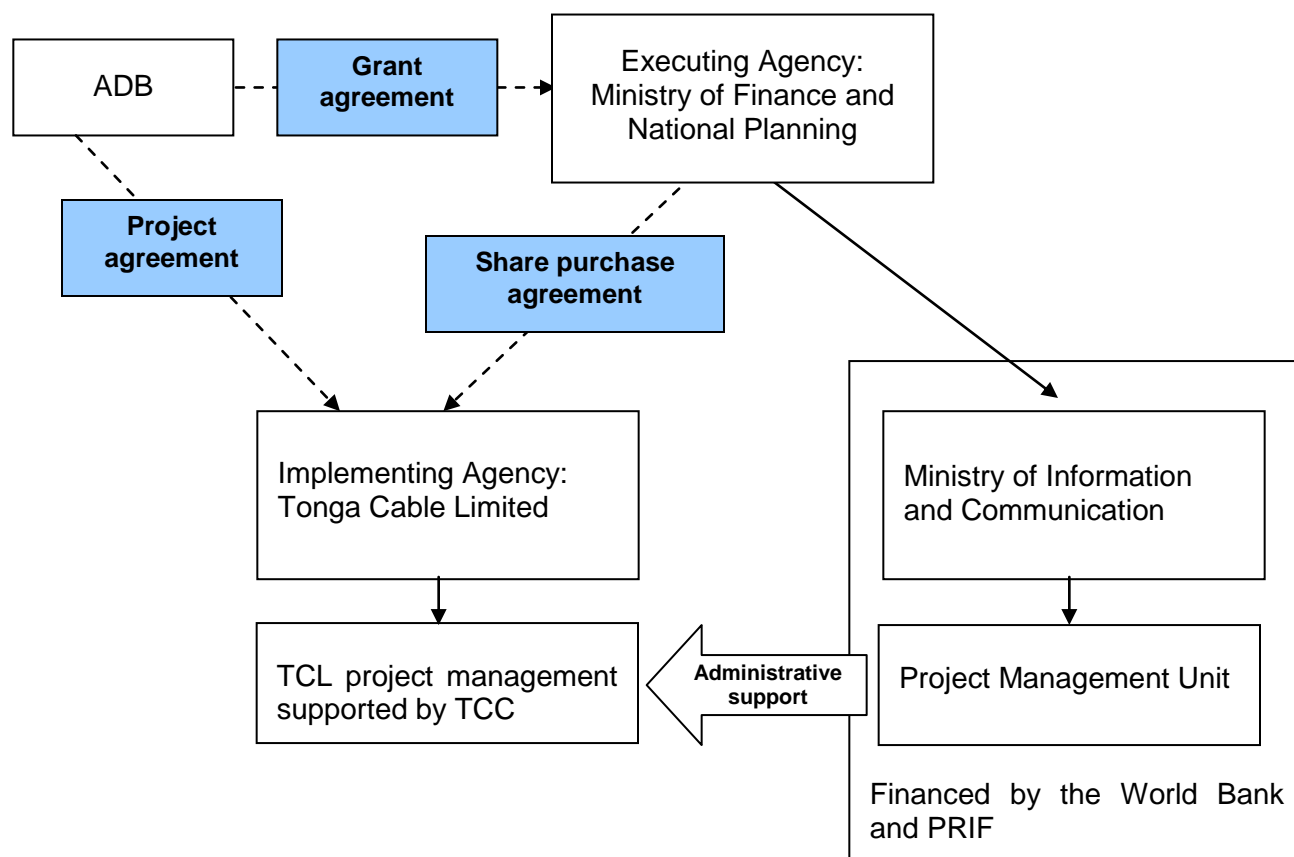
Staff Name: Gi Soon Song

Position: Public Management Specialist

Telephone No.: +63 2 632 6395

Email address: [gssong@adb.org](mailto:gssong@adb.org)

## C. Project Organization Structure



#### **D. Ownership, Governance and Management of TCL**

7. In November 2009, TCL was established as a limited liability company under the Companies Act (Amendment) 2009 wholly-owned by TCC, with the intention that 20% of TCL's share capital be offered to private investors after the cable system becomes operational. TCC is a state-owned enterprise that engages in retail telecommunications services. As TCL is a wholesale business (to sell capacity to all retail service providers), TCC's dominant ownership of TCL can undermine TCL's ability to operate independently. TCC's involvement and financial contribution to the project has been crucial given the limited technical capacity within the country for large-scale telecommunication infrastructure development. However, the government, TCC, and TCL recognize that steps must be taken to ensure TCL's autonomy.

8. In March 2011, the government announced that TCL would be converted into a separate public enterprise, and developed a transition plan for TCL's board composition and management. Pursuant to the share purchase agreement proposed under the project, the government will make available to TCL the grants from ADB and the World Bank to TCL against the issuance of shares in the capital of TCL. The grants may only be used to procure the submarine cable system. As a result, the government will own approximately 80% of TCL's shares while TCC will own approximately 20%.<sup>2</sup> During the cable system installation period, two TCC board members will continue to serve on TCL's board. The interim managing director (cum TCC board chairperson) will remain. At the end of the installation phase, TCL will submit for Cabinet approval its application to become a public enterprise in accordance with the Public Enterprises Act 2002, as amended. Pursuant to this Act, a new board will be appointed and a new management will be recruited in a competitive manner. Once the cable system starts generating revenue, the government intends to sell 20% of its shares in TCL to private sector investors.

