



Asian Development Bank

Pacific Department
Pacific Liaison and
Coordination Office

MEMORANDUM OF UNDERSTANDING

Loan 2820/Grant 0273-VAN: Vanuatu Interisland Shipping Support Project

INCEPTION MISSION

Port Vila, Vanuatu
2-10 April 2013

I. INTRODUCTION

1. A joint Inception Mission (the Mission)¹ from the Asian Development Bank (ADB) and Government of New Zealand Ministry of Foreign Affairs and Trade (NZMFAT) visited Port Vila, Vanuatu from 2-10 April 2013 to discuss and agree with the Government (i) the overall implementation plans, (ii) Government's Inception Report,² (iii) the updated project administration manual (PAM) and (iv) way forward for the implementation of the Loan 2820/Grant 0273-VAN: Interisland Shipping Support Project (the project). The Mission worked closely with the Director of Vanuatu Program Management Unit (VPMU), the project's Technical Working Group (TAG) and the project consultants. Agreements reached by the Mission with the Government are recorded in this Memorandum of Understanding (MOU), which is subject to the approval of higher authorities in Government and ADB. A list of persons consulted is in **Appendix 1**.

II. BACKGROUND

2. The project was approved by ADB's Board of Directors on 30 November 2011. The loan and grant agreements were signed on 31 August 2012. The loan was declared effective on 6 September 2012. The physical completion date is 31 December 2016 and the loan and grant closing dates are 30 June 2017. The Ministry of Finance and Economic Management (MFEM) is the executing agency and Ministry of Infrastructure and Public Utilities (MIPU) is the implementing agency for the project.

3. The project aims to improve the efficiency and effectiveness of interisland shipping services through provision of an integrated package of assistance.³ The Vanuatu Interisland Shipping Project comprises three components: (i) civil works for rehabilitation of existing facilities and construction of new infrastructure, (ii) establishment of shipping support and

¹ The mission comprised Rishi Adhar, ADB Senior Project Officer/Mission Leader, Elvira Rustamova, ADB Finance and Operations Officer, Nancy Wells, ADB Development Coordinator, Mikaela Nyman, New Zealand High Commission Development Counsellor, David Weinstein, NZMFAT Development Manager, Maritime Transport, Kathryn McBride, NZMFAT Unit Manager – International Development Group Business and Financial Support, Finance Division, Jimmy Nipo, New Zealand High Commission Senior Development Program Manager.

² Prepared by the project management consultants dated 28 March 2013.

³ Project preparatory technical assistance was provided by ADB and the Government of New Zealand (ADB. 2009. *Preparing the Interisland Shipping Support Project*. Manila).

coordination schemes for outer island service provision on noncommercial routes, and (iii) project management services for efficient and effective project implementation. Associated technical assistance (TA) will enhance capacity for sector governance and maritime safety oversight.

4. The first component will construct and rehabilitate new marine infrastructure. A new interisland shipping terminal will be constructed in Port Vila, with berthing capacity to simultaneously handle conventional vessels and landing craft, based on vessels currently in or likely to be added to the Vanuatu domestic fleet. New outer island jetties will be constructed and/or some existing outer island jetties will be rehabilitated. All sites will have ancillary infrastructure to cater to the transit of passengers (including market shelters and separate facilities for women, men, and the disabled) and storage for transshipment of cargo.

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

6. Under the second component, the project will design and implement support to interisland shipping services to remote areas that are considered commercially unviable. Pilot routes in two provinces have been identified as unviable. Outputs will be increased transport services on these routes, through subsidies to private sector operators, based on a minimum-subsidy tender process.

7. This second component will consist of two activities. A shipping support scheme (SSS) will provide subsidies for a fixed number of voyages at designated frequencies on otherwise commercially unviable routes based on a least-cost tender process. Under an output-based approach, subsidies will be tied to performance, including vessel suitability, franchise areas and routes, voyage locations and frequency, and substantiation of voyages. Vessels will be required to meet safety standards and to provide facilities to reduce barriers to use by women. A shipping coordinator scheme (SCS) will appoint people in each province where the pilot is operating with the responsibility of promoting and aggregating demand and communicating needs for voyages to private sector vessel operators. Demand for services will be differentiated by gender, and location and services will be required to facilitate access by women. Subsidies required will reduce over time, as routes become commercially viable. The overall support program is scheduled to be implemented over a 5-year period but will be regularly reviewed for adjustment during implementation.

8. The third component will be project management services consisting of national and international consultants and MIPU counterpart staff. Management of the shipping support scheme has been included in the project management services to assist MIPU as Shipping Manager by the maritime operations specialist. The consultants will be fully integrated in the MIPU's management structure with Government professional and technical staff as counterparts.

9. The project will be complemented by associated TA to improve sector governance. Activities will include (i) updating legislation and providing for adequate delegation of responsibility and authority to ensure compliance with safety regulations, (ii) drafting of new

regulations to implement the new legislation, (iii) institutional restructuring in MIPU and its departments, and (iv) training and capacity development for staff assigned to new roles. A comprehensive training needs assessment will be conducted and used to develop an institutional development plan that includes measures for increasing the representation of women in the sector. The output will be improvement of institutional capacity for maritime safety compliance including vessel registry, inspection, survey, licensing of seafarers, and administration of ports and harbours.

A. Impact, Outcome and Outputs

10. The impact of the project is expected to be that people everywhere in Vanuatu and especially in the national capital of Port Vila and provinces of Malampa, Penama, Sanma, Shefa, and Tafea have enhanced access to socioeconomic opportunities. The outcome will be that private sector operators provide interisland shipping services that are reliable, safe, and adequately frequent. Outputs will include (i) improved maritime infrastructure in the capital and rural areas, (ii) establishment of shipping support and coordination schemes, and (iii) project management services for efficient and effective project implementation. These outputs will be complemented by TA to enhance capacity for sector governance and maritime safety oversight.

B. Investment and Financing Plan

11. The project is estimated to cost \$26.82 million⁴. The investment plan is in Table 1. Detailed cost estimates by expenditure category and by financier are in the project administration manual (PAM).

Table 1: Project Investment Plan

Item	Amount (\$ million)
A. Base Cost^a	
1. Civil works in Port Vila and outer islands	18.22
2. Shipping support and coordination	1.05
3. Consulting services for project management	3.99
Subtotal (A)	23.26
B. Contingencies^b	3.20
C. Financing Charges During Implementation^c	0.36
Total (A+B+C)	26.82

^a In mid-2011 prices. Includes taxes and duties of \$300,000 to be financed by the Asian Development Bank (ADB) and the Government of New Zealand.

^b Physical contingencies computed at 7.5% for civil works, shipping support, technical assistance, and project management. Price contingencies computed at 7.5% on foreign exchange and local currency costs.

^c Interest during implementation has been computed at 1.0% per year.

Source: ADB and Government of Vanuatu estimates.

12. ADB has provided a loan in various currencies equivalent to SDR6.708 million⁵ from ADB's Special Funds resources to help finance the project, including taxes and duties.⁶ The loan will have a 32-year term, including a grace period of 8 years, an annual interest rate of

⁴ Except where indicated, dollars referred to are US dollar amounts.

⁵ Equivalent to \$10.82 million on the date of loan negotiations on 31 August 2011.

⁶ Eligible expenditures include local transportation, insurance, installation, commissioning, and initial maintenance. Taxes and duties (i) are within the reasonable threshold identified during the preparation of the Vanuatu country partnership strategy, 2010–2014; (ii) do not represent an excessive share of the project investment plan; (iii) are not targeted at ADB-financed expenditures; and (iv) are material and relevant to the success of the project.

1.0% during the grace period and 1.5% thereafter, and such other terms and conditions set forth in the loan agreement. Foreign exchange risk will be assumed by the Government but if there are surplus funds under the project they will be used to meet foreign exchange rate fluctuations.

13. The Government of New Zealand through NZMFAT has provided a grant co-financing of NZ\$15.75 million,⁷ to be partially administered by ADB.⁸ The Government of Vanuatu will administer the grant according to the terms and conditions of a grant agreement between the Governments of New Zealand and Vanuatu. Any interest gained on the investment will belong to the Government of Vanuatu and will be used on the project.

14. The Government will provide counterpart financing of \$3.40 million equivalent. The financing plan is in Table 2 and details are in the PAM.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
ADB (loan)	10.82	40.3
Government of New Zealand (grant) ^a	12.60	47.0
Government of Vanuatu (cash and in kind)	3.40	12.7
Total	26.82	100.0

ADB = Asian Development Bank.

^a Partially administered by ADB. The amount includes ADB's administration fee.

Source: ADB.

III. MISSION FINDINGS AND AGREEMENTS REACHED

15. Given the time elapsed from project approval to inception i.e. from 30 November 2011 to 10 April 2013 (16 months), the Mission revisited the project, discussed and confirmed the contents of the PAM on the project components, investment plans, implementation arrangements, implementation schedule, procurement (works, goods and services and consulting services), contract awards, disbursement, reporting requirements including quarterly progress reports, project accounting and auditing, semi-annual and midterm reviews, anticorruption policies, public disclosures, safeguards (environmental, involuntary resettlement plans, and indigenous people's plan), social and gender, Government's assurances and loan and grant covenants, monitoring and evaluation, project performance monitoring system and project completion report.

