

Audited Project Financial Statements

Project Number: 49450-008
Loan/Grant Number: L3572, G0543, G0544
Period covered: 01 January 2019 to 31 December 2019

VAN: Vanuatu Energy Access Project

Prepared by Ministry of Finance and Economic Management

For the Asian Development Bank
Date accepted by ADB: 3 September 2020

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FINANCIAL STATEMENTS
FOR THE
VANUATU ENERGY ACCESS PROJECT
(VEAP)

FOR THE YEAR ENDED 31 DECEMBER 2019

PREPARED UNDER IPSAS: FINANCIAL REPORTING UNDER THE CASH BASIS ACCOUNTING

PROJECT FUNDED BY
ADB LOAN 3572-VAN
ADB GRANT 0543-VAN
SCF GRANT 0544 –VAN

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ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
BEC	Bid of Evaluation Committee
BER	Bid Evaluation Report
BHP	Brenwe Hydro Plant
CCECC	China Civil Engineering Construction Corporation
CPD	Client Portal Disbursement
DOE	Department of Energy
DSC	Design Supervision Consulting
EA	Executing Agency
GoV	Government of Vanuatu
IA	Implementing Agency
IDA	International Development Association
IPR	Independent Peer Review
IPSAS	International Public Sector Accounting Standards
JV	Joint Venture
L/GFIS	Loan/Grant Financial Information System
MFEM	Ministry of Finance and Economic Management
MIPU	Ministry of Infrastructure and Public Utilities
MOCC	Ministry of Climate Change
PPA	Pacific Aviation Investment Program
PMO	Prime Minister's Office
PMU	Project Management Unit
QCBS	Quality Competitive Bidding Selection
RBV	Reserve Bank of Vanuatu
SCF	Strategic Climate Fund
SDR	Special Drawing Rights
SREP	Scaling Renewable Energy Program
SSS	Sole Source Selection
T&D	Transmission and Distribution
USD	United States Dollar
VEAP	Vanuatu Energy Access Project
VPMU	Vanuatu Project Management Unit
YTD	Year To Date

PROJECT BACKGROUND INFORMATION

BACKGROUND

The National Energy Road Map 2013 aligns to the VEAP and integrates an overall policy framework, stating aims, goals and objectives and establishes key policy directives for the Energy Sector, electricity and petroleum. It is a high-level framework of which the central goal is to energize Vanuatu's growth and development through the provision of secure, affordable, widely accessible, high quality, clean energy services for an Educated, Healthy, and Wealthy nation and thus support the Government Policy and Action Agenda objectives of sustainable improvements in the quality of life of all Ni-Vanuatu by promoting robust and broad-based economic growth.

PROJECT DESCRIPTION

The project will increase energy access and renewable energy generation in the two islands of Espiritu Santo and Malekula, being the second and third largest population centers after Efate. The project will assist Vanuatu to install hydropower generation to replace diesel generation in Malekula and will extend the distribution grid in both Malekula and Espiritu Santo. The project is aligned with the following impact: improved livelihoods of households in Malekula and Espiritu Santo in alignment with the National Sustainable Development Plan 2016 to 2030. The project will have the following outcome: increased supply of clean renewable electricity to households in Malekula and Espiritu Santo.

The outputs of the project are as follows:

- (i) **Distribution grid extension.** This includes extending the grid to an estimated additional 1,050 households. This will increase the grid access rate from 8% to 14% in Malekula and from 22% to 29% in Espiritu Santo. The project will finance distribution lines, step-down transformers and poles.
- (ii) **Brenwe Hydropower Plant.** This involves constructing a 400-kilowatt (kW) run-of-river hydropower plant, including (a) a total of 2-kilometers (km) of access roads, (b) a 21 km transmission line (20 kilovolts), (c) an intake structure, (d) a 1.0 km headrace canal, (e) a 190-meter steel penstock, and (f) a powerhouse. The Brenwe hydropower plant will provide in excess of 90% of the total generated energy for the Malekula grid through to 2040.2.
- (iii) **Capacity building.** This consists of training newly connected households on options for electricity-based income generation, electricity safety, and household budget management.
- (iv) **Efficient project management services.** This involves establishing a project management unit (PMU) that will provide efficient technical design, management, and supervision services.