#### **IV. COSTS AND FINANCING**

9. The project cost will be \$32.8 million. The project costs consist of:

- (i) Construction of the landing station in Tonga, which will be financed by TCL.
- (ii) Design, supply and installation contract for a submarine cable system. ADB and the World Bank will jointly finance this contract. TCL will finance taxes and duties.
- (iii) Operation and management costs during the construction of the system (2011-2012). This will be financed by TCL.

10. The government has requested grant finance from ADB and the World Bank of \$9.7 million and \$16.5 million respectively.<sup>3</sup> ADB's grant will finance the submarine cable system including associated transportation and insurance costs. Tonga is at high risk of debt distress and cannot afford to take on more borrowing as its public debt is projected to reach 58.5% of the gross domestic product in FY2011.<sup>4</sup> Therefore, grant financing has been sought. TCL's contribution is estimated at \$6.6 million. This will include in-kind contributions for (i) construction of a landing station, including land lease; (ii) environmental management and legal expenses;

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<sup>2</sup> The share purchase agreement will value the shares in TCL at nominal value, which means that the actual ratio of shareholding will be adjusted once the actual value of the cable system contract (and, therefore, the government contribution) is known.

<sup>3</sup> The World Bank will provide additional TA of \$700,000 and administer \$500,000 from PRIF that will support the regulatory capacity development technical assistance and project management.

<sup>4</sup> ADB. 2011. Pacific Economic Monitor February 2011. Manila; World Bank. 2011. *East Asia and Pacific Economic Update 2011. Volume 1*. Washington DC.

(iii) consulting services for cable construction supervision; (iv) tax and duties; and (v) recurrent costs during construction.

11. Detailed cost estimates are presented in the below tables.

**A. Cost Estimates by Expenditure Category**

Item		Total Cost <sup>a</sup> (\$)	% of Total Base Cost
<b>A. Investment Costs</b>			
1	Civil Works	4,200,000	12.80%
2	Submarine cable system	26,200,000	79.88%
3	Consulting Services		
a	Construction supervision consultant	850,000	2.59%
b	Environment and social mitigation	150,000	0.46%
c	Legal services and permissions	200,000	0.61%
4	Tax and duties	800,000	2.44%
	<b>Subtotal (A)</b>	<b>32,400,000</b>	
<b>B. Recurrent Costs</b>			
1	Salaries	250,000	0.76%
2	Office space	90,000	0.27%
3	Equipment Operation and Maintenance	60,000	0.18%
	<b>Subtotal (B)</b>	<b>400,000</b>	
	<b>Total Project Cost (A+B)</b>	<b>32,800,000</b>	<b>100.0%</b>

<sup>a</sup> Including contingency.

Source: Asian Development Bank estimates.

**B. Allocation and Withdrawal of Grant Proceeds**

CATEGORY				ADB FINANCING	
		Amount Allocated			
No.	Item	Category	Subcategory	Percentage of Total	
1	Submarine cable system	9,700,000		37%*	Of total expenditure
	<b>TOTAL</b>	<b>9,700,000</b>			

\* Exclusive of taxes and duties within the territory of the Recipient.

Source: Asian Development Bank estimates.

### C. Expenditure Accounts by Financier

Item	ADB (ADF Grant)		WB (IDA Grant)		TCL		Total Cost
	Amount (\$)	% of Cost Category	Amount (\$)	% of Cost Category	Amount (\$)	% of Cost Category	
<b>A. Investment Costs</b>							
1 Civil Works					4,200,000	100.0%	4,200,000
2 Submarine cable system	9,700,000	37.0%	16,500,000	63.0%			26,200,000
3 Consultants							
a Construction supervision consultant					850,000	100.0%	850,000
b Environment and social mitigation					150,000	100.0%	150,000
c Legal expenses and permissions					200,000	100.0%	200,000
4 Tax and duties					800,000	100.0%	800,000
<b>Subtotal (A)</b>	<b>9,700,000</b>	<b>29.9%</b>	<b>16,500,000</b>	<b>50.9%</b>	<b>6,200,000</b>	<b>19.1%</b>	<b>32,400,000</b>
<b>B. Recurrent Costs</b>							
1 Salaries					250,000	100.0%	250,000
2 Office space					90,000	100.0%	90,000
3 Equipment operation and maintenance					60,000	100.0%	60,000
<b>Subtotal (B)</b>					<b>400,000</b>	<b>100.0%</b>	<b>400,000</b>
<b>Total Project Cost (A+B)</b>	<b>9,700,000</b>		<b>16,500,000</b>		<b>6,600,000</b>		<b>32,800,000</b>
<b>% total Project Cost</b>		<b>29.6%</b>		<b>50.3%</b>		<b>20.1%</b>	<b>100.0%</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, IDA = International Development Association, TCL = Tonga Cable Limited, and WB = World Bank.

Source: Asian Development Bank estimates.