16. The Mission met and engaged with new project staff at the executing and implementing agencies.⁹ The Mission updated the PAM which provides a guide to the management, implementation, and monitoring of the project by MFEM, MIPU, VPMU, Vanuatu Project Management Unit Steering Committee (VPMU-SC)¹⁰, project consultants and development partners. The Mission handed over electronic copies of the project documents for the

⁷ Equivalent to \$12.60 million on the date of loan negotiations on 31 August 2011.

⁸ ADB will provide procurement supervision services. The Government of New Zealand will pay ADB a 0.1% service charge based on the actual expenditures incurred under the project, or \$30,000, whichever is greater. ADB. 2003. *ADB-Administered Grant Cofinancing Partial Administration Modality and Related Service Charges*. Manila (9 December).

⁹ At project processing, there was not involvement of VPMU, VPMU-SC and several staff of the executing and implementing agencies.

¹⁰ This VPMU-SC comprises 8 voting members (DG, PM Office; DG, MFEM; DG, MIPU; DG, MFA; Director, PWD; Director, Finance & Treasury; Director, Department of Strategic Policy & Planning; Secretary General PSC) and non-voting development partner agencies. It is supported by a dedicated VPMU under the Prime Minister's office.

administration of the project for uploading at VPMU web site. A list of these documents is included in **Appendix 2**.

A. Project Progress

17. The project is currently at its inception phase of implementation. Under advance action, ADB assisted MIPU in the recruitment of the consultants that was completed in May 2012. Roughton International (RI) from United Kingdom was selected to negotiate a contract with Government. The contract negotiations were held between 7-8 December 2012 and the contract was signed on 9 January 2013. The Team Leader (TL) of RI was mobilized on 18 February 2013 which marked the commencement of preconstruction activities under the project. The TL established the technical working group (TAG) under the project which meets weekly to discuss project issues. The TL with Government agency staff from MIPU, Lands Department, VPMU, and MFEM visited 7 wharves/jetty sites.¹¹ After the site inspections, the TL prepared a draft inception report for the Government which was discussed during the Mission.

B. Emerging Issues for Resolution

18. The draft inception report highlights several emerging issues that the Government, consultants and the development partners need to collectively consider and take timely action to address them. The emerging issues are summarized as follows:

- It has been identified that several of the sites proposed for wharf infrastructure development have unresolved land tenure / access / ownership issues. It is noted that an early and complete resolution of these land issues is necessary at a few sites before substantive work can be undertaken (Loltong and Port Vila).
- The site proposed for the jetty at Waisisi has community expectation and engineering issues. A number of synergies and potential project benefits and cost savings are identified in the inception report where cooperation, coordination or joint implementation with the Lapitasi wharf under the JICA/AusAID project development is possible. Consultants and Government are to follow up the opportunities of maximizing potential synergies, or at least of minimizing any potential risks or conflicts that could arise regarding these two closely located developments, including access arrangements, use of dredging and fill material, and possible procurement synergies.
- Due to the extended time frame the project processing when initial estimates of the proposed works was completed without any detailed design, consultants have identified a number of possible cost escalations. Following site visit the Simonsen wharf is now recommended for complete new construction instead of rehabilitation. There may also, as noted above, be some potential cost saving opportunities. Choices and decisions on managing these cost issues will be managed under the responsibility of the VPMU steering committee.
- The Government needs to appoint an Engineer to the contract as neither TAG nor MIPU hold such expertise. MIPU will request a proposal including terms of reference (TOR) and cost estimate from RI for submission to NZMFAT and ADB.
- The absence of geotechnical investigation prior to detailed designs imposes risks for determining the exact length of piles for the foundations. This risk will be mitigated through the bid documents for either (i) the contractor carrying out the geotechnical investigation or (ii) the detailed designs to assume conservative lengths for piles having funds allocated as provisional sum and a contingency amount to meet the costs for any

¹¹ Except Loltong jetty site where unresolved land ownership issues have delayed a site visit.

further increased length. The JICA/AusAID international port development investigations could also be used to determine the length of piles for Port Vila domestic wharf.

- Sustainability and asset management of infrastructure has been highlighted as a significant issue to address (see para.40).

C. Mission Comments on Inception Report

19. Given the time taken for site visits on several islands, the inception report was completed but lacked sufficient detail. The Mission has made the following suggestions to finalize the inception report.

- Undertake a site visit to Lolong jetty. Following the site visit to Lolong, the comments on the inception report from the Government and those reflected in this MOU will be consolidated by RI to finalize the inception report within a week. The Government will then submit the final inception report to NZMFAT and ADB.
- Provide a more thorough situation analysis of all the wharf, jetty or slipway sites, identify any issues and risks at each site, and propose mitigating actions and options, if necessary. Where there are land issues to resolve, these issues and any resettlement or compensation plans will be required for all parties affected.
- While it is the intention of the Shipping Support Scheme to become commercially viable, some routes may not become commercial during the lifetime of this project. However where routes do reach commercial sustainability, subsidies may reduce over time.
- In the scope of works that the designs will take account of environmental safeguards and social dimensions including the needs of women and people with disabilities.
- Consider and address the written comments on the draft inception report which was revised and presented to consultants by TAG during the Mission.
- Following a request by the Prime Minister's Office, further details and steps that will be required how shipping services scheme component will operate is to be provided.

D. Suggested Criteria for Sequencing of Engineering Work

20. In order for RI to commence works on the detailed engineering designs of wharves and jetties, the selection criteria for determining the sequencing of commencement of work on the wharf/jetty development sites have been provisionally agreed as follows:

- (i) Meets goals/objectives of the VISSP;
 - Assists in providing/facilitating shipping services to the outer islands and within Vanuatu to promote safe and reliable shipping services.
 - Assessed as providing a good wharf/jetty site for the transport of goods and people to and from the outer islands and to and from key transit hubs for trans-shipment and promotes inter-island trade and economic development.
- (ii) Infrastructure works can be completed relatively easily, at low or modest cost, and successfully in a relatively short timeframe, getting wharf assets and trade benefits happening quickly for economic gains;
- (iii) Provides synergies and cost and/or operational benefits through joining up or closely packaging work at different sites (e.g. utilizes common contractor or equipment such as water mounted pile driving equipment that can be employed at multiple sites);
- (iv) Provides maximum benefits to the most people. Note this may include development of an urban hub such as Simonsen Wharf which provides central link services to wharves/ports and people on nearby and outer islands;

- (v) The site is well sheltered and protected and is in close proximity to major economic areas on the islands and is also connected by road; and
- (vi) There are no unresolved land issues that could significantly delay or interfere with the infrastructure development.

21. Based on the above criteria, (which has been agreed by members of the TAG, RI and the Mission), the following six sites are supported for RI to proceed with further scoping and detailed design work. This work will form the first tranche of work, leading to detailed designs and cost estimates.

- Simonsen wharf
- Port Vila domestic wharf
- Litzlitz
- Port Sandwich
- Lolowai
- Lenakel

22. For the two remaining proposed sites (Loltong and Waisisi), some potential land ownership issues have been identified. For Loltong and Waisisi proposed sites, the TAG and RI will undertake further work and investigations, clarify and verify land ownership status, analyze options, and recommend to the VPMU steering committee for a way forward for these sites.

23. After completion of detailed design, cost estimates and contract packaging, TAG and RI will make recommendations for final decision to VPMU steering committee on the sequencing and tendering of works.

E. Implementation Arrangements

24. The implementation arrangements as approved by ADB were reconfirmed. The MFEM is the executing agency and MIPU is the implementing agency for the project. Since project approval, the Council of Ministers has approved the establishment a single VPMU. This constitutes a VPMU steering committee and VPMU, as specified in the VPMU Charter – February 2013.¹²

25. The VPMU established office within the Prime Minister's Portfolio has dual responsibility jointly to the Prime Minister's Office and MFEM acting as executing agency of the Government to oversee and manage major infrastructure development projects. The VPMU steering committee is mandated by the Council of Ministers as the decision making body to govern the overall VPMU operations and provide direction of the VPMU in order to conduct its duties. This project has been formally assigned to it by the Prime Minister and Minister, MFEM as joint Ministers Responsible for the VPMU. This will be the final decision making body for the Government of Vanuatu as set out in the VPMU Charter- February 2013. Following the above changes, the organizational structure and reporting requirements has been updated in Section II of the PAM. The terms of reference and membership of the VPMU steering committee is in the PAM.

26. The VPMU steering committee is the project's steering committee. During the Mission it was agreed that the primary point of contact of RI on project matters will be the Mr. Johnson Binaru, Director General MIPU. All information must be copied to Mr. Johnson Wabaiat, Director

¹² As of 10 April 2013, the Charter is yet to be formally endorsed by Government but is likely to be ratified in April 2013.

