



Periodic Financing Request Report and Additional Financing

Project Number: 42291-026
MFF Number: 0068
October 2016

Regional: Higher Education in the Pacific Investment Program (Tranche 2) and Administration of Grant

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 13 September 2016)

Currency Unit	–	Fiji dollar (F\$)
F\$1.00	=	\$0.4889
\$1.00	=	F\$2.0449

ABBREVIATIONS

ADB	–	Asian Development Bank
CEF	–	Clean Energy Fund
EIRR	–	economic internal rate of return
ICT	–	information and communication technology
MFF	–	multitranches financing facility
PAM	–	project administration manual
PIU	–	project implementation unit
SDR	–	special drawing right
USP	–	University of the South Pacific

NOTE

In this report, "\$" refers to US dollars unless otherwise stated.

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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 42291-026	
Project Name	Higher Education in the Pacific Investment Program - Tranche 2	Department /Division	PARD/PAUS
Country Borrower	REG The University of the South Pacific	Executing Agency	The University of the South Pacific
2. Sector		ADB Financing (\$ million)	
✓ Education	Tertiary		15.40
		Total	15.40
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG) Regional integration (RCI)	Subcomponents Pillar 2: Access to economic opportunities, including jobs, made more inclusive Pillar 4: Other regional public goods	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD) Partnerships (PAR)	Components Client relations, network, and partnership development to partnership driver of change Implementation Official cofinancing Regional organizations	Gender equity (GEN)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Regional	High
6. Risk Categorization: Low			
7. Safeguard Categorization Environment: B Involuntary Resettlement: B Indigenous Peoples: C			
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.40	
Sovereign MFF-Tranche (Loan): Asian Development Fund		15.40	
Cofinancing		1.50	
Clean Energy Fund under the Clean Energy Financing Partnership Facility - Grant		1.50	
Counterpart		2.48	
Beneficiaries		1.63	
Government		0.85	
Total		19.38	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

Date of Receipt by ADB of PFR: 24 May 2016

Tranche Number: 2

10. Country Operations Business Plan

CPS <http://www.adb.org/documents/pacific-regional-operations-business-plan-2014-2016>

COBP <http://www.adb.org/documents/pacific-regional-operations-business-plan-2014-2016>

11. Tranche Summary

Project 2 (with additional financing) will support the expansion of the University of the South Pacific (USP) regional campus in Solomon Islands to a new location in Honiara, at the King George VI School grounds, about 4 kilometers east of the existing campus. The scope of Project 2 includes (i) construction of classrooms, an ICT studio, science laboratories, faculty offices, administrative facilities, and a clean energy component supporting a solar photo-voltaic system; (ii) enhancement of ICT-based education; (iii) improvement of student support services; (iv) strengthening of USP governance and management; and (v) strengthening project management capacity of USP staff who will be involved in project implementation. Project 2 will enable the USP regional campus in Solomon Islands to accommodate an increasing demand for higher education, improve the quality of education through the use of ICT and adoption of distance flexible learning, and increase course offerings especially in the field of public health which is the anchor program for the campus. It will also help improve USP student services through provision of pre-enrollment information and career counseling, strengthening governance and management capacity of USP (improved data collection and analysis of USP activities and human resources), and strengthening capacity of USP personnel to effectively manage project activities.

Impact: USP graduates contribute to economic competitiveness and diversifications of Solomon Islands and other USP member countries.

Outcome: USP provides expanded and equitable access to quality higher education in Solomon Islands.

Outputs: (i) Strengthened regional campus in Solomon Islands, (ii) Enhanced ICT-based education, (iii) Improved USP student services, (iv) Strengthened USP governance and management, and (v) Strengthened project management capacity

Implementation Arrangements: The University of the South Pacific will be the executing agency.

Project Readiness: The project is projected for loan approval in Q4 2016. Preparatory assessments on higher education sub-sector, environmental due diligence, social and resettlement due diligence, and financial and economic analysis are at various stages of completion. The master campus development plan is drafted, and cost estimates for the new campus are being finalized and expected to remain within the financing envelope.