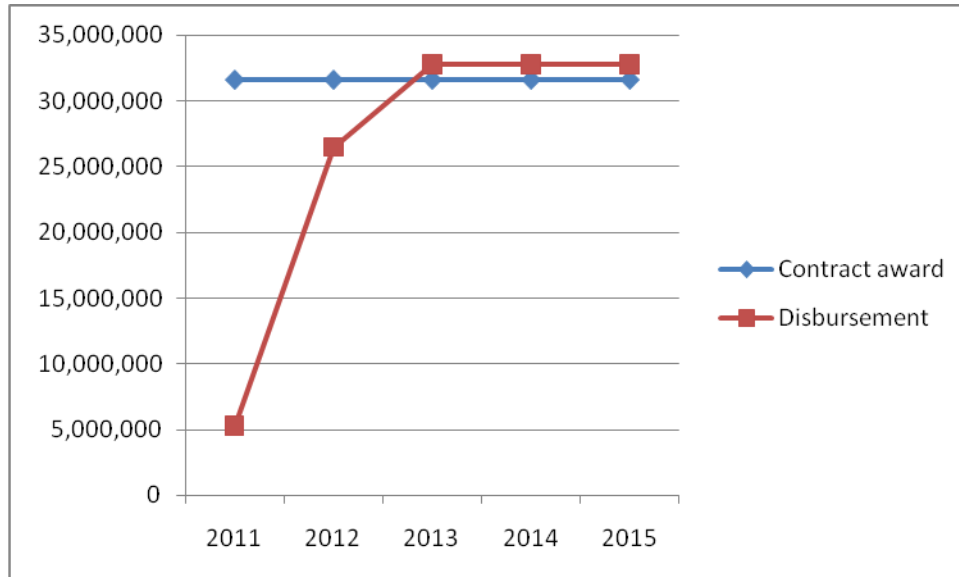
**D. Expenditure Accounts by Year**

Item	Total Cost (\$)	Year 1 (\$)	Year 2 (\$)	Year 3 (\$)	Year 4 (\$)	Year 5 (\$)
<b>A. Investment Costs</b>						
1 Civil Works	4,200,000	2,000,000	2,000,000	200,000		
2 Submarine cable system	26,200,000	2,751,000	17,685,000	5,764,000		
3 Consultants						
a Construction supervision consultant	850,000	170,000	510,000	170,000		
b Environment and social mitigation	150,000	50,000	50,000	50,000		
c Legal expenses and permissions	200,000	100,000	70,000	30,000		
4 Tax and duties	800,000	160,000	600,000	40,000		
<b>Subtotal (A)</b>	<b>32,400,000</b>	<b>5,231,000</b>	<b>20,915,000</b>	<b>6,524,000</b>		
<b>B. Recurrent Costs</b>						
1 Salaries	250,000	42,000	167,000	41,000		
2 Office space	90,000	15,000	60,000	15,000		
3 Equipment operation and maintenance	60,000	10,000	40,000	10,000		
<b>Subtotal (B)</b>	<b>400,000</b>	<b>67,000</b>	<b>267,000</b>	<b>66,000</b>		
<b>Total Project Cost (A+B)</b>	<b>32,800,000</b>	<b>5,298,000</b>	<b>21,182,000</b>	<b>6,320,000</b>		
<b>% of Total Project Cost</b>	<b>100.00%</b>	<b>16.15%</b>	<b>64.58%</b>	<b>19.27%</b>	<b>0.00%</b>	<b>0.00%</b>

Source: Asian Development Bank estimates.

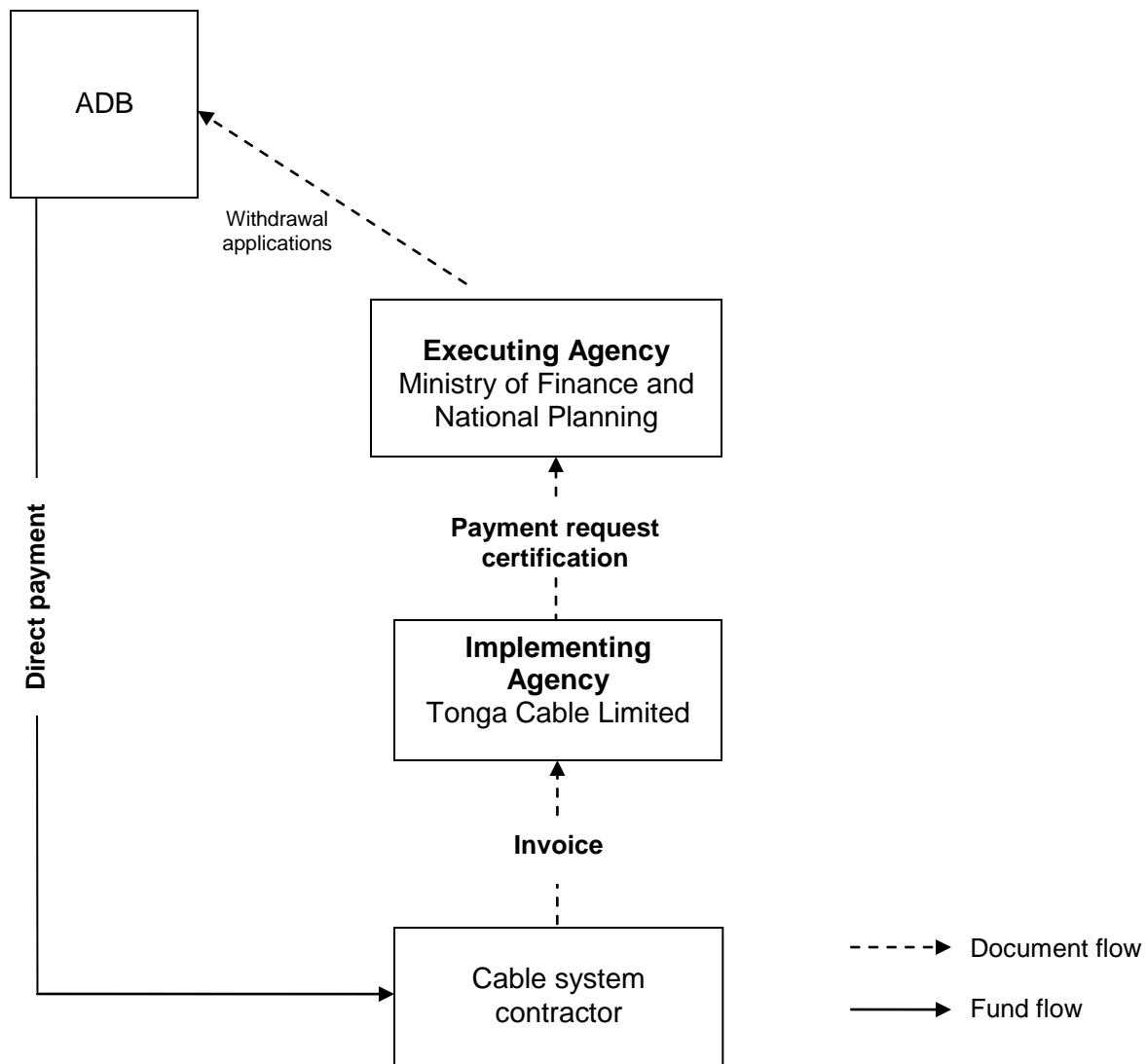
### E. Contract and Disbursement S-curve