VPMU. The TAG, established by MIPU and assisted by RI will support the Director General, MIPU as required, to resolve implementation issues as they arise. The TAG will meet weekly. Progress reporting will be provided to the VPMU-SC, to meet the requirements of the executing agency and to resolve significant issues relating to the project. On counterpart staffing, MIPU confirmed that it will provide 2 engineers and works supervisors.

27. It was noted and highlighted in the inception report that an Engineer to contract was yet to be nominated and financed as required under FIDIC conditions. Given that MIPU does not have such expertise, RI and TAG will discuss this further and submit a proposal to ADB and NZMFAT for further consideration. The Mission advised that a fulltime presence of an Engineer during contract period was not required and most of the responsibility of the Engineer could be delegated to the resident engineer and the field superintendent under RI contract.

F. Project Cost Estimates

28. The mission revisited the project cost estimates as reflected in the PAM. As indicated in para 39, the auditing functions of the project will be outsourced at an estimated cost of \$150,000 over 5 years. NZMFAT indicated this may be funded from its grant as part of implementation unless a separate pool of funds can be identified to finance the external audit. This would be in addition to existing project financing.

29. The estimate for the Engineer for FIDIC requirements (refer para 18) is not yet known and will be provided by RI.

30. As to the changes in the organizational structure and reporting requirements (paras. 24-26) above, the Government requested the Mission consider financing of some additional VPMU core staff positions. Earlier discussions between the Government, AusAID and ADB have resulted in a commitment to provide an implementation advisor for 12 months to VPMU to manage all projects under the oversight of VPMU. AusAID has agreed to provide additional financing for this service. Government approached NZMFAT requesting a similar arrangement. NZMFAT has indicated that it will consider any formal requests from Government upon production of budget estimates for the better functioning of the VPMU.

G. Implementation Schedule

31. Delays in the signing of loan and agreements (9 months) since approval and signing of RI contract (7 months) since completion of ranking resulted in the Inception Mission being delayed from the first quarter of 2012 to the second quarter of 2013. The project implementation schedule was modified in the PAM, to reflect the delay in inception and subsequent project activities. The date for physical completion of works and loan/grant closing is 31 December 2016 and 30 June 2017, respectively. Given the 16 months delay from approval to start of preconstruction activities, will be possible to assess the need to extend these dates during the project's midterm review to allow and address any issues during the contracts defects liability period.

H. Procurement and Consulting Services

32. The procurement of works goods and services and consulting services will be carried out in accordance with ADB's *Procurement Guidelines* (2010 as amended from time to time) and ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time) as detailed in the Procurement Plan in the PAM. Amendments to the Procurement Plan will require ADB's

prior approval. The recruitment of the international and national consultants by MIPU for project management and implementation services with support from ADB is complete. A CV for the replacement national community development specialist is being finalized and a proposal on the Engineer to the contract will be submitted to ADB and NZMFAT. The recruitment of a national consulting firm by MIPU with support from RI for shipping coordinator scheme (SCS) is yet to commence. MIPU will finalize the TOR of SCS and submit to ADB and NZMFAT for review and comments.

I. Disbursement Arrangements

33. The ADB loan will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time). The disbursement from the loan proceeds will be in accordance with Schedule 3 of the Loan Agreement. ADB will finance 57.3% of total expenditure net of tax for cost categories of civil works and 36.3% of the total expenditure shipping support scheme. ADB funds will be disbursed by direct payment and imprest account procedures. The Government has opened first generation imprest at Reserve Bank of Vanuatu. The currency for the imprest account shall be US dollar. The ceiling for the imprest shall not exceed lower of (i) the estimated expenditure to be financed from the imprest account for 6 months of project implementation or (ii) \$200,000. The Government will submit withdrawal applications with supporting documents for liquidation of the funds used from the imprest account and ADB will replenish the imprest account accordingly. Any loss of funds resulting from exchange rate of US dollar to other currencies of payment will be met by the Government.

34. Pursuant to ADB's *Safeguard Policy Statement 2009*, ADB funds may not be applied to the activities described in the ADB Prohibited Investment Activities List.¹³ All financial institutions will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list to subprojects financed by ADB.

35. Before the submission of the first withdrawal application, the Borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the Borrower, together with the authenticated specimen signatures of each authorized person. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and eligible for ADB financing.

36. The loan and grant closing date is the last date for the Borrower to make withdrawals from the loan and grant account. The closing date for withdrawals from the loan and grant account shall be 30 June 2017. The loan and grant closing date may be extended in justifiable cases and after ensuring that adequate arrangements exist for completing the project within the extended timeframe.

37. Disbursements of the NZMFAT grant will be through its Grant Funding Arrangement as agreed between the NZMFAT and Government. Alternatively the Government may request that NZMFAT make payments directly on its behalf in accordance with the same processes agreed with the ADB. In that event, the Grant Funding Arrangement will be amended to reflect this change.

¹³ Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

38. The PAM has been revised to reflect the change in timing of the project, the establishment and role of the VPMU and VPMU steering committee and agreed reporting requirements for the project. These revisions update the disbursement profile of the project, processes for release of funds and roles and responsibilities for accounting and reporting of the project to all partners. The Government contribution will be paid out by MFEM according to the financing percentages specified in the agreed financing plan. The fund flow mechanism of the PAM has been revised to reflect these changes. Disbursements under each financier and Government will be recorded in the project accounts. More details on disbursements of each financing agency are recorded in Section V of PAM.

J. Reporting, Accounting, and Auditing

39. MIPU with assistance from RI through VPMU will provide NZMFAT and ADB with (i) quarterly progress reports (QPR) in a format consistent with ADB's project performance reporting (PPR) system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions; (c) updated procurement plan and (d) updated implementation plan for next 12 months; and (iii) a project completion report (PCR) within 3 months of physical completion of the project. The QPR should be submitted to NZMFAT and ADB no later than 4th week after the end of quarter. The first QPR will be due in the last week of July 2013. The formats for QPR, PPR and PPR Monitoring requirements and PCR are in the Supplementary Appendices of the PAM.

40. MFEM through VPMU shall maintain separate accounts for the project for each financier including the Government and have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB. MFEM through VPMU will furnish certified copies of audited accounts and financial statements including the auditor's report to NZMFAT and ADB within six months after the end of each fiscal year (including the auditors' opinion on the use of the loan and grant proceeds and compliance with the financial covenants of the loan and grant agreements).

41. The Mission discussed with the Office of Auditor General (OAG) the auditing requirements of the project. Due to the capacity constraints and moreover the work load of OAG to audit the Government accounts, the Mission was advised that OAG will outsource the audit requirements under the project to a national firm. Given the number of projects being implemented, the Mission suggested to OAG, VPMU, MIPU and RI that it coordinates with the other financing agencies to include the scope of audits of those projects under one consultancy contract. This will enable receiving a competitive pricing for all the audits and some savings under each of the project. In addition, MIPU and VPMU will overcome administrative burdens as it will have only a single firm to liaise. Normally the costs of the audit requirements of projects are to be met by Government as its own auditors perform the audit tasks. Given the audit under the project will be outsourced and costs met from the project funds, a minor change in project scope will be required having prior agreements from NZMFAT. The consulting firms to be recruited will be in accordance with ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time). The Mission provided a sample copy of the TOR for audit of project accounts to OAG. The audited financial statements for the project will be due on or before 30 June 2014.

K. Asset Management Planning

42. During the Mission the need for a comprehensive and accurate Asset Register for all assets purchased or constructed under the project was confirmed. This register will identify the useful life of the separate significant components of the infrastructure assets in accordance with *International Public Sector Accounting Standards – IPSAS 17: Property Plant and Equipment*. The asset register is required to be maintained, updated and reported on quarterly as part of project reporting requirements during the implementation phase of the project, and will be audited on an annual basis. As requested by the Government, an asset management plan specifying the technical requirements and resourcing to carry out the ongoing maintenance and ultimate replacement of each asset or asset component at the end of its useful life will be prepared by RI. The Asset Register and asset maintenance plan will provide the Government information to meet the obligations set out under the Partnership Framework for the Vanuatu Inter-Island Shipping Project 2012-2017 and loan covenant, to “Ensure that recurrent budget funding for the maintenance of rehabilitated and new facilities is allocated and executed to preserve the assets and avoid deterioration” in the short, medium and long-term.

L. Due Diligence

43. Due diligence was performed at project preparatory stage in 2011 in the areas of technical design, economic and financial feasibility, poverty, social and gender issues, governance matters; safeguards; risks and mitigation matters. There are other areas of risks identified by RI in the inception report in preconstruction and construction stages. All the risks require a risk management and mitigation plan.

M. Project Reviews

44. ADB and NZMFAT will undertake regular review missions (approximately every 6 months) and a midterm review about 2 years after project inception. NZMFAT may also coordinate with Government to field reviews separate to ADB review missions. ADB and NZMFAT reviews will evaluate in detail the scope, implementation arrangements, costs, and other relevant aspects of the project (including institutional, administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, and financial assets) that might affect project performance, viability, and achievement of scheduled targets.

