

SUMMARY OF PROJECT PERFORMANCE

A. Background

1. Financing for the South Tarawa Water Supply Project (the project)¹ was approved by the Asian Development Bank (ADB) Board of Directors on 30 August 2019 and comprises a \$13.00 million grant from ADB's Special Fund resources (Asian Development Fund) and the administration of a \$28.63 million grant from the Green Climate Fund (GCF).² The World Bank is cofinancing the project with a \$12.96 million grant (not administered by ADB). The Government of Kiribati's counterpart financing totals \$7.24 million equivalent and comprises a cash contribution of \$1.49 million and an in-kind contribution of \$5.75 million through exemption of taxes and duties. The project executing agency is the Ministry of Finance and Economic Development (MFED), and the implementing agency is the Ministry of Infrastructure and Sustainable Energy (MISE). The grant agreements were signed on 6 November 2020 and declared effective on 14 December 2020. The project is scheduled to close on 31 December 2027.

2. The project will address the factors that result in the high incidence of waterborne diseases in South Tarawa through the delivery and effective management of new and rehabilitated climate-resilient water supply assets and improved hygiene practices. The project is expected to face major cost overruns because the cost of goods and civil works have increased substantially since the project was approved in 2019. The escalation of the cost of goods and civil works is attributed to the coronavirus disease (COVID-19) pandemic and is evident in most of ADB's Pacific developing member countries. The proposed additional financing will ensure that the full scope of work and project outcomes, including enhanced climate change resilience, are provided.

B. Performance of the Project

3. Despite implementation delays caused by the COVID-19 pandemic and delays to the completion of bidding documents for the water supply networks component because of alignment with the World Bank's requirements, solid progress has been made on recruiting consulting services and procuring works contracts supporting the delivery of the main project outcome of increased access to safe, climate-resilient water supplies.

4. **Delivery of expected outputs.** Output 1: Climate-resilient and low-carbon water supply infrastructure constructed. In June 2022, the government executed the design-build-operate package GDW-1 (two bore fields and two desalination plants in South Tarawa) totaling \$36,400,186 in Australian dollars. Early progress has been made on submitting the contractor's management plans and 80% design reports including the HAZOP (process design review) workshop. Completion of the design-build phases is expected to occur by the end of the third quarter (Q3) of 2023, and commissioning of the desalination plants in Betio and McKenzie is expected to occur by the end of Q1 2024. The combined production capacity of the two desalination plants will be 6,000 cubic meters per day (m³/d).

5. Significant delays were experienced in developing the bidding documents for GDW-2 (water supply networks) to upgrade the South Tarawa water supply system and to operate, maintain, and manage package because of the late incorporation of a management services contract (World Bank template) and the redefinition of the scope of operational responsibilities to

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

² In this report, "\$" refers to United States dollars, unless otherwise stated.

satisfy the World Bank's requirements. A single set of bidding documents for package GDW-2 is being finalized for the procurement of the two contracts—construction for GDW-2:1 (water supply networks) and operation and maintenance (O&M) for GDW-2:2 (management services). Bidding is expected to commence in December 2022.

6. The procurement of package GDW-3 (solar photovoltaic array), which has a 2.5-megawatt peak (MWp) electricity generation capacity, and its associated works was combined with the South Tarawa Renewable Energy Project's procurement of a 5-MWp solar photovoltaic array and battery energy storage system and O&M services.³ The bid evaluation was completed in July 2022, and ADB has advised its no-objection to awarding the contract. A letter of acceptance for the contract was issued to the successful bidder on 9 September 2022, and the contract was signed in early October 2022.