12. The graph shows cumulative contract awards and disbursement over the project duration.



Source: Asian Development Bank estimates.

## F. Fund Flow Diagram



## V. FINANCIAL MANAGEMENT

### A. Financial Management Assessment

13. A financial management assessment of the implementing agencies was carried by the World Bank in May 2010, and in accordance with the OECD Paris Accord (2008) on harmonization of donor activities, ADB is content to rely on the information provided by this assessment. The key findings and mitigation proposals that are relevant to the project are summarized in Table 1.

14. The implementing agency for this project is TCL, which was registered as a private company in December 2009. TCL is owned by TCC, which is owned by the Government of Tonga, and is a public enterprise company. In March 2011, the government decided to convert TCL into a separate public enterprise by capitalizing the grant proceeds from ADB and the World Bank, holding 80% of TCL while TCC will hold 20% of shares. TCL will own and operate the telecommunications cable, and will act as a wholesaler to provide access to TCC, Digicel, and any other future retail service provider.

15. As of March 2011, as TCL does not have any staff other than the board of directors and an interim managing director, it is proposed that TCC's finance staff, accounting system, and procurement processes will be used to manage the project funds on behalf of TCL. A formal arrangement has been made between TCC and TCL to allow this. This assessment is based on this understanding that TCC's finance staff, systems and processes will be used to manage project funds.

16. TCC has a comprehensive financial management policy and procedure manual, and an inspection of some randomly selected accounting records indicate that the requirements are being implemented by the finance staff and management.

**Table 1. Financial Management Assessment – Risks and Mitigation Measures**

Type of Risk	Risks Rating	Summary Comments and Risk Mitigation	Residual Risk Rating
<b>A. INHERENT RISKS (risk that arises from environment in which the project is situated)</b>			
<b>Entity Level</b>	<b>Substantial</b>		<b>Moderate</b>
TCL is a start-up company and do not have staff. TCC, its mother-company has a sound financial management capacity. Although it has no experience of implementing ADB and World Bank projects, TCC is experienced with other development partner-funded projects.		A formal arrangement between TCC and TCL is required to allow TCC to manage funds on behalf of TCL.	
<b>Project Level</b>	<b>Substantial</b>		<b>Low</b>
Project size equivalent of \$32.8 million, with \$9.7 million of ADB funding.  Project complexity arising from several co-financiers.		Two outputs have multiple sources of funding, and it has been determined by the World Bank and ADB task team that pooled funding will not be used. This will add to the complexity of the financial arrangements.  ADB financing will only support output 1 (submarine cable system),	



Type of Risk	Risks Rating	Summary Comments and Risk Mitigation	Residual Risk Rating
		and use direct payment method reducing the complexity in financial management and burden on implementing agency.	
<b>OVERALL INHERENT RISK</b>	<b>Substantial</b>		<b>Moderate</b>
<b>B CONTROL RISKS (risk that the project's financial management system is inadequate to ensure funds used economically and efficiently for intended purpose)</b>			
<b>Budgeting</b> TCC's budget is prepared on an annual basis, and revised every six months. Monthly reviews of financial performance are conducted, and reported to the Board every two months.	Moderate	TCC will need to ensure the budget for this TCL-implemented project is distinct from TCC's budget, and the different sources of funds are identifiable.	Low
<b>Funds Flow</b> Current uncertainty exists about the conditions in which disbursements will be made.	Substantial	MFNP will prepare withdrawal applications with the inputs from TCL/TCC and submit them to ADB and the World Bank. Disbursement will be based on a percentage allocation of each invoice to be allocated to each development partner.  Disbursement arrangements should be set out in the payment schedule of the contractors	Moderate
<b>Accounting</b> TCC currently uses Accpac, a comprehensive accounting package acceptable to the World Bank.	Moderate	Project funds to be maintained separately from the TCC accounts – this can easily be done through the chart of accounts. It will be necessary for TCC to separately identify the different sources of funds.  Monthly bank reconciliations required of project accounts. ADB and the World Bank financial management supervision of the project twice in the first 12 months following disbursement, then as determined by risk assessment.	Low
<b>Internal Controls</b> TCC has established and implements sound internal controls.	Moderate	The TCC's internal control procedures will be adopted for output 1.  External audit ToRs to include a review of the project internal controls.	Low
<b>Financial Reporting</b> TCC's accounting team has experience in managing donor funds	Moderate	Quarterly Unaudited Interim Financial Reports will be required for joint review by ADB and the World Bank.	Low