PROJECT OBJECTIVES

The project development objective is to improve energy access and renewable energy.

PROJECT OUTCOME AND OUTPUTS

The project is aligned with the following impact: improved livelihoods of households in Malekula and Espiritu Santo in alignment with the National Sustainable Development Plan 2016 to 2030.

PROJECT FINANCING PLAN

The proposed project is estimated to cost USD 15.1 million. Details are provided in the below tables and expressed in USD millions. The estimated costs will be subject to detailed design and procurement.

Item	Amount ^a
A. Base Cost^b	
1. Distribution grid extension	2.0
2. Brenwe Hydropower	7.7
3. Project management	2.6
Subtotal (A)	12.3
B. Contingencies^c	
1. Physical	1.5
2. Price	1.1
Subtotal (B)	2.6
C. Financing charges during implementation	
1. Interest during implementation	0.2
Subtotal (C)	0.2
Total (A+B+C)	15.1

^a Includes taxes and duties of \$1.8 million to be financed from government resources through exemptions

^b In mid-2017 prices.

^c Physical contingencies computed at 13% for civil works, equipment, land acquisition and project management. Price contingencies computed at foreign inflation on foreign exchange costs and local inflation on local currency costs.

Source: Asian Development Bank estimates.

The government has requested a concessional loan in various currencies equivalent to SDR 1,768,000 (USD 2.5 million equivalent)¹ from ADB's ordinary capital resources to help finance the project. 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, and such other terms and conditions as set forth in the draft loan agreement. The government has also requested a grant not exceeding USD 2.5 million from ADB's Special Funds resources (Asian Development Fund) to help finance the project. Vanuatu has received in principle approval of USD 7.0 million grant from the SCF, to assist in financing the project and to be administered by ADB.^{2,3} Vanuatu will finance the remainder of the total project cost in the amount of USD 3.1 million consisting of land acquisition costs, taxes and duties, and distribution of civil works contracts. Since ADB is administering co-financing resources in the form of grants from the SCF for operations financed by the Asian Development Fund, universal procurement will apply to all procurement packages under the project.⁴

¹ Based on exchange rate of SDR 1=1.413969 USD on 15 June 2016.

² Government received clearance from the SREP Sub-committee to proceed with project preparation on the basis of USD 7 million grant availability from SREP. The preferred disbursement arrangement for SCF is cost-sharing.

³ Under the Scaling Up Renewable Energy Program in Low-Income Countries. The loan/grant may finance local transportation and insurance costs.

⁴ ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila.

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	2.5	16.6
Special Funds resources (Asian Development Fund grant)	2.5	16.6
Strategic Climate Fund (grant) ^a	7.0	46.3
Government ^b	3.1	20.5
Total	15.1	100.0

Source: Asian Development Bank.

^a Under the Scaling Up Renewable Energy Program in Low-Income Countries financed by the Strategic Climate Fund. Administered by the Asian Development Bank.

^b Government financing includes land acquisition costs, taxes and duties, and distribution civil works contracts.

IMPLEMENTATION ARRANGEMENT

The Government of Vanuatu will be the Beneficiary, the Ministry of Finance and Economic Management (MFEM) will be the Executing Agency (EA) and the Ministry of Climate Change Adaptation, Meteorology, Geo-Hazards, Environment, Energy and Disaster Management (MOCC) will be the Implementing Agency (IA). MOCC will delegate implementation to the Vanuatu Project Management Unit (VPMU), with oversight by the Department of Energy (DOE). The VPMU will be responsible for procurement under the project.

Details are presented in the table below.

-
- MFEM - Executing agency
 - Oversee implementation of the project.
 - Responsible for overall management of the project.
 - Support institutional strengthening and capacity building programs under the project.

 - Project Steering Committee
 - VPMU Steering Committee
 - Oversee implementation of the project.
 - Monitor progress of the project.
 - Rectify issues hindering progress of the project.
 - Guide the executing agency and the implementing agency.
 - Meet at least once each quarter.