7. Output 2: Capacity of MISE and PUB to effectively manage water supply infrastructure increased. The project coordinated initiatives for capacity development and institutional strengthening of PUB with the Kiribati Utilities Reform Project are being implemented separately under New Zealand Ministry of Foreign Affairs and Trade funding. Progress on this output includes the development of scope and detailed requirements for package GDW-1 (operation service phase of 4.5 years commencing in Q3 2023) and O&M for package GDW-2:2 (management services). Further institutional strengthening will be implemented under the WASH Awareness Program part C (refer paragraph 9).⁴

8. Environmental and social impact assessments for each subcomponent of the project have been prepared, publicly exhibited, and approved by the government with no-objection from ADB. The government issued environmental licenses for package GDW-1 on 24 June 2022 and for package GDW-3 on 29 October 2021. The government is processing the environmental license for the package GDW-2 component. The resettlement plan for package GDW-3 was finalized, approved by ADB and the World Bank, and disclosed on the ADB website in May 2022. The package GDW-1 resettlement plan was approved and disclosed in early September 2022.

9. Output 3: Awareness of WASH and climate change issues raised. The WASH program has been designed to complement and reinforce other WASH initiatives that are or have been delivered in South Tarawa. The WASH program will be delivered in three parts. Part A (water is life) will foster water conservation and vigilance in caring for the water supply assets and minimizing nonrevenue water. Part B (community partnership) will focus on hygiene awareness and hygiene behavioral change to improve community health. Part C (water leadership) will create the enabling environment for the sustainable delivery of potable water supply services and the management of natural resources and will train MISE and PUB staff to be water champions.

10. Key aspects of part A of the WASH program relating to water conservation and utility customer behavior have been incorporated within the scope of package GDW-2:2 management services (O&M) contract. The government appointed the WASH awareness program part B (community partnership) consultants in May 2021, and sound progress has been made including completing (i) reviews of previous WASH programs, (ii) a baseline indicators survey, (iii) social behavior change communication strategy development, and (iv) a capacity assessment of community service organizations. The recruitment of a consultant for part C of the WASH program

³ Package GDW-3 was jointly procured with a 4.5-megawatt solar photovoltaic array and 13-megawatt-hour battery storage financed under ADB. 2020. *Pacific Renewable Investment Facility to the Republic of Kiribati for the South Tarawa Renewable Energy Project*. Manila.

⁴ "WASH" is an acronym for water, sanitation and hygiene.

is expected to start by December 2022.

11. **Output 4: Project implementation is efficiently and effectively managed.** The recruitment of consulting services for the project management unit (PMU) is complete including the project manager, deputy project manager, project accountant, safeguards manager, and social development and gender specialist. The government appointed the project implementation assistance (PIA) consultants in March 2021.

12. **Satisfactory implementation progress.** In early 2022, the government appointed the National Water and Sanitation Steering Committee as the oversight body for the project and other water and sanitation sector projects. The PMU has been established within MISE and is performing well. As of 2 November 2022, contract awards were \$19.3 million (46.1%) and disbursements amounted to \$1.0 million (2.4%) from both the Asian Development Fund and Green Climate Fund grants. Physical progress is assessed at 16% against the elapsed time of 26%. The project progress has been constrained by the late completion of bidding documents and the extended closure of Kiribati's borders since March 2020 because of the COVID-19 pandemic, which has delayed the mobilization of consultants and contractors to South Tarawa (until reopening in August 2022). The rate of financial disbursements is expected to increase by December 2022 in line with forecast contract payment claims for detailed design and mobilization activities under GDW-1 (two bore fields and two desalination plants. Contract GDW-3 (solar photovoltaic array) was awarded on 30 September 2022. The project is scheduled to be completed by 30 June 2027 (about 6 months prior to the grant closing date of 31 December 2027). The project's performance throughout 2021 and for the first three quarters of 2022 was rated *on track*.

13. **Satisfactory compliance with safeguard policy requirements.** The executing and implementing agencies are complying with ADB's Safeguard Policy Statement (2009) requirements. The overall project is classified *category B* for environment and social safeguards and *category C* for indigenous peoples safeguards. The environmental and social impact assessments for each subcomponent of the project have been finalized. The PMU includes a national safeguards manager, who is supported by the international environmental and social safeguards experts under the PIA, and a social development and gender specialist. The resettlement plan for the solar photovoltaic component was finalized, approved by ADB and the World Bank, and disclosed on the ADB website during May 2022; the resettlement plan for the desalination component was approved and disclosed by the Government, ADB, and the World Bank in September 2022. Resettlement compensation payments under the resettlement plans have commenced. The government has established an escrow-like account for depositing resettlement compensation amounts in cases where land ownership is disputed or land boundaries undefined; the amounts will be held in trust for the rightful affected persons. The PMU and the PIA consultants have established an effective and proactive community liaison and land acquisition team. Land acquisitions for some key project components (village tank upgrading works) have been problematic for several sites, and there is a risk of delaying the implementation of the construction of GDW-2:1 (water supply networks). The PMU has submitted quarterly reports, semiannual safeguard monitoring reports, and gender action plan monitoring reports to ADB in compliance with the project's grant and project agreements.