12. Significant Developments in the MFF and Previous Tranches

The Tranche 1 of the MFF resulted in the successful completion of a new campus for the USP Kiribati that is now operational. The project is expected to close on time in June 2016.

13. Milestones

Estimated Approval	Estimated Completion ^a
31 October 2016	30 June 2019

14. Linked Documents

	Required Document	Disclosure Date
(i) Environment	IEE - Initial Environment Examination	
Weblink:	http://www.adb.org/projects/documents/higher-education-pacific-t2-sol-us-p-campus-jun-2016-iee	29-JUN-2016
(ii) Involuntary resettlement	RP - Resettlement Plan	
Weblink:	http://www.adb.org/projects/documents/higher-education-pacific-t2-sol-us-p-campus-rpddr	17-JUN-2016

^a For Tranches, this refers to the financial closing date.

I. BACKGROUND

1. The Asian Development Bank (ADB) approved a multitranche financing facility (MFF) to finance the Higher Education in the Pacific Investment Program (the Program) on 11 June 2012.¹ The Program supports the University of the South Pacific (USP) in expanding access to higher education in its 12 Pacific island member countries by improving physical environments and learning programs. Program outputs include (i) expanding regional campuses in Kiribati and Solomon Islands, (ii) enhancing information and communication technology (ICT)-based distance learning programs, (iii) improving student services, (iv) strengthening USP governance and management capacity, and (v) strengthening USP project management capacity. Improved access to quality higher education at USP will contribute to human resources and skills development in the Pacific and will promote inclusive growth enabled by higher productivity and diversification of the regional economy.

2. This report requests the (i) approval of MFF Tranche 2 to finance the USP campus construction and related activities in Solomon Islands (Project 2), and (ii) approval of additional financing with ADB-administered cofinancing to incorporate renewable energy elements into Project 2.² The Solomon Islands has made progress in improving basic education access, quality, and management under the country's Education Strategic Framework, 2007–2015. However, access to tertiary education institutions in country is limited, with only 5% of students attaining tertiary education.³ The Government of Solomon Islands is expending considerable budget on scholarships, which are not being properly managed. The Ministry of Education and Human Resources Development is improving the scholarship system to ensure equitable access and coherence with national education and labor market priorities, but improvements in resource efficiency are still needed.

3. An expanded USP campus will allow more space and provide quality tertiary education in country for students without having to leave the country. This will increase country resource efficiencies by reducing scholarship expenditures and will help retain tertiary students, who will be better able to complete most or all of their studies in country. The demand for spaces is great, with USP enrollments having increased an average of 8% overall and an average of 10% annually for 2011–2015. At the USP Solomon Islands campus, headcount enrollments in 2015 reached 4,282 students, enrolled as 1,733 full-time equivalent students.⁴ Solomon Islanders represent the largest population of national students at the USP Laucala campus (Fiji), where 978 of them were enrolled in 2015. Providing more spaces in country for these students will create more resource efficiencies for the country.

4. Project 2 (including additional financing) will support the construction of a new and expanded USP regional campus in Honiara, Solomon Islands, adjacent to the King George VI School grounds and 4 kilometers east of the current campus, which will continue to house pre-degree students. Project 2's scope (including additional financing) encompasses (i) constructing classrooms, an ICT studio, science laboratories, faculty offices, and administrative facilities; (ii) enhancing ICT-based education; (iii) improving student support services; (iv) strengthening USP governance and management; and (v) strengthening project management capacity of USP staff, who will be involved in implementation. Project 2 (including additional financing) will enable the

¹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Multitranchise Financing Facility: Higher Education in the Pacific Investment Program*. Manila.

² The design and monitoring framework for Project 2 (including additional financing) is in Appendix 1.

³ ADB, 2016. *Solomon Islands Higher Education Assessment*. Consultant's report. Manila (TA 8511).

⁴ The University of the South Pacific, Planning and Quality Office. Most Solomon Islands tertiary students enroll part-time.