N. Anticorruption

45. ADB's *Anticorruption Policy* was explained to, and discussed with VPMU, TAG, MIPU and RI. Consistent with its commitment to good governance, accountability, and transparency, ADB and NZMFAT reserve the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the Loan Agreement and NZMFAT Grant Funding Arrangements. These provisions will be included in the bidding documents for the project. In particular, all contracts for the project shall include provisions specifying the right of ADB and NZMFAT to audit and examine the records and accounts of MIPU, VPMU and all contractors, suppliers, consultants, and other service providers as they relate to the project.

O. Project Assurances and Loan and Grant Covenants

46. ADB's approval of the project was based on a number of assurances provided by Government, to be complied with during project implementation. The Mission discussed with TAG and RI the importance of monitoring compliance. The list of assurances and covenants are available in **Appendix 3**.

P. Monitoring of Development Results

47. A Project Performance Monitoring System (PPMS) will be finalized by August 2013 (6 months after mobilization of TL). The PPMS will be designed so that it efficiently monitors indicators to assess the impact and outcome, as specified in the project's design and monitoring framework. The PPMS will be coordinated by the monitoring and evaluation specialist from RI and will be subject to concurrence from MIPU, VPMU, NZMFAT and ADB.

IV. TA No. 7839-VAN: Establishment of Vanuatu Maritime Safety Administration

48. Discussions were held on the synergies and areas of coordination and cooperation on works being done in the port sector reform and legislations under the AusAID financed grant by World Bank (WB) and the ADB/NZMFAT financed TA 7839-VAN. The Mission advised that the request for proposal from the 5 shortlisted consulting firms will close on 12 April 2013. Evaluation of consultants will be completed within two weeks and first ranked firm invited for contract negotiations by mid May 2013. Consultants can be mobilized by early June 2013. It is noted that the Government has given some preliminary advice about how it wishes to structure the domestic and international components of its maritime safety regulatory body. To this end, the WB would like to field a mission around mid May to progress their works in the maritime safety regulations. It would be prudent for either NZMFAT or ADB to be invited by the Government to join the mission and discuss and agree on the areas of cooperation to avoid duplication of any activities.

V. CONCLUSION

49. The PAM has been amended to reflect the changes at the Inception Mission. The PAM will provide the guidance to MFEM, MIPU, VPMU-SC, VPMU, RI and development partners in the management, implementation and monitoring of the project. Any changes to the PAM will require prior approval of NZMFAT and ADB. The updated PAM is in **Appendix 4**.

50. The next ADB and NZMFAT formal review mission is anticipated to be conducted within the 3rd quarter of 2013. That review mission will assess overall progress under the project and review expenditures, cost estimates, procurement issues, counterpart contributions, and compliance with assurances.

51. The Mission conveys its gratitude to the Government officials and consultants for their cooperation and assistance provided to the Mission.

Signed on 10 April 2013, Port Vila, Vanuatu

/S/

George Maniuri
Director General
Ministry of Finance and Economic Management
for the Borrower

/S/

John Binaru
Director General
Ministry of Infrastructure and Public Utilities
for the Borrower

/S/

Mikaela Nyman
Development Counsellor
New Zealand High Commission
for the New Zealand Ministry for Foreign Affairs
and Trade

/S/

Rishi Adhar
Senior Project Officer
Mission Leader
for Asian Development Bank

Attachments: Appendix 1 – List of Persons Met
Appendix 2 – List of ADB Documents Provided
Appendix 3– List of Assurances and Covenants
Appendix 4 – Amended Project Administration Manual

Appendix 1

LIST OF PERSONS CONSULTED

Ministry of Finance and Economic Management

Mr. George Maniuri,	Director General
Ms. Dorothy Ericson	Chief Accountant
Mr. Rex Willie	Expenditure Analyst

Ministry of Infrastructure and Public Utilities

Mr. Johnson Binaru	Director General
Mr. Jone Roqara	Deputy Director, Public Works Department
Mr. Andrea Iatipu	Acting Manager/Projects, Public Works Department
Mr. Henry Worek	Acting Director, Ports and Marine Department
Mr. Markmon Batie	Maritime Affairs Manager, Corporate Services Unit, MIPU

Vanuatu Program Management Unit

Mr. Johnson Wabaiat	Acting Director
Ms Catherine Malosu	Environment Officer
Ms. Anna Salwai	Project Accountant

Department of Strategic Policy, Planning and Aid Coordination

Mr. Benjamin Shing	Director & Acting DG, PMO/Acting Chairperson of VPMU-SC
Mr. Johnson Naviti	Principal Aid Officer, Prime Minister's Office

Ministry of Lands and Natural Resources

Mr. Richard Dick	Senior Lands Valuer
Mr. Rocky Adams	Lands Valuer

New Zealand High Commission

H.E. Bill Dobbie	New Zealand High Commissioner
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Office of the Auditor General

Ms. Beulah Daunakamakama	Senior Auditor
Ms. Elsie Dick	Auditor
Ms. Isabel Leisau	Accounts Manager

AusAID

Ms. Jennifer Gregory	Programme Manager
Mr. Benjamin Williams	Infrastructure Specialist

Roughton International Joint Venture Qualao Consulting Ltd

Mr. John Townsend	Team Leader
Mr. John McFarlane	Procurement Specialist
Mr. Harold Qualao	Managing Director, Qualao Consulting
Ms. Serah Toara	Project Accountant

Appendix 2

LIST OF PROJECT DOCUMENTS PROVIDED ELECTRONICALLY

1. Report and Recommendation of the President to Board of Directors for the Project
2. Loan Agreement
3. Sector Assessment (Summary): Water Transport
4. Project Administration Manual
5. Contribution to ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination: Port Vila
12. Initial Environmental Examination: Lenakal
13. Initial Environmental Examination: Litzlitz
14. Initial Environmental Examination: Lolowai
15. Initial Environmental Examination: Port Sandwich
16. Initial Environmental Examination: Simonsen
17. Initial Environmental Examination: Waisisi
18. Resettlement Framework
19. Risk Assessment and Risk Management Plan

SUPPLEMENTARY DOCUMENTS

20. Technical Assistance
21. Financial Management Assessment
22. Procurement Capacity Assessment
23. Economic Assessment
24. Shipping Support Scheme
25. Infrastructure Assessment

List of ADB Documents

26. Procurement Guidelines
27. Guidelines on the Use of Consultants
28. Consulting Services Operations Manual

Appendix 3

GRANT COVENANTS AND ASSURANCES

Covenants	Reference in Loan Agreement	Status of Compliance
In carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or caused to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.	Article IV, Section 4.01	Being complied with. Project implementation commenced from 18 February and while all obligations cannot be met at this early stage, the Borrower and Executing and Implementing Agencies have been informed of the requirements.
The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than six (6) months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Grant proceeds and compliance with the financial covenants of this Loan Agreement), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.	Article IV, Section 4.02(a)	Not yet due. Project accountant has been mobilized and a separate account for the Project for ADB, NZMFAT and GOV funds are being established.
The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to subparagraph (a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Recipient unless the Recipient shall otherwise agree.	Article IV, Section 4.03(b)	Not yet due.
The Borrower shall enable ADB's representative to inspect the Project, the Goods and Works, and any relevant records and documents.	Article IV, Section 4.03(c)	Not yet due.

<p><u>Implementation Arrangements</u></p> <p>The Borrower and the Project Executing Agency shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.</p>	Schedule 5, Para. 1	Ongoing Activity. The joint Inception Mission discussed the Pam in detail with the Borrower, Executing and Implementing Agencies.
<p><u>Environment</u></p> <p>The Borrower shall ensure, and cause the Project Executing Agency to ensure, that the preparation, design and construction, implementation and operation of the Project comply with (a) all applicable laws and regulations of the Borrower relating to environment, health and safety; (b) ADB's Environmental Safeguards and (c) all measures and requirements set forth in the IEE and EMP, and any corrective or preventative actions set forth in a Safeguard Monitoring Report.</p>	Schedule 5, Para. 2	Not yet due.
<p><u>Land Acquisition and Involuntary Resettlement</u></p> <p>The Borrower shall ensure, and cause the Project Executing Agency to ensure, that all land and all rights-of-way required for the Project are made available to the Works contractor in accordance with the schedule agreed under the related works contract and any land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws of the Borrower relating to land acquisition and involuntary settlement; (b) ADB's Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in any resettlement plan, and any corrective or preventative actions set forth in the Safeguard Monitoring Report.</p>	Schedule 5, Para. 3	Not yet due.
<p>Without limiting the application of the Involuntary Resettlement Safeguards or any resettlement plan, The Borrower shall ensure and cause to ensure the Project Executing Agency to ensure that no physical or economic displacement takes place in connection with the Project until:</p> <ul style="list-style-type: none"> (a) Compensation and other entitlements have been provided to affected people in accordance with any resettlement plan; and (b) A comprehensive income and livelihood restoration program has been established in accordance with any resettlement plan 	Schedule 5, Para. 4	Not yet due.