 - MOCC-DOE
 - Oversee implementation of the project by the VPMU

 - VPMU
 - Overall interagency coordination;
 - Implement the infrastructure components of the project.
 - Coordination of steering committee meetings.
 - Establish a Project Management Unit which will be responsible for day to day implementation of the projects, including:
 - preparation of an overall implementation plan and annual budgets;
 - recruitment of the Project Management Consultants and award procurement and consulting contracts,
 - management of the bidding process,
 - management of capacity development activities,
 - project safeguards document preparation and safeguard plans implementation;
 - project financial management;
 - consolidation, review, and submission of regular progress and financial reports to MFEM, including the annual audit report and financial statements;
 - monitoring and evaluation of project outputs;
 - preparation of withdrawal applications for MFEM

 - ADB
 - Conduct regular loan/grant review missions
 - Procure design and supervision consultants
 - Review draft tender documents in accordance with Procurement Plan
 - Overall coordination and advisory support
-

IMPLEMENTATION PROGRESS

Consultancy Services and Goods

In 2019, an additional contract was signed to carry out the project's annual financial statement audits. AJC was recommended by the Auditor-General of the Republic of Vanuatu and entered into the contract in June 2019.

Contract Awardees	Description of Service	Notes
1 Fatiaki Gibson	CO2 Hydro Power Engineer	Engaged in April 2018 - Period of contract extended to 31 December 2019 - Performing the role of a project manager and advisor to the GoV
2 Stantec	Design, Supervision Consulting	Engaged in July 2018 - Design nearly completed and Supervision will begin once the contractor is mobilized
3 Entura	Independent Peer Reviewer	Engaged in November 2018 - Review of Stantec design completed
4 AJC	External Auditor	Engaged in June 2019 - The financial statements for the period ended 31 December 2018 has been audited

Anticipated for procurement is the National Project Manager position with a sound electrical engineer background and an ecologist to study the river flows capacity during wet and dry seasons.

Construction of Civil Works

Component 1 (Tender 01/2019) – Brenwe Hydropower Plan Construction

Further to bid evaluation report recommendation, four bidders were rejected due to non-responsiveness and only one bidder qualified and was recommended. The recommended bidder was later invited to bids price opening. In November 2019, MAP/Vortex was awarded the contract to deliver the construction of the Brenwe Hydropower Plan. The contract was signed in early 2020.

Component 2 (Tender 02/2019) – Transmission and Distribution of Grid

The following are results of the tender 02/2019 for each lot:

Lot 1:

- Sichuan Province Transmission and Substation Engineering Company (STSEC) and
- Donfang Electric - International Corporation (DEC) - Joint Venture (JV)

Lot 2:

- Sichuan Province Transmission and Substation Engineering Company (STSEC),
- Donfang Electric International Corporation (DEC) - Joint Venture (JV) - Vanuatu Utilities and Infrastructure Ltd (VUI)

BEC conducted the evaluation to determine the responsiveness in July 2019. Further to the BER recommendation, none of the bids were responsive and therefore both tenders were annulled. There will be a reassessment for a rebid.

PROJECT MANAGEMENT RESPONSIBILITY

It is the responsibility of the VPMU as the project management to prepare the Financial Statements for each period which present fairly, in all material respects the financial affairs of the project as at the end of each period and of its operating results.

VPMU is required to ensure the project keeps proper accounting records which disclose with reasonable accuracy at any time the financial operation of the project. The Project Financial Statements have been prepared in accordance with the International Public Sector Accounting Standards: Financial Reporting Under the Cash Basis of Accounting. It is comprised of


- a) Statement of Cash Receipts and Payments;
- b) Statement of Comparison of Budget and Actual Amount;
- c) Notes to the Financial Statements Including Significant Accounting Policies.

These statements represent the financial activities of the Vanuatu Energy Access Project for the year ended 31 December 2019.

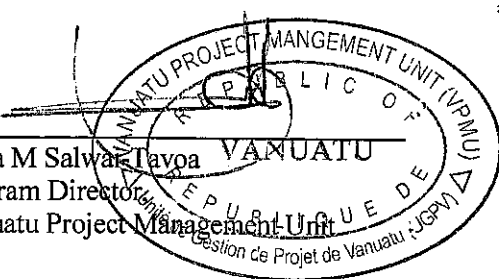
We hereby certify that the Project Financial Statements are a full and true representation of the financial activities of Vanuatu Energy Access Project for the year concerned.