Solomon Islands USP regional campus to accommodate an increasing demand for higher education, improve education quality through ICT and distance flexible learning, and increase course offerings—especially in public health, the campus’s anchor program. It will also improve USP student services by providing pre-enrollment information and career counseling, strengthen USP governance and management capacity (for improved data collection and analysis of USP activities and human resources), and improve USP personnel capacity to manage project activities.

5. In April 2016, USP Council’s Finance and Investments Committee approved the submission of a periodic financing request to ADB based on its review of the business case and investment plan, featuring projections of return on investments and justifying the need to build a new campus. This decision was further endorsed at a full USP Council meeting in May 2016. Project 2 (including additional financing) is in compliance with ADB requirements for project review and approval. Due diligence was undertaken for safeguards, economic and financial analysis, higher education assessment, and technical feasibility of the Solomon Islands campus. The Ministry of Finance and Treasury will provide a guarantee for the ADB loan to USP, and will exempt taxes and duties for Project 2 (including additional financing). The government has contributed land for the campus. USP established a project implementation unit (PIU), which successfully implemented Project 1 and which will manage implementation of Project 2 (including additional financing). USP has adequate capacity in financial management, procurement, and project management to implement Project 2 (including additional financing), which is detailed in the project administration manual (PAM) (Appendix 4).

II. ASSESSMENT OF IMPLEMENTATION

6. Project 1 implementation was successfully completed, and the regional campus in Kiribati is fully operational. The Project 1 loan amount of \$2.6 million was signed on 19 June 2012 and declared effective on 10 October 2012. Construction activities were scheduled to begin the third quarter of 2013. However, the actual start date was delayed until May 2014, mainly because of bids exceeding the original provision of \$1.9 million.⁵ To cover the shortfall, in April 2014, ADB approved USP’s request for additional financing of \$1.0 million through reallocation from the MFF funds allocated to Tranche 3 (\$2.85 million).⁶ This allowed the civil works contract to be signed on 28 May 2014. The new campus was officially opened by then-President Anote Tong in November 2015.

7. Project 1’s total cost was \$5.125 million, including taxes and duties of \$0.3 million. ADB’s loan of \$3.6 million equivalent financed 70.2% of the project cost. USP provided \$0.375 million (7.3%) in counterpart financing, while the Government of Kiribati contributed \$1.15 million (22.4%). The loan has largely been disbursed with a small unutilized balance that is being prepared for withdrawal. Preparations for financial closing are underway. USP is in compliance with the legal arrangements and undertakings in the framework financing agreement.

8. A preliminary assessment of Project 1’s outputs, outcome, and initial impact shows progress toward achieving the targeted outcome (2020) and expected impact (2022). Regarding

⁵ Factors contributing to cost overruns included (i) significant price increases in construction materials—cement by 20%, timber by nearly 50% and steel by about 5%—between the time cost estimates were made (mid-2011) and when bids were called for the civil works contract (October 2013); (ii) only two out of seven firms that attended the pre-bid meeting in September 2013 ultimately submitted bids; and (iii) underestimation of the high logistics cost in transporting building materials, construction equipment, and skilled labor by sea over 2,000 kilometers north of Fiji.

⁶ ABD approved reallocation of a portion of Tranche 3 funds to Tranche 1 on 14 May 2014.

physical achievements, the new campus has 10 new teaching rooms, including a study room for students using the flexible learning mode, two computer laboratories, a science room, a videoconference room, an Atoll Research Center laboratory, and a new library. These facilities have modern ICT equipment for mixed learning modes—face-to-face learning, group learning, and distance and flexible learning.

9. At the outcome level, against a target of 1,000 students enrolled at the Kiribati campus in 2018, 815 students were enrolled in the first semester of 2015. USP expects that the target will be achieved with the additional classrooms and facilities provided under the project. Against a target of 30% female students enrolled in degree programs by 2018, female enrollment increased to 25% in 2015 and is expected to rise. Meanwhile, teaching and learning facilities and ICT-based education programs are being fully used, with the target of enrolling 30% of students in ICT-mode courses by 2018 considered achievable.