<p><u>Indigenous Peoples</u></p> <p>The Borrower shall ensure and cause the Project Executing Agency to ensure that the preparation, design and construction, implementation and operation of the Project comply with (a) all applicable laws and regulations of the Borrower relating to indigenous peoples; (b) ADB's Indigenous Peoples Safeguards and (c) all measures and requirements set forth in any indigenous peoples plan and any corrective or preventative actions set forth in a Safeguard Monitoring Report.</p>	Schedule 5, Para. 5	Not yet due.
<p><u>Human and Financial Resources to Implement Safeguard Requirements</u></p> <p>The Borrower shall make available or cause the Project Executing Agency to make available necessary budgetary and human resources to fully implement the EMP, resettlement plan and any indigenous plan.</p>	Schedule 5, Para. 6	
<p><u>Safeguards - Related Provisions in Bidding Documents and Works Contracts</u></p> <p>The Borrower shall ensure or cause the Project Executing Agency to ensure that all bidding documents and contracts for Works contain provisions that require contractors to:</p> <ul style="list-style-type: none"> (a) Comply with the measures relevant to the contractor set forth in the IEE, the EMP, any resettlement plan and any indigenous people's plan (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguard Monitoring Report; (b) Make available a budget for all such environmental and social safeguards; (c) Provide the Borrower with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, any resettlement plan and any indigenous people's plan; (d) Adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and (e) Reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition on the completion of construction. 	Schedule 5, Para. 7	Not yet due.

<p><u>Safeguards Monitoring And Reporting</u> The Borrower shall do the following or cause the Project Executing Agency do the following:</p> <ul style="list-style-type: none"> (a) submit semi-annually Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission; (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, the resettlement plan or the indigenous people's plan, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP, the resettlement plan or the indigenous people's plan promptly after becoming aware of the breach. 	Schedule 5, Para. 8	Not yet due. Sample safeguard monitoring report can be made available to MIPU and consultants if needed.
<p><u>Prohibited List of Investments</u> The Borrower shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided Appendix 5 of the ADB's Safeguard Policy Statement 2009.</p>	Schedule 5, Para. 9	Not yet due. A copy of ADB's Safeguard Policy Statement 2009 can be downloaded from ADB's website.
<p><u>Gender Action Plan</u> The Borrower shall take necessary and appropriate measures to ensure full implementation of Gender Action Plan including specific performance targets stipulated therein. The Project Executing Agency shall ensure that MIPU allocates resources, prepares any necessary manuals, conducts training, monitors implementation, and reports regularly on the implementation of the Gender Action Plan.</p>	Schedule 5, Para. 10	Not yet due.
<p><u>Anticorruption</u> The Borrower and the Project Executing Agency shall comply with ADB's Anticorruption Policy (1988 as amended from time to time), and cooperate fully with any investigation by ADB and extend all necessary assistance, including providing access to all relevant books and records for the satisfactory completion of such investigation</p>	Schedule 5, Para. 11	Not yet due.

The Project Executing Agency shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts including provisions specifying the right of ADB to audit and examine the records and accounts of the executing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.	Schedule 5, Para. 12	Not yet due.
The Project Executing Agency shall publically disclose details of the use of the Loan proceeds on the Borrower's website. For each procurement contract, it shall disclose the list of participating bidders, name of the winning bidder, sufficient details on the bidding procedure adopted, list of goods or services purchased, and the intended and actual amount of Loan proceeds under each contract.	Schedule 5, Para. 13	Not yet due. (NZMFAT) ???
<u>Grievance Redress Mechanism</u> Within 6 months days from the Effective Date, the MIPU shall establish a procedure, acceptable to ADB, for managing complaints and problems raised by the people affected by the Project. Such grievance redress mechanism shall (i) provide for review and redress of grievances and complaints from affected people; (ii) set a threshold criteria and procedures for handling such grievances to proactively address them; (iii) require notification to stakeholders about the mechanism; and (iv) require maintenance of records on grievances and actions taken.	Schedule 5, Para. 14	Not yet started due to delay in contract negotiations and signing of consultancy contract with Roughton International and establishment of PMU. New due date is 19Aug13.
<u>Project Performance and Monitoring System</u> Within 6 months of the Effective Date, the Borrower shall finalize and adopt a detailed project performance and monitoring system for monitoring performance and preparing benchmark information acceptable ADB, based on agreed indicators and procedures. Thereafter, the Project Executing Agency shall submit annually a benefit monitoring report to ADB.	Schedule 5, Para. 15	As above.
<u>Operation and Maintenance</u> The Borrower shall ensure that, in order to preserve and properly maintain the assets to be created under the Project, its yearly budget makes provisions for the recurrent operation and maintenance costs for the new and rehabilitated facilities under the Project.	Schedule 5, Para. 16	Not yet due. However, it is evident that lack of maintenance has been the deteriorating conditions of the transport infrastructure. Capacity building in asset management is vital.

<p><u>Counterpart Contributions</u></p> <p>The Borrower shall promptly bear all counterpart obligations including:</p> <ul style="list-style-type: none"> (a) financing any land acquisition that may be required and securing the Project sites; (b) appointing counterpart staff, providing office space for the project implementation consultants, and ensuring that these resources are available through Project duration; and (c) allocating its share of cash contribution to the Project through normal budget process. 	Schedule 5, Para. 17	Ongoing activity. (Need to discuss further)
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Project Administration Manual

Project Number: 42392-01
April 2013

Vanuatu: Interisland Shipping Support Project

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Project Administration Manual Purpose and Process

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

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

The Ministry of Finance and Economic Management (MFEM) as the executing agency and the Ministry of Infrastructure and Public Utilities (MIPU) as the implementing agency, are responsible for the implementation of the project, as agreed jointly between the Government of Vanuatu, ADB, and NZMFAT, and in accordance with the policies and procedures of all three partners. ADB staff are responsible to support implementation including compliance by the executing agency of its obligations and responsibilities for project implementation.

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

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

Abbreviations

ADB	=	Asian Development Bank
EMP	=	Environmental Management Plans
ICB	=	international competitive bidding
MFEM	=	Ministry of Finance and Economic Management
MIPU	=	Ministry of Infrastructure and Public Utilities
NCB	=	national competitive bidding
NZMFAT	=	New Zealand Ministry of Foreign Affairs and Trade
PWD	=	Public Works Department
QCBS	=	quality- and cost- based selection
SCS	=	shipping coordinator scheme
SEMP	=	site environmental management plan
SSS	=	shipping support scheme
TA	=	technical assistance
VPMU	=	Vanuatu Project Management Unit

I. Project Description

1. The proposed project will improve the efficiency and effectiveness of interisland shipping services through provision of an integrated package of assistance.¹⁴ The Vanuatu Interisland Shipping Project comprises three components: (i) civil works for rehabilitation of existing facilities and construction of new infrastructure, (ii) establishment of shipping support and coordination schemes for service provision on noncommercial routes, and (iii) project management services for efficient and effective project implementation. Associated technical assistance (TA) will enhance capacity for sector governance and maritime safety oversight.

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

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

4. Under the second component, the project will design and implement support to interisland shipping services to remote areas that are considered commercially unviable. Routes in two provinces have been identified as unviable. Outputs will be increased transport services on these routes, through subsidies to private sector operators, based on a minimum-subsidy tender process. Initial contracts will be for 3 years, with the possibility to move to a longer period for subsequent terms.

5. This second component will consist of two activities. A shipping support scheme (SSS) will provide subsidies for a fixed number of voyages at designated frequencies on otherwise commercially unviable routes based on a least-cost tender process. Under an output-based approach, subsidies will be tied to performance, including vessel suitability, franchise areas and routes, voyage locations and frequency, and substantiation of voyages. Vessels will be required to meet safety standards and to provide facilities to reduce barriers to use by women. A shipping coordinator scheme (SCS) will appoint people in each province with the responsibility of promoting and aggregating demand and communicating needs for voyages to private sector vessel operators. Demand for services will be differentiated by gender, and location and services will be required to facilitate access by women. Subsidies required will reduce over time, as routes become commercially viable. The overall support program is scheduled to be implemented over a 5-year period but will be regularly reviewed for adjustment during implementation.

6. The third component will be project management services and other implementing

¹⁴ Project preparatory technical assistance was provided by ADB and the Government of New Zealand (ADB. 2009. *Preparing the Interisland Shipping Support Project*. Manila.)

consulting services consisting of national and international consultants and Ministry of Infrastructure and Public Utilities (MIPU) and Vanuatu Project Management Unit (VPMU) counterpart staff (Attachment 1). Management of the shipping support scheme will also be included in the project management services. The consultants will be fully integrated in the MIPU's management structure with government professional and technical staff as counterparts. In addition, the grant funding for Implementation Assistance may be used for the costs of external audit outsourced by the Vanuatu Office of the Auditor General and the cost of additional staff (salary and direct costs relating to those positions) within Vanuatu Program Management Unit, being a unit within the Vanuatu Project Management Unit (VPMU) required to oversee this project. The VPMU, is an established office within the Prime Minister's Portfolio that has dual responsibility jointly to the Prime Minister's Office and Ministry of Finance and Economic Management (MFEM) acting as Executing Agency of the GoV, to oversee and manage major infrastructure development projects. The VPMU provides secretariat support for the Vanuatu Project Management Steering Committee (VPMU-SC). Any funding will be subject to agreement of a detailed budget by NZMFAT.