Approval of the Annual Financial Statements

The Financial Statements of the Project were approved by the VPMU Steering Committee for the issue on 13 August 2020 and signed on its behalf of by:




Anna M Salwai Tavo
Program Director
Vanuatu Project Management Unit





Letlet August
Director General,
Ministry of Finance and Economic Management



Independent Auditor's Report

To the Office of the Auditor-General of the Republic of Vanuatu

The Auditor-General is the auditor of the Vanuatu Energy Access Project. The Auditor-General has appointed Martin St-Hilaire of AJC to undertake the audit of the Vanuatu Energy Access Project for the period ended 31 December 2019.

Opinion

We were engaged to audit the financial statements of the Vanuatu Energy Access Project (herein - the Project), which comprise the statement of cash receipts and payments of the Vanuatu Energy Access Project, the statement of comparison of budget and actual amount, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are free from material misstatements including omissions and errors and are fairly presented in all material respects in accordance with the International Public Sector Accounting Standard: Financial Reporting under the Cash Basis of Accounting (herein – IPSAS Cash Basis) and comply with the Vanuatu Public Finance and Economic Management (PFEM) Act 1998 (amended in 2000 and 2009) [CAP 244], other Vanuatu Financial Regulations and Asian Development Bank (ADB) policies and procedures relating to the financing and implementation of the Project.

In addition to the audit opinion on financial statements, in our opinion:

- (i) The Project financing is used only for purposes of the Project;
- (ii) The Project is compliant with the financial covenants of the SCF Grant 0544-VAN agreement;
- (iii) Internal controls during the audited period, including over the procurement process, are effective and properly maintained.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the Financial Statement* section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Vanuatu, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IPSAS Cash Basis, the Vanuatu Public Finance and Economic Management (PFEM) Act 1998 (amended in 2000 and 2009) [CAP 244], other Vanuatu Financial Regulations, and Asian Development Bank (ADB) policies and procedures relating to the financing and implementation of the Project, and for devising and maintaining such a system of internal control as management determines is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Port Vila,

13 August 2020

Yours sincerely,



Martin St. Hilaire, MBA, CPA Auditor, CA

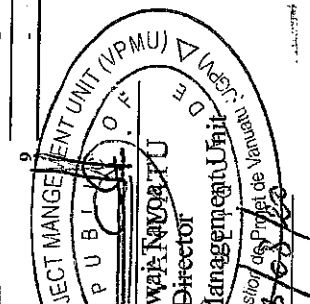
AJC – SAINT HILAIRE & Associates
(Qualified auditors under Section 130 of the
Companies Act No.25 of 2012 of the Republic
of Vanuatu)

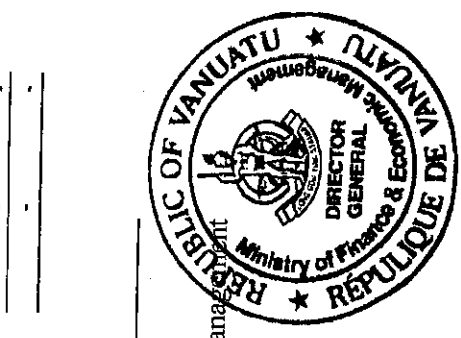
VANUATU ENERGY ACCESS PROJECT

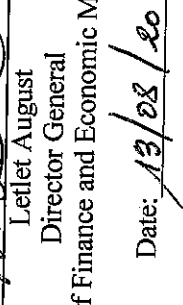
STATEMENT OF CASH RECEIPTS AND PAYMENTS
For the year ended 31 December 2019

(Expressed in USD and equivalent in VUV)