14. **Successful management of risks.** Key risks identified during the October 2021 midterm project review mission include the following: (i) COVID-19 pandemic impacts and travel restrictions, (ii) the land acquisition of some key project components (village tank upgrading works), (iii) a nonfunctional project oversight body, (iv) limited engagement of key government stakeholders in the project's WASH awareness program, (v) uncertainty of project cost estimates

and project cost escalation because of COVID-19 pandemic impacts, (vi) immediate and ongoing electricity supply disruptions because of failing power assets, and (vii) limited availability of human resources in South Tarawa. The PMU and the PIA consulting team is working to address these challenges. In August 2022, the Government of Kiribati reopened its borders, and regular commercial flights have recommenced enabling the mobilization of international consultants and contractors. In July 2022, MISE appointed a new international director of engineering services, who also leads the PMU as project director. An international consultant project manager is already based in Tarawa and managing the day-to-day operations of the PMU. The PMU project accountant was appointed in July 2022 to support the Kiribati Fiduciary Services Unit's project financial management and reporting functions and mitigate financial risks. The PMU and the PIA consultants have established an effective and proactive community liaison and land acquisition team and has engaged international consultants to assist with the preparation and updating of safeguard due diligence and monitoring documentation. The National Water and Sanitation Steering Committee has been appointed as the oversight body for the project and will also facilitate the engagement of key government stakeholders in the WASH project's awareness program.

15. **Rating.** The project meets ADB's tests for a well performing project.⁵ The project's performance throughout 2021 and for the first three quarters of 2022 was rated *on track*. The project implementation progress is assessed at 16% and the elapsed project duration is at 26%.

16. **Cost overruns.** The project faces major cost overruns because the cost of goods and civil works has increased substantially since the project was approved in 2019, mainly because of the pandemic. This escalation has been seen in most of ADB's Pacific developing member countries; recent bids for civil works in Solomon Islands indicate that construction costs have increased by up to 70% since March 2020. The bid price for the project's desalination plants was \$10.7 million (or 67%) higher than the engineer's estimate, which was based on pre-pandemic prices. The PMU has analyzed the reasons for the high bid cost for the desalination plants and concluded that the COVID-19 pandemic has greatly affected the ability and the cost of international companies to mobilize the resources required and to procure and ship the plant and equipment required for a durable desalination plant in such a remote location in the Pacific. Conversely, the contract price for the solar photovoltaic facility is lower than the engineer's estimate, which may be because of the reduced cost of solar photovoltaic cells, which have fallen substantially over the past 5 years, and possibly low bids to enable solar photovoltaic contractors to enter the Kiribati market. The PMU has also reassessed the project's cost estimates considering the desalination and the solar photovoltaic bid prices. The updated project cost estimate is \$90.0 million, which is \$28.2 million more than the approved project financing. The PMU and the government have assessed options to reduce the scope of the project to contain project costs within the available financing and have concluded that a reduction in scope would seriously compromise the project outcome.

C. Conclusion

17. The actual project physical progress is aligned with the project elapsed duration. The project performance is rated *on track* with contract awards and disbursements for 2022. The physical progress is set to accelerate toward the end of 2022 with contract award and

⁵ The criteria for a well performing project are defined in Table 1 of the Staff Instruction for Business Processes for Additional Financing (Sovereign Operations). ADB. 2019. *Staff Instruction on Business Processes for Knowledge and Support Technical Assistance*. Manila.

disbursement targets well within reach. The project is on track for completion within the grant availability period. The project is expected to achieve its intended impact and outcome by the project closing date.