7. The project will be complemented by associated TA to improve sector governance. Activities will include (i) updating legislation and providing for adequate delegation of responsibility and authority to ensure compliance with safety regulations, (ii) drafting of new regulations to implement the new legislation, (iii) institutional restructuring in MIPU and its departments, and (iv) training and capacity development for staff assigned to new roles. A comprehensive training needs assessment will be conducted and used to develop an institutional development plan that includes measures for increasing the representation of women in the sector. The output will be improvement of institutional capacity for maritime safety compliance including vessel registry, inspection, survey, licensing of seafarers, and administration of ports and harbors.

A. *Impact, Outcome and Outputs*

8. The impact is expected to be that people everywhere in Vanuatu and especially in the national capital of Port Vila and provinces of Malampa, Penama, Sanma, Shefa, and Tafea have enhanced access to socioeconomic opportunities.

9. The outcome will be that private sector operators provide interisland shipping services that are reliable, safe, and adequately frequent.

10. Outputs will include (i) improved maritime infrastructure in the capital and rural areas, (ii) establishment of shipping support and coordination schemes, and (iii) project management services for efficient and effective project implementation

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

II. Implementation plans

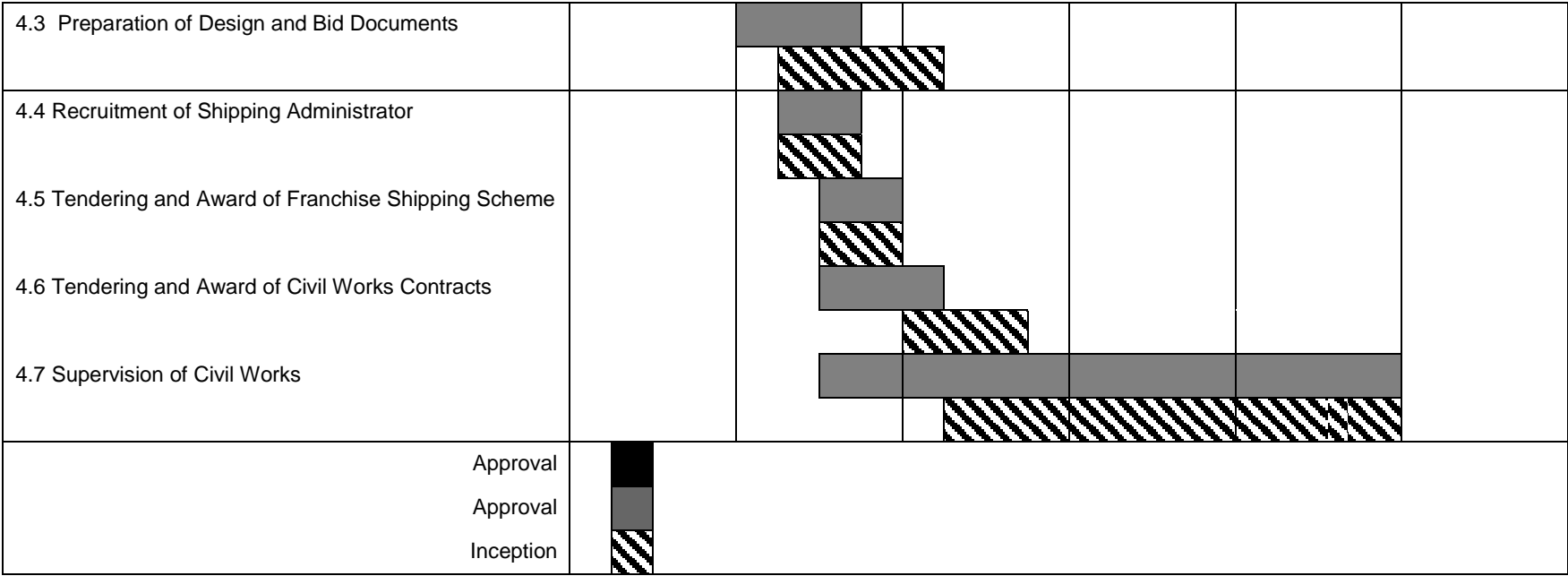
A. *Project Readiness Activities*

12. MIPU will be an Implementing Agency (IA). Project will be overseen by Director General of MIPU. The IA will supported by international and national consultants, working alongside IA technical and administrative staff. The project readiness activities for consultant selection processes under advance contracting action commenced in November 2011. The project readiness activities are summarized in Table 1 below.

Table 1. Summary of Project Readiness Activities

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

ADB = Asian Development Bank; NZMFAT = New Zealand Ministry of Foreign Affairs and Trade.



III. Project Management Arrangements

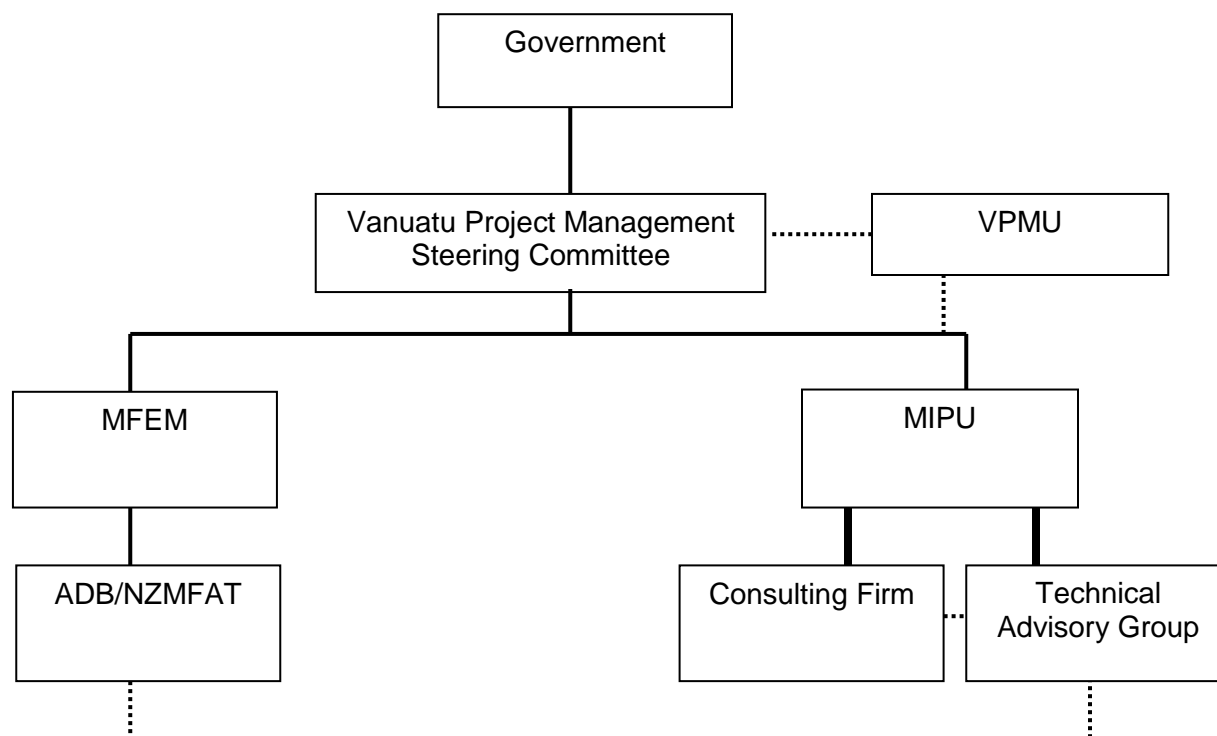
A. *Project Stakeholders—Roles and Responsibilities*

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

B. *Key Persons Involved in Implementation*

Ministry of Finance and Economic Management	George Maniuri, Director General Tel: +678 24543, email: gmaniuri@vanuatu.gov.vu
Ministry of Infrastructure and Public Utilities	Johnson Binaru lauma, Director General Tel: +678 22790, email: jbiauma@vanuatu.gov.vu
Vanuatu Project Management Unit	Johnson Wabaiat, Director, Tel: +678 2691, email: jwabaiat@vanuatu.gov.vu
Asian Development Bank	Andrea Iffland, Regional Director Tel: +61 2 82709444, email: aiffland@adb.org
New Zealand Government	Mikaela Nyman New Zealand High Commission, Port Vila Tel: +678 22933, email: Mikaela.Nyman@mfat.govt.nz

C. Project Organization Structure



ADB = Asian Development Bank; MFEM = Ministry of Finance and Economic Management; MIPU = Ministry of Infrastructure and Public Utilities; NZMFAT = New Zealand Ministry of Foreign Affairs and Trade; VPMU = Vanuatu Project Management Unit

13. The Executing Agency of project is the MFEM. The Council of Ministers have approved the establishment of the Vanuatu Project Management Unit (VPMU). This constitutes a VPMU Steering Committee and Program Management Unit, as specified in the VPMU Charter – February 2013¹⁵. The VPMU, established office within the Prime Minister's Portfolio has dual responsibility jointly to the Prime Minister's Office and MFEM to oversee and manage major infrastructure development projects. The Steering Committee is mandated by the Council of Ministers as the decision making body to govern the overall VPMU operations and provide direction of the VPMU in order to conduct its duties.