	Dec-19		Restated Dec-18		Audited Dec-18		Cumulative	
	Receipts/Payments 3rd party controlled		Receipts/Payments 3rd party controlled		Receipts/Payments 3rd party controlled		Receipts/Payments 3rd party controlled	
	By ADB	VUV	By ADB	VUV	By ADB	VUV	By ADB	VUV
CASH RECEIPTS								
ADB Loan 3572-VAN	-	-	-	-	-	-	-	-
ADB Grant 0543-VAN	-	-	-	-	-	-	-	-
SCF Grant 0544-VAN	349,245	40,422,043	317,199	36,089,730	317,199	36,087,319	666,444	76,511,773
Vanuatu Government Contribution	-	-	-	-	-	-	-	-
TOTAL CASH RECEIPTS	349,245	40,422,043	317,199	36,089,730	317,199	36,087,319	666,444	76,511,773
CASH PAYMENTS								
Civil Works	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-
Land Acquisition	-	-	-	-	-	-	-	-
Project Management	349,245	40,422,043	317,199	36,089,730	317,199	36,089,730	666,444	76,511,773
Contingency	-	-	-	-	-	-	-	-
TOTAL CASH PAYMENTS	349,245	40,422,043	317,199	36,089,730	317,199	36,089,730	666,444	76,511,773
CASH RECEIPTS LESS CASH PAYMENTS REPRESENTED BY								
Cash at the Beginning of the Year	-	-	-	-	-	-	-	-
Increase/(Decrease) in cash	-	-	-	-	-	-	-	-
CASH AT THE END OF THE YEAR								
	-	-	-	-	-	(2,411)	-	-


 Anna M. Salwai, Director
 Program Director
 Vanuatu Project Management Unit
 de Gestion des Projets de Vanuatu




 Letlet August
 Director General
 Ministry of Finance and Economic Management

Date: 13/08/20

This Statement is to be read in conjunction with the accompanying notes and accounting policies.

VANUATU ENERGY ACCESS PROJECT

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT TO DATE
For the year ended 31 December 2019

(Expressed in USD and equivalent in VUV)

Notes	PROJECT TO DATE								
	ACTUAL AMOUNT		ORIGINAL BUDGET		FINAL BUDGET		VARIANCE BUDGET		
	USD	VUV	USD	VUV	USD	VUV	USD	VUV	
CASH INFLOWS									
ADB Loan 3572-VAN	-	-	2,500,000	266,970,199	2,444,843	281,352,583	2,444,843	281,352,583	
ADB Grant 0543-VAN	-	-	2,500,000	266,970,199	2,500,000	287,700,000	2,500,000	287,700,000	
SCF Grant 0544-VAN	666,444	76,511,773	7,000,000	747,516,556	7,000,000	805,560,000	6,333,556	729,048,227	
Vanuatu Government Contribution	-	-	3,100,000	331,043,046	3,100,000	356,748,000	3,100,000	356,748,000	
TOTAL CASH INFLOW	666,444	76,511,773	15,100,000	1,612,500,000	15,044,843	1,731,360,583	14,378,399	1,654,848,810	
CASH OUTFLOWS									
Civil Works	-	-	3,400,000	357,000,000	3,344,843	384,924,583	3,344,843	384,924,583	
Equipment	-	-	4,700,000	481,900,000	4,700,000	540,876,000	4,700,000	540,876,000	
Land Acquisition	-	-	200,000	16,400,000	200,000	23,016,000	200,000	23,016,000	
Project Management	666,444	76,511,773	4,000,000	426,100,000	4,000,000	460,320,000	3,333,556	383,806,227	
Contingency	-	-	2,800,000	321,100,000	2,800,000	322,224,000	2,800,000	322,224,000	
TOTAL CASH OUTFLOWS	666,444	76,511,773	15,100,000	1,612,500,000	15,044,843	1,731,360,583	14,378,399	1,654,848,810	
NET CASH FLOWS	-	-	-	-	-	-	-	-	

This Statement is to be read in conjunction with the accompanying notes and accounting policies.

VANUATU ENERGY ACCESS PROJECT

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT AUDITED
For the period ended 31 December 2018**

(Expressed in USD and equivalent in VUV)