<b>Type of Risk</b>	<b>Risks Rating</b>	<b>Summary Comments and Risk Mitigation</b>	<b>Residual Risk Rating</b>
(ADB and the European Investment Bank)		The reporting format will be agreed upon by negotiations.	
<b>External Audit</b> TCC engages Ernst & Young, Fiji, to conduct their external audits. The June 2009 audit was unqualified.	Moderate	External audit ToRs to include a review of project internal controls	Low
<b>CONTROL RISK</b>	<b>Moderate</b>		<b>Low</b>
<b>OVERALL FM PROJECT RISK</b>	<b>Substantial</b>		<b>Moderate</b>

## **B. Disbursement**

17. ADB grant proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2007, as amended from time to time),<sup>5</sup> and detailed arrangements agreed upon between the government and ADB. Pursuant to ADB's Safeguard Policy Statement (2009),<sup>6</sup> ADB funds may not be used for the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement. All financial institutions will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list (Appendix 5) to subprojects financed by ADB.

18. The proposed contractual/financing and disbursement arrangements for the submarine cable system are as follows:

- (i) The payment schedule in the contract will be structured in accordance with service delivery milestones.
- (ii) Payments shall be made on the basis of milestones achieved.
- (iii) The contractor will issue two invoices per milestone. These invoices should exclude tax and duties, which will be separately paid by TCL.
- (iv) TCL will certify that the works corresponding to the relevant milestone have been completed in accordance with the contract terms and other documentation that may be required per ADB and the World Bank specific guidelines, and will forward the invoices together with its certification to the MFNP.
- (v) The MFNP will submit withdrawal applications to ADB and the World Bank, respectively. These will be accompanied by the contractor's invoices and TCL's certifications.
- (vi) ADB and the World Bank will review and discuss the acceptability of each withdrawal application and agree to a mutually acceptable solution in case of any disagreement before executing the payment.
- (vii) ADB and the World Bank will pay directly to the contractor based on pre-agreed ratios specified in the contract.<sup>7</sup>

<sup>5</sup> Available at: [http://www.adb.org/Documents/Handbooks/Loan\\_Disbursement/loan-disbursement-final.pdf](http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf)

<sup>6</sup> Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>

<sup>7</sup> Based on the financing plan, the contract value is estimated to be \$26.2 million where ADB will finance \$9.7 million (37%) and WB \$16.5 million (63%). The amount of \$26.2 million does not include taxes and duties. TCL will pay for any applicable taxes and duties.

### **C. Accounting**

19. The EA and IA 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. TCL will use TCC's existing accounting system, and TCC will establish sub-accounts for this project to allow separate identification of project funds, including by development partner. The project accounting arrangements will comply with the co-financier financing agreements and Government financial laws and regulations.

20. TCC's internal control systems are considered suitable, and are well documented. TCC has its own internal audit unit. The scope of the external audit will include an initial review of the project's internal control procedures.

### **D. Auditing**

21. The EA will cause the detailed consolidated project accounts to be audited in accordance with International Standards on Auditing and in accordance with the government's audit regulations by an auditor acceptable to ADB. The terms of reference for the project audits will be agreed by ADB and the World Bank. The audited accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year by EA. The government and EA 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. ADB requires audited financial statements for TCL.

## **VI. PROCUREMENT AND CONSULTING SERVICES**

22. The project will require contracts for a submarine cable system and a landing station and consulting services for project management, environmental study, and legal support. The procurement plan is presented in Section C.

### **A. Advance Contracting and Retroactive Financing**

23. To expedite project implementation, the government and TCL requested advance contracting of the submarine cable system. Advance contracting allows the government and TCL to commence procurement activities, at its own risk, prior to signing of the grant agreement but does not allow for the award of contract until grants from all co-financiers have become effective. The steps to be concluded in advance include (i) preparation of bidding documents to procure materials, equipment and services; (ii) receiving bids through limited international bidding; and (iii) evaluation of bids. No retroactive financing is envisaged for the cable system contract. To ensure consistency with ADB's Procurement Guidelines, bidding documents for such advance contracting were submitted for prior review by ADB. The Government and TCL have been informed that approval of advance contracting does not commit ADB to finance the project.

### **B. Procurement of Goods, Works and Consulting Services**

24. A submarine cable system is an integrated system of plant, materials, equipment, civil works, and services. For technical reasons, considerations of economy and efficiency, management risks, and in view of the limited number of suppliers, the submarine cable system is best procured as a single contract. Therefore, ADB and the World Bank intend to jointly finance a single contract. This procurement arrangement and coordination mechanism during the implementation period will be captured in a memorandum of understanding between ADB and the World Bank.