14. The MIPU is the Implementing Agency of the project. It has been agreed that the primary point of contact and responsibility for the Project will be the Director MIPU. All information must be also be shared with Director VPMU. The Technical Advisory Group, established by MIPU will support MIPU, to resolve implementation issues as they arise. It is anticipated they will meet weekly. Progress reporting will be provided to the VPMU Steering Committee, to meet the requirements of the executing agency and to resolve significant issues relating to the project.

D. Partial Administration of Cofinancing

15. ADB will partially administer grant cofinancing to be provided by the Government of New Zealand through the New Zealand Aid Programme. In doing so, ADB will review the

¹⁵ As of 4 April 2013, the Charter is yet to be formally endorsed by Government.

procurement of works, goods, and services by MIPU (including but not limited to invitations to bid, bidding documents, specifications and other documents relating to procurement) as well as approve the award of contracts proposed by MIPU for such procurement in accordance with ADB's *Procurement Guidelines* (2010, as amended from time to time) and eligibility requirements and in consultation with NZMFAT. See Section VI for details.

16. ADB and NZMFAT will review the terms of reference for consultants to be engaged by MIPU, including tasks, qualifications and proposed terms and conditions of employment. ADB will review the selection and recruitment process and in consultation with NZMFAT approve the contract(s) negotiated between the consultants and MIPU. Consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time). See Section VI for details.

IV. Costs and financing

17. The proposed project is estimated to cost \$26.82 million.¹⁶ Civil works represent about \$18.22 million, the shipping support and coordinator schemes about \$1.05 million, project management about \$3.99 million, and contingencies and interest about \$3.56 million. Details are shown in Tables A through E. The estimated costs will be subject to detailed design and procurement. The split of these components will be updated at mid-term review.

18. The government has requested grant finance from the Government of New Zealand of N\$15.75 million (\$12.60 million equivalent) in joint cofinancing provided directly to the government. The executing agency will administer the grant according to the terms and conditions of a grant agreement between the Government of Vanuatu and NZMFAT. ADB will provide partial administration of the Government of New Zealand grant following the Partial Administration Modality.¹⁷ This may be paid in the currency requested by GoV, up to the maximum New Zealand dollar value in this agreement. Any interest earned by the government on grant funds held, may be used for the project costs.

19. The government has requested a loan in various currencies equivalent to SDR \$6,708,000 million [\$10,820,000 equivalent] from ADB's Special Funds resources to help finance the project including taxes and duties.¹⁸ 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 set forth in the draft loan agreement. Foreign exchange risk will be assumed by the government.

20. The government will provide counterpart financing of \$3.40 million equivalent including: (i) land for the Port Vila facility, (ii) contribution to the SSS, (iii) project management personnel and office space, (iv) contingencies, and (v) interest during construction. The government will also be responsible for interest penalties incurred in the event of payment delays under the construction contract and foreign currency exchange losses.

¹⁶ All financial figures are expressed in US dollars.

¹⁷ ADB will provide procurement supervision services. NZMFAT will pay ADB a 0.1% service charge based on the actual expenditures incurred under the project, or \$30,000, whichever is greater. Board paper on *ADB-Administered Grant Cofinancing Partial Administration Modality and Related Service Charges*, 9 December 2003

¹⁸ Eligible expenditures include local transportation, insurance, installation, commissioning, and initial maintenance. Taxes and duties are (a) within the reasonable threshold identified during the preparation of the Vanuatu country partnership strategy 2010–2014, (b) do not represent an excessive share of the project investment plan, (c) apply only to ADB-financed expenditures, and (d) are material and relevant to the success of the project.

A. Detailed Cost Estimates by Expenditure Category

Item	(\$ million)			
	Foreign Exchange	Local Currency	Total Cost	% of Total Base Cost
A. Investment Costs^a				
1 Infrastructure (Civil Works)			18.22	67.9%
A. Loan and grant funded investment costs	16.72	0.00	16.72	
B. In-kind contribution of government land for Port Vila wharf	0.00	1.50	1.50	
2 Service Support (SSS & SCS)			1.05	3.9%
A. Loan and grant funded subsidies	0.80	0.00	0.80	
B. Cash contribution from government for subsidies	0.00	0.25	0.25	
3 Implementing Consulting Services			3.99	14.9%
A. Loan & grant funded implementation assistance	3.37	0.00	3.37	
B. In kind contribution from government of personnel, office space, etc	0.00	0.62	0.62	
Subtotal (A)	20.89	2.37	23.26	86.7%
B. Contingencies				
1 Physical	1.60	0.00	1.60	6.0%
2 Price	1.60	0.00	1.60	6.0%
Subtotal (C)	3.20	0.00	3.20	12.0%
C. Financing Charges During Implementation				
1 Interest during implementation	0.00	0.36	0.36	1.3%
Subtotal (C)	0.00	0.36	0.36	1.3%
Total Project Cost (A+B+C)^b	24.09	2.73	26.82	100.0%

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

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

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

Source: Asian Development Bank estimates.

B. Allocation and Withdrawal of Loan Proceeds

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

C. Detailed Cost Estimates by Financier

		(\$ million)						
		ADB (ADF Loan)		New Zealand ^b		GoV		Total Cost
Item		Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	
A.	Investment Costs^a							
1	Infrastructure (Civil Works)							
	A. Loan & grant funded investment costs	9.58	57.3	7.13	42.7	0.00	0.0	16.72
	B. Government in-kind contribution of land	0.00	0.0	0.00	0.0	1.50	100.0	1.50
2	Service Support (SSS & SCS)							
	A. Loan and grant funded subsidies	0.38	36.3	0.42	39.9	0.00	0.0	0.80
	B. Government funded subsidies	0.00	0.0	0.00	0.0	0.25	23.8	0.25
3	Implementing Consulting Services							
	A. Loan & grant funded implementation assistance	0.00	0.0	3.37	100.0	0.00	0.0	3.37
	B. Government in-kind contribution	0.00	0.0	0.00	0.0	0.62	100.0	0.62
	Subtotal (A)	9.96	42.8	10.92	46.9	2.37	10.2	23.26
B.	Contingencies							
1	Physical	0.43	26.9	0.84	52.4	0.33	20.7	1.60
2	Price	0.43	26.9	0.84	52.4	0.33	20.7	1.60
	Subtotal (B)	0.86	26.9	1.68	52.4	0.66	20.7	3.20
C.	Financing Charges During Implementation							
1	Interest during implementation ^c	0.00	0.0	0.00	0.0	0.36	100.0	0.36
	Subtotal (C)	0.00	0.0	0.00	0.0	0.36	100.0	0.36
	Total Project Cost (A+B+C)^d	10.82		12.60		3.40		26.82
	% Total Project Cost		40.3		46.9		12.8	100.0

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

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

^b Administered by the Ministry of Finance and Economic Management as the executing agency. ADB will provide partial administration (see paragraph 13).

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

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

Source: Asian Development Bank estimates.

D. Detailed Cost Estimates by Outputs/Components

Item	Total Cost	(\$ million)					
		Component 1: Infrastructure		Component 2: Support Services		Component 3: Project Management	
		Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category
A. Investment Costs^a							
1 Infrastructure (Civil Works)	18.22						
A. Loan and grant funded investment costs		16.72	91.8	0.00	0.0	0.00	0.0
B. In-kind contribution of land for Port Vila wharf		1.50	8.2	0.00	0.0	0.00	0.0
2 Service Support (SSS & SCS)	1.05						
A. Loan and grant funded subsidies		0.00	0.0	0.80	76.2	0.00	0.0
B. Cash contribution from government for subsidies		0.00	0.0	0.25	23.8	0.00	0.0
3 Implementing Consulting Services	3.99						
A. Loan & grant funded implementation assist.		0.00	0.0	0.00	0.0	3.37	84.5
B. In kind contribution of personnel, office, etc.		0.00	0.0	0.00	0.0	0.62	15.5
Subtotal (A)	23.26	18.22	78.3	1.05	4.5	3.99	17.2
B. Contingencies							
1 Physical ^b	1.60	1.25	78.3	0.07	4.5	0.27	17.2
2 Price ^c	1.60	1.25	78.3	0.07	4.5	0.27	17.2
Subtotal (B)	3.20	2.50	78.3	0.14	4.5	0.55	17.2
C. Financing Charges During Implementation^d							
1 Interest during implementation	0.36	0.28	78.3	0.02	4.5	0.06	17.2
Subtotal (C)	0.36	0.28	78.3	0.02	4.5	0.06	17.2
Total Project Cost (A+B+C)^e	26.82	21.0	78.3	1.21	4.5	4.60	17.2

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

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

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

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

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

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

Source: Asian Development Bank.