Notes	Audited		PROJECT TO DATE				VARIANCE BUDGET	
	ACTUAL AMOUNT		ORIGINAL BUDGET		FINAL BUDGET		BUDGET	
	USD	VUV	USD	VUV	USD	VUV	USD	VUV
CASH INFLOWS								
ADB Loan 3572-VAN	-	-	2,500,000	266,970,199	2,458,508	279,704,417	2,458,508	279,704,417
ADB Grant 0543-VAN	-	-	2,500,000	266,970,199	2,500,000	284,425,000	2,500,000	284,425,000
SCF Grant 0544-VAN	317,199	36,087,319	7,000,000	747,516,556	7,000,000	796,390,000	6,682,801	760,302,681
Vanuatu Government Contribution	-	-	3,100,000	331,043,046	3,100,000	352,687,000	3,100,000	352,687,000
TOTAL CASH INFLOW	317,199	36,087,319	15,100,000	1,612,500,000	15,058,508	1,713,206,417	14,741,309	1,677,119,098
CASH OUTFLOWS								
Civil Works	-	-	3,400,000	357,000,000	3,366,806	383,041,534	3,366,806	383,041,534
Property, Plant and Equipment	-	-	4,900,000	508,300,000	4,900,000	557,473,000	4,900,000	557,473,000
Project Management	317,199	36,089,730	4,000,000	428,100,000	4,000,000	455,080,000	3,682,801	418,990,270
Contingency	-	-	2,800,000	321,100,000	2,791,702	317,611,883	2,791,702	317,611,883
TOTAL CASH OUTFLOWS	317,199	36,089,730	15,100,000	1,612,500,000	15,058,508	1,713,206,417	14,741,309	1,677,119,098
NET CASH FLOWS	-	(2,411)	-	-	-	-	-	2,411

This Statement is to be read in conjunction with the accompanying notes and accounting policies.

VANUATU ENERGY ACCESS PROJECT

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT RESTATED

For the period ended 31 December 2018

(Expressed in USD and equivalent in VUV)

Notes	Restated		PROJECT TO DATE				VARIANCE	
	ACTUAL AMOUNT		ORIGINAL BUDGET		FINAL BUDGET		BUDGET	
	USD	VUV	USD	VUV	USD	VUV	USD	VUV
CASH INFLOWS								
ADB Loan 3572-VAN	-	-	2,500,000	266,970,199	2,458,508	279,704,417	2,458,508	279,704,417
ADB Grant 0543-VAN	-	-	2,500,000	266,970,199	2,500,000	284,425,000	2,500,000	284,425,000
SCF Grant 0544-VAN	317,199	36,089,730	7,000,000	747,516,556	7,000,000	796,390,000	6,682,801	760,300,270
Vanuatu Government Contribution	-	-	3,100,000	331,043,046	3,100,000	352,687,000	3,100,000	352,687,000
TOTAL CASH INFLOW	317,199	36,089,730	15,100,000	1,612,500,000	15,058,508	1,713,206,417	14,741,309	1,677,116,687
CASH OUTFLOWS								
Civil Works	-	-	3,400,000	357,000,000	3,366,806	383,041,534	3,366,806	383,041,534
Equipment	-	-	4,700,000	491,900,000	4,700,000	534,719,000	4,700,000	534,719,000
Land Acquisition	-	-	200,000	16,400,000	200,000	22,754,000	200,000	22,754,000
Project Management	317,199	36,089,730	4,000,000	428,100,000	4,000,000	455,080,000	3,682,801	418,990,270
Contingency	-	-	2,800,000	321,100,000	2,791,702	317,611,883	2,791,702	317,611,883
TOTAL CASH OUTFLOWS	317,199	36,089,730	15,100,000	1,612,500,000	15,058,508	1,713,206,417	14,741,309	1,677,116,687
NET CASH FLOWS	-	-	-	-	-	-	-	-

This Statement is to be read in conjunction with the accompanying notes and accounting policies.

VANUATU ENERGY ACCESS PROJECT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS INCLUDING SIGNIFICANT ACCOUNTING POLICIES

1. ACCOUNTING POLICIES

a. Reporting Entity

The Reporting Entity for the Project Financial Statements is the Vanuatu Energy Access Project (herein – the Project or VEAP). It includes any receipts or payments made under ADB Loan 3572-VAN (COL), ADB Grant 0543-VAN and SCF Grant 0544-VAN.

The Project is managed by the Vanuatu Project Management Unit in the Prime Minister's Office of the Government of Vanuatu.