10. At the impact level, USP had 25 post-graduate students in 2015 (against a target of 20 by 2018). USP is confident this positive trend will continue, though the number may vary from year to year. Another impact-level indicator—an increase in employment among USP Kiribati campus graduates from 42% in 2008 to 55% by 2020—will be closely monitored using the improved education management information system financed under Project 1.

11. Overall, despite cost overruns and a slight delay in construction of the new campus, Project 1 is already showing positive results. ADB and USP will continue to closely monitor the project's benefits and impact against the design and monitoring framework indicators.

12. The MFF's design and monitoring framework remains unchanged, except that indicators for Tranche 3 are deleted, following the approval of Tranche 3 elimination.⁷

III. PERIODIC FINANCING REQUEST AND ADMINISTRATION OF GRANT

A. Impact and Outcome

13. The expected impact of Project 2 (including additional financing) is that USP graduates will contribute to the competitiveness and diversification of Solomon Islands and other USP member countries. The expected outcome is that USP will provide expanded and equitable access to quality higher education in the Solomon Islands, especially for women and students from rural or remote areas.

B. Outputs

14. The expected outputs of Project 2 (including additional financing) are (i) a strengthened regional campus in Solomon Islands, (ii) enhanced ICT-based education in Solomon Islands, (iii) improved student services, (iv) strengthened USP governance and management, and (v) strengthened management capacity. The additional financing will contribute to the strengthened regional campus output by supporting a renewable energy system (solar panel photovoltaic system) at the new campus that will meet 75% of its energy needs. Detailed information on the clean energy component is in Supplementary Appendix 4.

⁷ A minor MFF change was approved under an 11 July 2016 memo requesting the transfer of Tranche 3 pre-allocations to Tranche 2, eliminating Tranche 3. Under Tranche 3, student dormitories were to be constructed at USP Fiji, but this activity was fast-tracked and financed under an external borrowing by the USP in 2014–2015.

C. Investment and Financing Plans

15. Project 2 (including additional financing) is estimated to cost \$19.375 million (Table 1).

Table 1: Investment Plan for Project 2 (including Additional Financing)
(\$'000)

Item	Total Amount ^a
A. Base Cost	
Output 1: Strengthened regional campus ^b	14,278.50
Output 2: Enhanced ICT-based education	950.00
Output 4: Strengthened USP governance and management	900.00
Output 5: Strengthened project management capacity	800.00
Taxes and duties ^c	510.00
Land contribution ^d	340.00
Subtotal (A)	17,778.50
B. Contingencies^e	1,462.50
C. Financing Charges during Implementation^f	134.00
Total (A+B+C)	19,375.00

ICT = information and communication technology, USP = University of the South Pacific.

^a In mid-2016 prices.

^b Includes \$1,500,000 additional financing for renewable energy component.

^c Taxes and duties will be financed by the Government of Solomon Islands through exemption. Clean Energy Fund and Asian Development Bank funds may also finance taxes and duties as (i) the amount will be within the reasonable threshold identified during the country partnership strategy preparation process, (ii) the amount will not represent an excessive share of the project investment plan, (iii) the taxes and duties apply only to the loan and grant-financed expenditures, and (iv) the financing of taxes and duties is relevant to project success.

^d The government's land contribution amount was derived based on government estimates.

^e Physical contingencies are computed at 5% for civil works, equipment, and services. Price contingencies are computed at 1% of the foreign exchange costs and average regional cost escalation factor for local currencies.

^f Interest charges on the Asian Development Bank loan will be capitalized during implementation.

Sources: Asian Development Bank and USP estimates.

16. USP has requested (i) a loan in various currencies equivalent to SDR10,973,000 from ADB's Special Funds resources and (ii) a grant not exceeding \$1.5 million from the Clean Energy Fund (CEF) under the Clean Energy Financing Partnership Facility to finance the solar panel photovoltaic system which will enhance the regional campus construction.⁸ The loan 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, such other terms and conditions set forth in the draft loan agreement. The Government of the Solomon Islands will provide a guarantee in respect of the loan. The ADB-administered CEF grant will be jointly financed and disbursed on a cost-sharing basis

17. In addition, USP will contribute \$1.625 million to strengthen USP governance and management (\$0.9 million) and project management capacity (\$0.7 million), and for equipment (\$0.025 million). The government will exempt taxes and duties (\$0.51 million) for the project and donate land (\$0.34 million) for the new campus. The financing plan is in Table 2.