25. In accordance with the memorandum of understanding, the Board of Directors' waiver of member country procurement eligibility restrictions is sought to permit participation of bidders from non-ADB member countries and/or procurement of goods and services from non-ADB member countries. The World Bank and the Government of Tonga acknowledge that ADB cannot finance the submarine cable system contract if ADB's Board does not approve the project or grant the necessary waivers.

26. An 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C.

## C. Procurement Plan

### Basic Data

<b>Project Name:</b> TON: Tonga-Fiji Submarine Cable Project	
<b>Country:</b> Tonga	<b>Executing Agency:</b> Ministry of Finance and National Planning
	<b>Implementing Agency:</b> Tonga Cable Limited
<b>Grant Amount:</b> \$9.7 million	<b>Grant Number:</b> TBD
<b>World Bank grant financing:</b> \$16.5 million	
<b>TCL (Counterpart funds):</b> \$6.6 million	
<b>Date of First Procurement Plan:</b> 22 September 2010	<b>Date of this Procurement Plan:</b> 17 May 2011

Source: Asian Development Bank.

### 1. Project Procurement Thresholds

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

Method for Procurement of Goods and Works	Threshold
International Competitive Bidding* for Works	Above \$1,000,000
International Competitive Bidding* for Goods	Above \$500,000

\* including Limited International Bidding.

### 2. ADB Prior or Post Review

28. 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
<b>Procurement of Goods and Works</b>		
International Competitive Bidding for Works	Prior	
International Competitive Bidding for Goods	Prior	
<b>Recruitment of Individual Consultants</b>		
	N.A.	

### 3. Goods and Works Contracts

29. 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 (y/n)	Advertisement date (quarter/year)	Comments
Procurement of plant-design, supply and install contractor for submarine cable system	\$26.2 million	LIB	No	3 <sup>rd</sup> quarter 2011	single-stage, one-envelope <sup>a</sup> (ADB and WB financed)
Procurement of civil work for landing station	\$3.957 million	National Procurement	No	4 <sup>th</sup> quarter 2010	TCL financed

ADB = Asian Development Bank, LIB = limited international bidding, TCL = Tonga Cable Limited, and WB = World Bank.

<sup>a</sup> As described in Section B, para 23, it will use the World Bank's standard bidding documents and procedures.

### 4. Consulting Services Contracts

30. 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
Construction Supervision Consultant (Firm)	\$800,000	National Procurement	1 <sup>st</sup> quarter 2010	International	TCL financed
Environmental study	\$100,000	National Procurement	2 <sup>nd</sup> quarter 2010	International	TCL financed
Legal services	\$100,000	National Procurement	2 <sup>nd</sup> quarter 2010	National	TCL financed

TCL = Tonga Cable Limited.

## VII. SAFEGUARDS

### A. Environment

- (i) Classified as environmental category B under ADB's Safeguard Policy Statement (2009).<sup>8</sup>
- (ii) The initial environmental examinations, including environmental management and monitoring plan, have been completed in September 2010.<sup>9</sup>
- (iii) The environmental management and monitoring plan will be updated during detailed marine survey and TCL will ensure that the contract for submarine cable system include environmental management actions by the contractor.
- (iv) The environmental management and monitoring plan compliance will be monitored on quarterly basis as part of the quarterly reporting.

<sup>8</sup> Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

<sup>9</sup> Linked Document 10: Initial Environmental Examinations and Environmental Management Plan.

## **B. Land Acquisition and Resettlement**

- (i) Classified as involuntary resettlement category C under ADB's Safeguard Policy Statement. The landing station site is leased from the government.
- (ii) No permanent impact on fishing and aquaculture is expected and temporary impact from cable laying will be mitigated following environment management plan. However, in case of any impact on livelihood due to the project implementation, the project will follow resettlement framework consistent with ADB's Safeguard Policy Statement and World Bank's policy on involuntary resettlement.

## **C. Indigenous People**

31. Classified as category C under ADB's Safeguard Policy Statement. The project is not expected to affect indigenous people as defined under the ADB's Safeguard Policy Statement.

32. Cross reference should be made to the environmental safeguards covenants in the Grant Agreement. Pursuant to ADB's Safeguard Policy Statement, ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth in Appendix 5 of the Safeguard Policy Statement. All financial institutions will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list to subprojects financed by ADB.

## VIII. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

33. ADB and the government have agreed on a set of indicators for project performance in relation to its impact and outcomes, consistent with the design and monitoring framework presented below. The project management unit (PMU) will monitor and evaluate the progress towards the performance targets in the design and monitoring framework, safeguard issues, covenants of grant agreements, and other aspects of the project subject to performance monitoring.