It should be noted that the Vanuatu Energy Access Project is not a legal entity itself as it is a Project owned and managed by the Government of Vanuatu.

b. Basis of Preparation

The financial statements of the Project for the year ended 31 December 2019 have been prepared and presented in accordance with the International Public Sector Accounting Standards: Financial Reporting Under the Cash Basis of Accounting and under the historical cost unless otherwise stated.

c. Financial Reporting Period

The reporting period of these financial statements is for the year ended 31 December 2019.

d. Authorization Date

The financial statements of the Project are for the year ended 31 December 2019 and were authorized for issue on 13 August 2020 by VPMU Steering Committee. No other body has the power to amend these financial statements once they have been issued.

e. Receipts

Receipts represent funds received from the ADB Loan 3572-VAN (COL), ADB Grant 0543-VAN and SCF Grant 0544-VAN. The funds are either paid to Designated Accounts established with the Reserve Bank of Vanuatu or direct payments from the WB Client Connection to contractors. Funds are recognized as revenue when they are received.

f. Payments

Payments represent all expenditures made for goods, works and services eligible under the Project and in line with the budget. Payments are approved by a VPMU requisition prior to any release of payments. Payments are made by way of direct payment applied through CPD for payments. CPD is ADB payment system and LFIS/GFIS is Financial Management and Reporting System.

g. Cash and Cash Equivalents

Cash comprises cash on hand and cash equivalents held with the Reserve Bank of Vanuatu. Cash equivalents are short-term, highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

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For the year ended 31 December 2019

1. ACCOUNTING POLICIES [CONT'D]

h. Reporting Currency

The functional currency of the Project is USD and all transactions are recorded in USD. Transaction currencies other than USD are converted into USD using the actual exchange rate applied by RBV (where the transactions are paid from the Designated Accounts).

However, the financial statements are presented in both USD and the equivalent in the local currency Vanuatu Vatu (VUV).

i. Property, plant and equipment

Property, plant and equipment and all other fixed assets purchased by the Project are expensed in the period of purchase.

j. Borrowing

The Project liabilities in respect of its public borrowings are recognized in the Government financial position of the drawdown loan amounts from the financier. It should be noted the loan drawdowns are in actual fact a liability of the Government of Vanuatu rather than of the Project. The drawdowns are recorded as revenue to the Project to enable a full picture of inflows and outflows of the Project.

k. Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at the balance date. Commitments include operating, consulting and capital commitments arising from the Project activities.

2. RECEIPTS BY THE ENTITY CONTROLLED BY VEAP

Receipts are drawdowns from the ADB and Grant financing which are deposited in the respective Imprest Account at the Reserve Bank of Vanuatu. At the balance date, no transaction has been made nor has an Imprest Account been established (2018: Nil).

3. RECEIPTS BY THE ENTITY CONTROLLED BY VPMU

Receipts are payments which have been made by the VPMU through the Government centralized financial and accounting system Smartstream on behalf of VEAP. At balance date, there were no payments made by VPMU (2018: Nil).

4. RECEIPTS BY THE ENTITY CONTROLLED BY ADB

Receipts are direct payments made by ADB through Client Portal Disbursement, the ADB online payment and disbursement system. The payments are made further to a withdrawal application (WA) electronically approved by the appropriate authorities.

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4. RECEIPTS BY THE ENTITY CONTROLLED BY ADB [CONT'D]

	2019		Restated 2018		Audited 2018	
	USD	VUV	USD	VUV	USD	VUV
ADB Loan 3572-VAN	-	-	-	-	-	-
ADB Grant 0543-VAN	-	-	-	-	-	-
SCF Grant 0544-VAN	349,245	40,422,043	317,199	36,089,730	317,199	36,087,319
Vanuatu Government Contribution	-	-	-	-	-	-
	349,245	40,422,043	317,199	36,089,730	317,199	36,087,319

5. CIVIL WORKS

There have been no transactions up to the balance date (2018: Nil).

6. EQUIPMENT

There have been no purchases of assets up to the balance date (2018: Nil).

7. LAND ACQUISITION

There have been no land acquisitions up to the balance date (2018: Nil).

8. PROJECT MANAGEMENT

	2019		Restated 2018		Audited 2018	
	USD	VUV	USD	VUV	USD	VUV
VEAP001 - CO2 Hydropower Civil Engineer	102,081	11,791,373	86,490	9,718,628	86,490	9,716,217
VEAP002 - Design, Supervision Consultant	167,599	19,438,771	230,709	26,371,102	230,709	26,371,102
VEAP003 - Peer Reviewer Consultant	78,089	9,018,899	-	-	-	-
VEAP004 - Financial Auditor	1,477	173,000	-	-	-	-
	349,245	40,422,043	317,199	36,089,730	317,199	36,087,319

VANUATU ENERGY ACCESS PROJECT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. CASH AT THE END OF THE YEAR

For the year 2019 cash at the end of the year is nil.