⁸ The additional financing will expand the sustainability of the campus and showcase a Pacific university campus operating on renewables for a majority of its current and future energy needs. CEF was unable to confirm its cofinancing when the MFF was approved. The additional activities to support renewable energy in campus development are consistent with the project's objectives, Solomon Islands government priorities, and the current country partnership strategy.

Table 2: Financing Plan for Project 2 (including Additional Financing)
(\$ million)

Source	Total Amount	Share of Total (%)
Project 2 (including additional financing)		
Asian Development Bank		
Special Funds Resources (loan)	15.400	79.48
Clean Energy Fund ^a under the Clean Energy Financing Partnership Facility	1.500	7.74
The University of the South Pacific	1.625	8.39
Government of Solomon Islands ^b	0.850	4.39
Total	19.375	100.00

^a Financing partners: the governments of Australia, Norway, Spain, Sweden, and the United Kingdom. Administered by the Asian Development Bank.

^b The contribution reflects taxes and expenditures incurred toward preparation of the land for the campus.

Sources: Asian Development Bank and the University of the South Pacific estimates.

D. Implementation Arrangements

18. USP will be both the executing and implementing agency for Project 2 (including additional financing). A project steering committee, established under Project 1, will guide implementation and facilitate cross-agency dialogue. A PIU, also established under Project 1, will conduct day-to-day implementation of activities, including procurement, safeguards, civil works, financial management, and contract management.

19. The implementation arrangements are summarized in Table 3 and detailed in the updated PAM (Appendix 5).

Table 3: Updated Implementation Arrangements for Project 2 (including Additional Financing)

Aspects	Arrangements		
Implementation period	1 October 2016–31 December 2019		
Loan closing date	30 June 2020		
Management			
(i) Oversight body	Project steering committee, chaired by vice-chancellor, USP		
(ii) Executing agency	USP		
(iii) Key implementing agency	USP		
(iv) Implementation unit	USP, Laucala Campus, Fiji (6–8 staff)		
Procurement	International competitive bidding	1 contract	\$12,601,500
	Shopping	2–4 contracts	\$950,000
Consulting services	QCBS	1 contract	\$1,677,000
Advance contracting and retroactive financing	Advance contracting and retroactive financing will be allowed for the recruitment of civil works design and supervision consultants for Project 2 (including additional financing), provided that expenditures are incurred in the 12 months prior to the signing of the related loan and grant agreements, and do not exceed an amount equivalent to 20% of the individual loan.		
Disbursement	The loan and grant proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between USP and ADB.		

ADB = Asian Development Bank, QCBS = quality- and cost-based selection, USP = University of the South Pacific.
Note: Since Project 2 (including additional financing) is financed with ADB-administered cofinancing resources, universal procurement will apply.

Source: Asian Development Bank.

E. Project Readiness

20. Project readiness is categorized as low for the implementation of Project 2 (including additional financing) because of the nature of subsequent tranches under a regional MFF. While USP and ADB have approved architectural concepts, technical feasibility reports, and cost estimates, civil works construction will not begin until 2017. Terms of reference are advertised for detailed design and supervision of construction, including clean energy due diligence and design. The Solomon Islands government has donated alienated land, free of claims and any encumbrance, for the new campus. The PIU's experienced staff will implement Project 2 (including additional financing) under the guidance of the project steering committee involved in Project 1. ADB clearance and disclosure of safeguards reports has been provided, based on an analysis of the Solomon Islands context. The resettlement due diligence report has been endorsed by the government and disclosed locally. ADB is providing training on procurement in Fiji in August 2016 and will provide additional individualized support.