### A. Project Design and Monitoring Framework

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<b>Impact</b> Widely available and affordable ICT services improve Tonga's economic performance and public service delivery.	<p>New business opportunities in ICT sector measured by (i) at least one additional ISP for 12 months or longer by June 2016, and (ii) at least a 10% increase in the number of Tonga-based ICT companies providing telecommunications, business network, and computer and information services (databases, data processing, software design and development, maintenance, and repair services) by 2016.</p> <p>At least two ICT-based public services in education and health are accessible by general public by end of 2016.</p>	<p>The newly active ISP license is viewable on the regulator's website, and the ISP is providing internet services to customers.</p> <p>Business registration records for this category</p> <p>MIC and relevant government agency reports</p>	<b>Assumptions</b> Global and regional economy has fully recovered from the 2008 global economic crisis, allowing increased business activity.  The government has invested in e-education and e-health service development.
<b>Outcome</b> The population of Tonga has access to good quality broadband internet services at a lower price.	<p>By 2016, the number of broadband internet service subscribers has increased by at least 50% and the internet retail tariffs have decreased by at least 50% against the 2011 baseline.</p> <p>An industry standard internet speed test shows at least a 100% improvement against the 2011 baseline within 6 months of TCL capacity being used by ISPs.</p>	<p>Broadband Internet subscription numbers information from ISPs and MIC</p> <p>Internet service price list as published by ISPs.</p> <p>The Global Broadband Speed Test (<a href="http://www.speedtest.net">www.speedtest.net</a>) figures checked in Q2 2014</p>	<b>Assumptions</b> The domestic network continues to be improved and expanded within Tongatapu and other islands.  Regulatory capacity is strengthened to develop and implement the telecommunications sector policy and regulatory framework effectively for internet access and e-transaction (the



Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
			<p>World Bank and PRIF-financed TA).</p> <p>TCL has a sound governance structure and operational independence from TCC.</p> <p><b>Risk</b> Weak capacity of the regulator to ensure cost-based regulated wholesale tariff and to monitor compliance of retail service providers</p>
<p><b>Outputs</b></p> <p>1. Establishment and efficient operation of the Tonga submarine cable system by TCL</p> <p>2. Efficient and effective project management services by TCL</p>	<p>By 2016, TCL has consistently achieved the debt service coverage ratio target of 1.2 as agreed between the government and TCL starting not later than June 2014.</p> <p>TCL achieves 99.999% system availability.</p> <p>12 months after the cable system is ready for service, TCL's fault handling time (measured by mean time to recovery) is equal to the industry standard of 1 hour.</p> <p>Achieved 100% of the projected disbursement and contract awards within the agreed time frame in the work plan.</p>	<p>TCL financial statement</p> <p>TCL operational reporting logs</p> <p>TCL operational reporting logs</p> <p>TCL project progress reports</p>	<p><b>Risks</b> The Tonga cable traffic may be interrupted by changes in Fiji's domestic communication arrangement unless it is connected to FINTEL's backhaul in parallel to Fiji's domestic connection.</p> <p>TCL lacks financial and operational management capacity.</p>

Activities with Milestones	Inputs
1.1 Carry out marine survey and complete marine operations for laying cables (Q4 2011–Q1 2013) 1.2 Train TCL staff on landing facility operation and maintenance and update skills and knowledge periodically (Q1 2012–Q2 2013) 1.3 Establish monitoring and supervision guideline for regular maintenance and other contractor services (Q4 2011–Q2 2013) 1.4 Continue regular monitoring and supervision (Q2 2013–Q4 2016)  2.1 Tender, award contracts and manage contracts (Q2 2011–Q1 2013) 2.2 Provide timely progress reports (Q4 2011–Q4 2016) 2.3 Carry out regular accounting and annual audits (Q1 2012–Q4 2016) 2.4 Follow up safeguard issues and risk management plan in timely manner (Q4 2011–Q4 2016)	ADB: \$9.7 million TCL: \$6.6 million World Bank: \$16.5 million (for output 1)

ADB = Asian Development Bank, FINTEL = Fiji International Telecommunications Limited, ICT = information and communication technology, ISP = internet service provider, MIC = Ministry of Information and Communications, PRIF = Pacific Region Infrastructure Facility, TA = technical assistance, TCC = Tonga Communications Corporation, TCL = Tonga Cable Limited.

Source: Asian Development Bank.

## B. Monitoring

34. **Project performance and compliance monitoring.** The PMU will collect the baselines for impact, outcome and output monitoring and evaluation, and report them along with the timeframe for progress monitoring or achievement in the first quarterly progress report. The PMU will update the progress or achievements on quarterly basis through its progress reports. The progress reports will provide information necessary to update ADB's project performance management system.<sup>10</sup> ADB review mission will validate the reports.

35. ADB and the World Bank will jointly review the project at least once a year. Each review will cover all institutional, regulatory, administrative, organizational, technical, environmental, social, economic, financial, and other relevant aspects that may affect the performance of the project and its continuing viability. Especially, review missions will monitor the implementation of the risk management plan and the environmental management plan as agreed by the EA and the IA, and compliance with other covenants under the legal agreements.

36. **Financial management monitoring.** As the World Bank's financial management assessment of this project resulted in a moderate risk, financial management supervision will be provided by a World Bank financial management specialist making on site visits at least twice in the first year following disbursement, and the subsequent frequency will be based on the findings from these supervisions. This site visits will be coordinated with ADB review mission. The initial supervision will include a review of the implementation progress of agreed action plans noted below. In addition, ADB and the World Bank will provide clearance of the terms of reference for the external audit of the project.

## C. Evaluation

37. The government, ADB and the World Bank will jointly undertake a midterm review of the project within about 2 years of its start. The midterm review will focus on (i) project impact,

<sup>10</sup> ADB's project performance management system is available at:  
<http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltool>

outcome, and outputs, (ii) implementation progress, (iii) the performance of consultants and contractors, (v) the status of compliance with covenants in the grant agreements, and (vi) the need for any midcourse changes in project scope or schedule to ensure full achievement of the intended impact. Within 6 months of physical completion of the project, the EA will submit a project completion report to ADB.<sup>11</sup>

#### **D. Reporting**

38. The EA will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (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.