The financial statements for the period ended 31 December 2018 showed an overspend of VUV 2,411, which related to the foreign exchange difference on the date of currency transactions. The prior period is now restated and the cash at the end of the 2018 year is nil.

As at balance date, no Imprest Account has been established.

10. FACILITY AVAILABILITY

	Net Approved	Disbursed	Remaining
	Amount	Amount	Balance
SDR Value as at the balance date			
ADB Loan 3572-VAN	1,768,000	-	1,768,000
ADB Grant 0543-VAN	-	-	-
SCF Grant 0544-VAN	-	-	-
Vanuatu Government Contribution	-	-	-
	1,768,000	-	1,768,000
USD Value as at the balance date			
ADB Loan 3572-VAN	2,444,843	-	2,444,843
ADB Grant 0543-VAN	2,500,000	-	2,500,000
SCF Grant 0544-VAN	7,000,000	666,444	6,333,556
Vanuatu Government Contribution	3,100,000	-	3,100,000
	15,044,843	666,444	14,378,399
Total SDR and USD (expressed in USD)	15,044,843	666,444	14,378,399

Based on exchange rate of SDR 1=1.382830 USD on 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. COMMITMENTS

	CUR	Original Contract Value	Variations	Revised Contract Value	Disbursed	%	Undisbursed	%
Hydropower Civil Engineer	FDJ	207,000	293,250	500,250	308,200	62	192,050	38
	USD	48,260	60,925	109,185	43,884	40	65,301	60
Design and Construction Supervision	NZD	1,913,340	520,792	2,434,132	605,999	25	1,307,341	54
Independent Peer Reviewer	AUD	108,083	-	108,083	108,083	100	-	-
Independent Peer Reviewer	USD	20,905	-	20,905	-	-	20,905	-
AJC Chartered Professional Accountants	VUV	893,000	-	893,000	173,000	19	720,000	81

On the 13 of November 2020, MAP Projects Limited and Vortex Group Limited joint venture received the letter of acceptance of the contract to build the Brenwe Hydro Plan. The awarded contract price is USD 5.8 million and the contract was scheduled to be signed the following fiscal year.

12. BUDGET

The Project financing was made available through a loan and grants agreement signed on 11 October 2017 between the Government of Vanuatu and the ADB. The agreement was for financing in various currencies totaling the equivalent of SDR 1,768,000. This amount was equivalent to USD 2.5 million at the time of the loan agreement signing date. The financing is supplemented by two grants from ADB for USD 2.5 million and SCF for USD 7.0 million.

13. ORIGINAL BUDGET AND FINAL BUDGET

The original and final budgets were approved and presented as the multiyear budgets. Conventionally, the multiyear budget will be separated for a series of annual budgets or annual budget targets.

The borrowing amount is given in Special Drawing Rights. The value of SDR often fluctuates during the Project implementation as the value of USD appreciates or depreciates against the SDR.

14. REVENUE VARIANCE BETWEEN FINAL BUDGET AND ACTUAL AMOUNT

At balance date, the variance amount is USD 14.4 million or equivalent to VUV 1,654.8 million. The variance is derived from the final approved budget less the actual amount disbursed. The high variance in undisbursed budget is due to major construction contracts yet to be finalized under the procurement processes.

15. EXPENDITURE VARIANCE BETWEEN FINAL BUDGET AND ACTUAL AMOUNT

The underspend of USD 14.4 million is equivalent to VUV 1,654.8 million. The underspend relates to major component activities which are yet to be carried out.

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16. SUBSEQUENT EVENTS

The project will likely incur a project overrun considering that the final price for the civil works contract awarded is higher than the allocated budget. Management has considered negotiating additional funding to meet this shortfall.

Subsequent to year-end is the worldwide coronavirus pandemic. As of the date of issuance of these financial statements, the full impact of the pandemic to the Project is not known.

There were no subsequent events for the period ended 31 December 2018.

17. RELATED PARTY

There are no related party transactions during the year ended 31 December 2019 (2018: Nil).