F. Advance Contracting and Retroactive Financing

21. The MFF allows advance contracting of a design and supervisory services firm, subject to ADB procedures. USP has been informed that the approval of advance actions does not commit ADB to finance Project 2 (including additional financing). The MFF also allows for retroactive financing of expenditures incurred for detailed design and supervisory consulting under advance contracting—provided that the expenditures are incurred in the 12 months prior to the signing of the related loan agreements and do not exceed an amount equivalent to 20% of the individual loan. The grant will allow advance and retroactive financing under the same conditions as the loan.

IV. DUE DILIGENCE

22. All required preparatory studies have been conducted, including feasibility studies, initial campus concept designs, an advertisement for detailed design and supervisory services, a procurement plan, safeguards reports, and technical, economic, and financial assessments of the new Solomon Islands campus. ADB has assessed the viability of the project and the additional renewable energy component, and the benefits to accommodating more students at the Solomon Islands campus—improved access to quality education, increased employment and higher salaries for USP graduates, and increased government savings on scholarships for students to study overseas—are considered to outweigh the expected costs. Further, the project directly promotes inclusive growth, with targets for youth and female beneficiaries.

A. Economic and Financial

23. **Economic viability.** An economic analysis for Project 2 (including additional financing) indicates that it will satisfy ADB's economic evaluation criteria, yielding an overall economic investment return rate of 14.2%. Excluding the clean energy component, campus construction under the MFF's Tranche 2 has a projected economic internal rate of return (EIRR) of 13.9%. The solar photovoltaic installation component has a projected EIRR of 26.3%. The real rate of return for the USP system overall may be higher, given the conservative assumptions made in calculating it (e.g., low rates of increase in enrollment and graduation and no sale of generated electricity in excess of campus needs) and the general rates of return estimated for higher education in developing country settings. One expected positive effect of expanding and improving the USP Honiara campus is a reduction in the traditionally high attrition rate of 4.5% and, consequently, a higher graduation rate of Solomon Islands students. In addition, by

improving campus facilities and expanding ICT-supported course offerings, USP will be able to attract academically strong students, improve the capacity of faculty and staff to provide high-quality education, and better support students. Further, installing a solar energy system will help showcase the value of clean energy, and is a step towards USP using renewable energy on all of its 14 Pacific campuses. Higher employment rates and salaries of USP graduates from Solomon Islands (compared with labor market outcomes expected for Solomon Island youths without undergraduate education) account for most (about 94%) of the project's estimated economic benefit. Estimated returns broadly align with analyses that suggest individuals completing university-level education have returns of about 18%.

24. **Financial sustainability.** Project 2 (including additional financing) is financially sound. Although the Solomon Islands campus is expected to generate modest net revenues and its cash flow and financial performance in other respects appear strong, it is not expected to become financially self-sufficient. As was the case for the Tranche 1-supported Kiribati campus, the Solomon Islands campus's financial sustainability is assured by its membership in the USP system and the established practice of cross-subsidization across system campuses. Due diligence indicates that USP's financial position continues to be strong. USP's financial management functions remain the same, as do the project's financial management arrangements. It should be noted that USP generates a small portion of revenues from student tuition fees but is dependent on government and other grants, and is not likely to be sustainable based only on its internal self-generated funds. Audited financial accounts showed operating surpluses equivalent to \$4.2 million in 2011 and \$2.9 million in 2012, and a small operating deficit of \$0.6 million in 2013. USP had operating surpluses equivalent to \$2.7 million in 2014, representing 2.9% of total operating income, and \$4.0 million in 2015, or 4.5% of operating income. The Project 1 loan and USP's commercial loans totaling \$5.5 million will affect USP's cash flow, but it remains positive at the USP system-wide level throughout the project life. An analysis of financial implications for USP in the Solomon Islands campus expansion projects operating surpluses of \$2.3 million (F\$5.1 million) in 2016, \$2.6 million (F\$5.8 million) in 2017, and \$2.2 million (F\$4.8 million) in 2018.⁹ According to the economic and financial analysis for Project 2 (including additional financing), projections for 2011–2022, based on the most likely budget scenario, indicate USP should be able to achieve annual surpluses of about \$1.5 million–\$2.0 million over the next 12 years. The amounts are considered sufficient to ensure the project's financial sustainability. The full economic and financial analysis is in Appendix 7.