39. To ensure projects continue to be both viable and sustainable, project accounts and the implementing agency's annual financial statements, together with the associated auditor's report, should be adequately reviewed. For the financial management performance, unaudited interim financial reports will be prepared by the TCC based on the financial transactions processed through the TCC's financial system, and direct payments, on a quarterly basis. The financial reports will include an analysis of budgeted versus actual expenditure (including explanations of any significant variances) for the current period and for the cumulative to date by each component and sub component and will also identify the project commitments. The reporting format will be agreed between TCC and ADB and the World Bank prior to negotiations. For ease of reporting, it may be agreed that one report is produced for all sources of funds for the project, but it would be expected that each development partner's funds can be easily identified. The unaudited interim financial reports will be forwarded to ADB and the World Bank within 45 days of the end of each calendar quarter.

#### **E. Stakeholder Communication Strategy**

40. The stakeholder communications strategy is presented in the following table. In addition to the regular project information sharing and reporting, MFNP, TCL and MIC will post all relevant information on their own websites to ensure transparency in operation and regulatory changes. Such information includes bidding process, bidders, contract awards, physical progress of the project, tariff information (for TCL), any regulatory changes, license of TCL, and tariff information for MIC. TCL will also ensure that the route of the cable is clearly marked and known to the public and mariners to avoid any physical damage to the cable and operational disruption.

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<sup>11</sup> Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>.

**Table 2. Stakeholder Communication Strategy**

<b>Information to be communicated</b>	<b>Responsibility</b>	<b>Target audience</b>	<b>Frequency</b>	<b>Means of communication</b>
Report and Recommendation of the President (RRP) with linked documents	ADB	ADB, Government of Tonga, civil society, private sector, development partners, and general public	Once	ADB website
Project performance report and project information document	ADB	ADB, Government of Tonga, civil society, private sector, development partners, and general public	Every quarter	ADB website
Quarterly reports	MFNP	ADB, WB, and Government of Tonga (steering committee)	Every quarter	Reports
Procurement related information	TCL	Bidders and general public	As per procurement plan	TCL websites, newspaper as per procurement guidelines
Cable route information and markings	TCL	General public, fishing communities, mariners, community in Sopu	Before the cable construction starts and after the construction and related civil work are completed	TCL website, mariners' notice, markings on the route of the cable in shallow water and burial places
Cable sales conditions including tariff, terms and conditions	TCL	Telecommunication operators and ISPs including potential ones and general public	Once (to be updated to reflect any changes)	TCL website
TCL license and tariff info	MIC	Telecommunication operators and ISPs including potential ones and general public	Once (to be updated to reflect any changes)	MIC website
Regulatory changes	MIC	Telecommunication operators, ISPs, general public, and ADB and WB	When any changes to regulation are introduced	MIC website
Project completion report	ADB	ADB and Government of Tonga	Once	ADB website

ADB = Asian Development Bank; ISP = internet service provider; MFNP = Ministry of Finance and National Planning; MIC = Ministry of Information and Communications; TCL = Tonga Cable Limited; WB = World Bank.  
Source: Asian Development Bank.

## **IX. ANTICORRUPTION POLICY**

41. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* (1998, as amended to date)<sup>12</sup> are included in the grant agreement and the bidding documents for the project. In particular, ADB-financed contracts for the project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the EA and all contractors, suppliers, consultants, and other service providers as they relate to the project.

## **X. ACCOUNTABILITY MECHANISM**

42. People who are, or may in the future be, adversely affected by the project may address complaints to, or request the review of ADB's compliance under the Accountability Mechanism.<sup>13</sup> ADB's Board of Directors approved on 29 May 2003 the establishment of an accountability mechanism to provide a forum for people adversely affected by ADB-financed projects to raise their problems to ADB.

43. The accountability mechanism consists of two separate but complementary phases: (i) the Consultation Phase, consisting of the Special Project Facilitator who will respond to specific problems of locally affected people in ADB-assisted projects through a range of informal and flexible methods; and (ii) the Compliance Review Phase, consisting of the compliance review panel to investigate alleged violations of ADB's operational policies and procedures that have resulted, or are likely to result, in direct, adverse, and material harm to project-affected people, and to make recommendations to ensure project compliance, including recommendations, if appropriate, for any remedial changes in the scope or implementation of the project. Although the Offices of the Special Project Facilitator and the Compliance Review Panel will be physically and functionally separate from each other, they will be linked for the purposes of responding to the complaints of project-affected people, and to enhance ADB's development effectiveness and project quality.

## **XI. RECORD OF PAM CHANGES**

44. Normally, projects are expected to be implemented as approved by the Board. However, flexibility should be built into project design to allow changes in project scope and implementation arrangements in response to unexpected changes in circumstances during implementation. Moreover, project design should be receptive to changes in project scope and implementation arrangements that would improve the development impact and reflect stakeholder interests during implementation. Midterm review missions assess the appropriateness of the project scope and implementation arrangements in detail. The government, the EA, or ADB may propose changes in scope and implementation arrangements.

45. Any revisions/updates during course of implementation shall be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

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<sup>12</sup> Available at: <http://www.adb.org/Documents/Policies/Anticorruption/default.asp?p=antipubs>.

<sup>13</sup> Further information available at: <http://compliance.adb.org/>.