B. Governance

25. An assessment of institutional capacity, policy environment, and legal, procurement, and administrative mechanisms to ensure the program's transparency, efficiency, and sustainability was conducted during MFF processing and was reassessed and updated for Project 2 (including additional financing). This included discussion of ADB's Anticorruption Policy (1998, as amended to date).

26. **Financial management.** The project's overall risk is moderate. USP's financial management and administration processes are considered adequate to manage and control project finances. Policies and procedures are well documented, and USP has adopted International Financial Reporting Standards. USP has an internal risk and assurance compliance officer who monitors financial management procedures and mechanisms to ensure compliance with internal requirements. The USP finance division is responsible for project-

⁹ The University of the South Pacific. Business Case for New Campus in the Solomon Islands. Presented to Finance and Investments Committee, 11 April 2016.

related financial management, accounting, and reporting, and will control project funds under the guidance and approval of the project supervisor. The USP has established controls and procedures for the flow of funds, financial information management, accountability, and project fund audits to ensure transparency. The ADB loan and grant will be placed as a separate fund in the general ledger managed by the finance division. A project-specific reporting system has been set up as per ADB requirements. Staff in both the PIU and the finance division have project management experience—including in externally funded projects and in ADB procedures under Project 1. No major accountability issues were identified in the audit reports for the past 3 years. A comprehensive monthly and quarterly financial management reporting system is in place. The internal audit is outsourced to KPMG, while the external audit is outsourced to an independent auditor (PricewaterhouseCoopers). Internal audit reports are shared with a USP audit and risk committee. The updated risk assessment and risk management plan is in Appendix 13.

C. Poverty, Social, and Gender Dimensions

27. The Solomon Islands has a population of approximately 572,200 people, of which 85% reside in rural areas and villages of a few hundred people¹⁰. About 40% of the country's population is below the age of 15. Poverty incidence is relatively high, with 22.7% of the population living below the poverty line. About 80% of the population relies on subsistence or semi-subsistence agriculture and fishing. Youth unemployment is 45%, and only one in every six school leavers has paid employment. Causes of poverty include the lack of access to social and economic services, lack of access to education, poor quality of education, and lack of social safety nets. Gender inequality remains a major challenge despite the government introducing its national gender equality and women's development policy (2010–2015). Overall, 60.4% of the female population has some form of employment compared with 2.2% of males. Women are overrepresented in poorly paid and non-skilled labor, largely because of their lower education and literacy levels and their limited access to skills training. Women were twice as likely as men to have no education (21% of females compared to 12% of males). Although school enrollments have increased steadily, with primary enrollment at nearly 90% for both girls and boys since 2009, disparities remained at all education levels as of 2013. Gaps persist especially at the senior secondary level, with gross enrollment rates at 28% for girls and 32% for boys. At the tertiary level (degree or non-degree programs), women made up 38% of the total estimated enrollment in 2012. Women are more likely to enroll in subjects such as education, tourism, and hospitality, and are underrepresented in technical and vocational training programs. The updated summary poverty reduction and social strategy is in Appendix 8.

28. Project 2 (including additional financing) is expected to have a direct impact on reducing poverty, promoting social development, and increasing gender equity, especially among youth who gain access to tertiary education in country. The availability of quality education will allow for more efficient use of the government's tertiary budget, which currently significantly funds overseas scholarships. The expanded country campus will allow more students with limited tertiary education opportunities to enroll in country, as scholarship funds are being more equitably allocated under the government's reform policies. The project design has set a target for at least 12% of female students (up from the current 7% at the Solomon Islands campus) to enroll in degree programs by 2020. The project will improve the campus's student support services to provide extensive pre-enrollment information, employment advice, counseling services including skills assessment and generation of work options, job search techniques, and

¹⁰ World Bank website, 2014.

job placement services including a USP alumni database. The gender action plan is in Appendix 12.

D. Safeguards

29. Project 2 (including additional financing) is classified as Category B for the environment. An initial environmental examination was carried out for the new campus in Honiara, and will be updated during the detailed design phase. Project impacts can be mitigated adequately through implementation of the environmental management plan, which includes measures to avoid and/or minimize environmental impacts from civil works and related construction activities. The project is also classified as Category B for involuntary resettlements, as it requires relocation of 18 households (142 people), including 13 employees of King George VI School. Twelve of these families will be relocated to newly constructed houses across the road from the existing site and on King George VI school land. The 12 households have agreed to be relocated to the new houses, which are being constructed to a standard at least equivalent to if not better than the current houses. One King George VI School employee and five Ministry of Education and Human Resources Development employees and their families will be enrolled in the public service housing rental scheme and provided subsidized accommodation. The project will not create economic displacement for this group, as the relocation does not affect their employment. The project is classified as Category C for indigenous peoples, as the entire population of Solomon Islands is considered indigenous and those affected are not considered especially vulnerable. The safeguards reports are in Appendixes 10 and 11.

E. Risks and Mitigating Measures

30. Major risks and mitigating measures for Project 2 (including additional financing) remain largely the same as those for Project 1. These are summarized in Table 4 and detailed in the updated risk assessment and risk management plan (Appendix 13). Project benefits and impacts are expected to outweigh costs.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
The USP decides not to continue its reform efforts outlined in the strategic plans for 2010–2012 and 2013–2018 (road map).	The USP council has approved proposed projects under the investment program. The finance and investments committee has approved the scope and investments needed for Project 2 (including additional financing). The Project 1 outputs and outcome were consistent with provisions in the design and monitoring framework for the investment program. Under Project 2 (including additional financing), regular public consultations will continue to be held to discuss the progress of reform efforts. USP management made strong commitments to make Project 2 successful, drawing from Project 1 experience.
Cost overruns delay project implementation.	Cost estimates were based on careful analysis of conditions in Solomon Islands. The country is easier to manage than Kiribati in terms of logistics, availability of construction materials, equipment, and skilled workers.
Weak coordination and reporting across USP regional campuses on civil works procurement and monitoring delay construction work.	The PIU project manager will be responsible for coordinating and supervising all Project 2 (including additional financing) activities. Qualified PIU staff will support and coordinate implementation, including civil works supervision, procurement, accounting, and financial management. ADB has provided and will provide procurement training. PIU will continue to conduct regular consultations, monitoring, and reporting for the campuses during implementation. The USP Properties and Facilities Division director and specialists will undertake regular monitoring through field inspection during construction.

Risks	Mitigating Measures
Delays occur in obtaining a sovereign guarantee for tranche.	USP has committed to coordinate closely with the Government of Solomon Islands and other clients to process necessary approvals in a timely manner.

ADB = Asian Development Bank, PIU = project implementation unit, USP = University of the South Pacific.

Source: Asian Development Bank.

F. Risk Categorization

31. Project 2 (including additional financing) is *low risk* as (i) the project loan amount does not exceed \$200 million; (ii) ADB has sound experience in higher education in the region; (iii) the executing agency has reasonable capacity in externally financed project administration, as exemplified under Project 1 by the successful completion of the USP Kiribati campus; and (v) the project has safeguard categorizations other than A.

V. ASSURANCES AND CONDITIONS

32. USP has assured ADB that implementation of Project 2 (including additional financing) will conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement, as described in detail in the PAM and loan and grant agreements.

33. USP has agreed with ADB on certain covenants for Project 2 (including additional financing) set forth in the loan and grant agreements.

VI. RECOMMENDATION

34. On the basis of the approval of ADB’s Board of Directors for the provision of loans under the MFF in an aggregate principal amount not exceeding \$19,000,000 to USP for the Higher Education in the Pacific Investment Program, it is recommended that the President approve the proposed tranche as described in para. 16 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement for the proposed tranche.

35. Approval is also requested to administer a grant not exceeding \$1,500,000 to USP for the additional financing of Project 2, to be provided by the Clean Energy Fund (CEF) under the Clean Energy Financing Partnership Facility.¹¹

¹¹ CEF Financing partners include the governments of Australia, Norway, Spain, Sweden, and the United Kingdom.