E. Detailed Cost Estimates by Year

(\$ million)								
Item			Total Cost ^a	Year 1	Year 2	Year 3	Year 4	Year 5
A.	Investment Costs							
	1	Infrastructure (Civil Works)	18.22	0.00	8.50	8.00	1.59	0.13
	2	Service Support (SSS & SCS)	1.05	0.02	0.32	0.26	0.26	0.19
	3	Implementing Consulting Services	3.99	1.15	1.56	0.76	0.40	0.12
		Subtotal (A)	23.26	1.17	10.38	9.02	2.25	0.44
B.	Contingencies		3.20	0.00	1.26	1.27	0.35	0.32
C.	Financing Charges During Implementation		0.36	0.04	0.04	0.07	0.10	0.11
	Total Project Cost (A+B+C)^b		26.82	1.21	11.68	10.36	2.70	0.87
	% Total Project Cost		100%	4.51%	43.53%	38.61%	10.08%	3.26%

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

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

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

Source: Asian Development Bank estimates

F. Contract and Disbursement Projections

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

Chart 1. ADB Loan Contract Award and Disbursement Projections

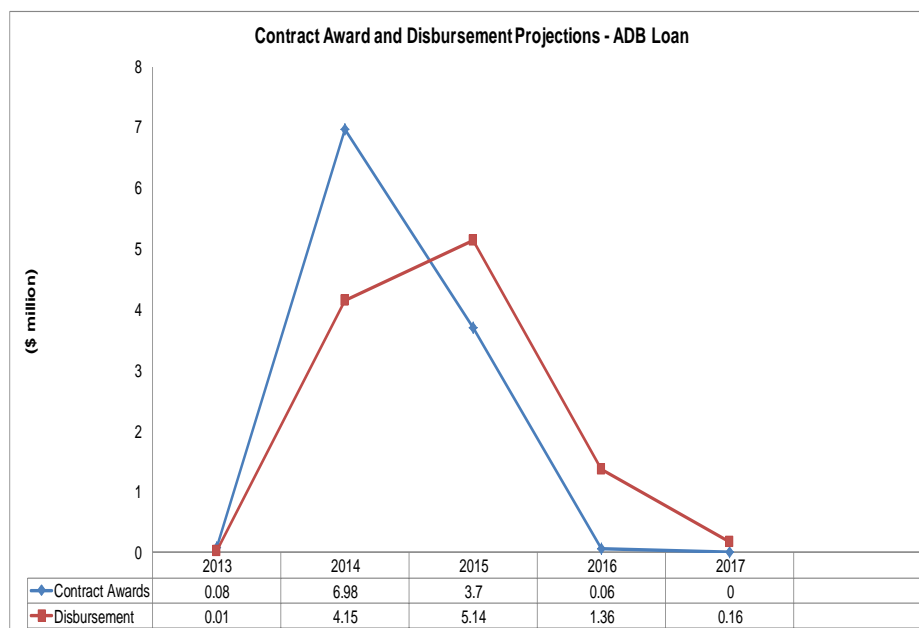


Chart 2. NZMFAT Grant Contract Award and Disbursement Projections



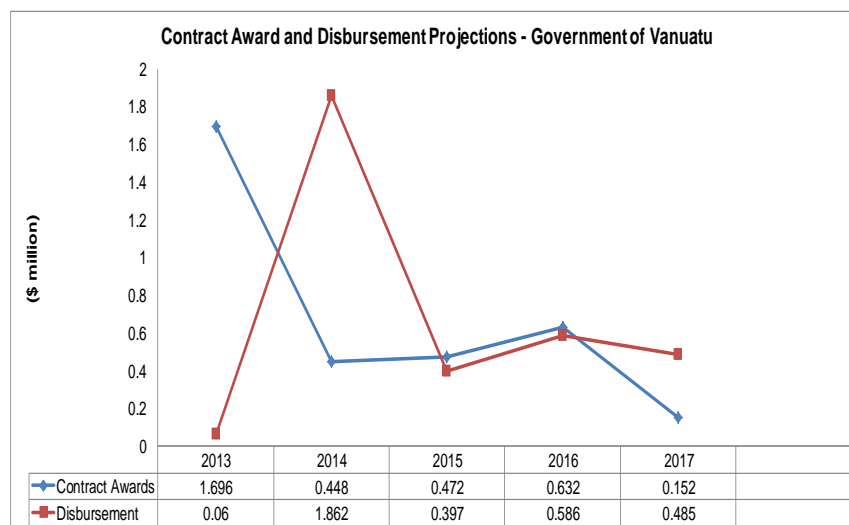
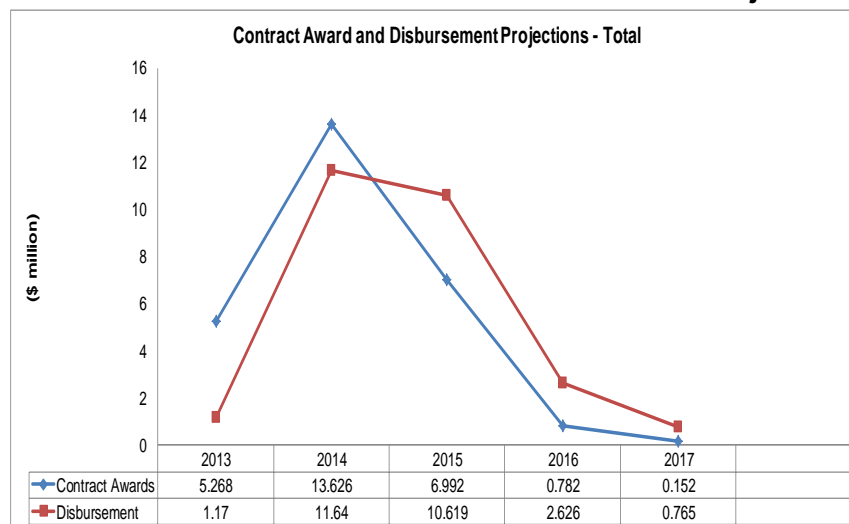
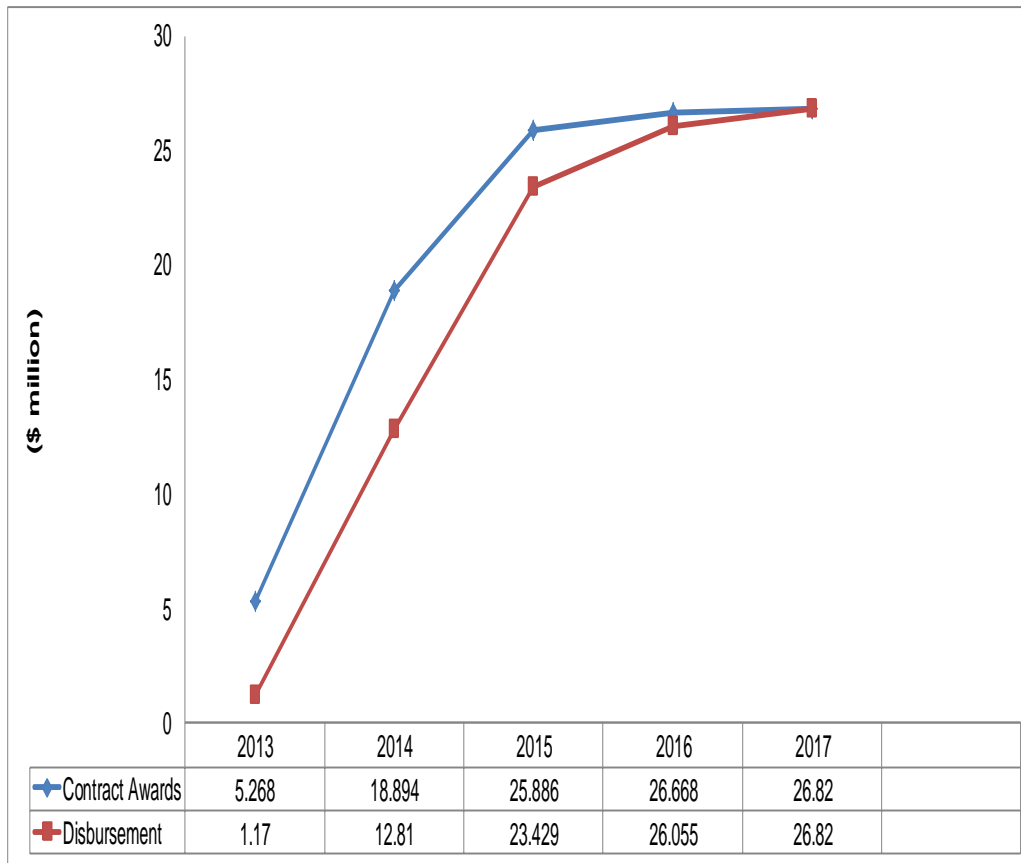
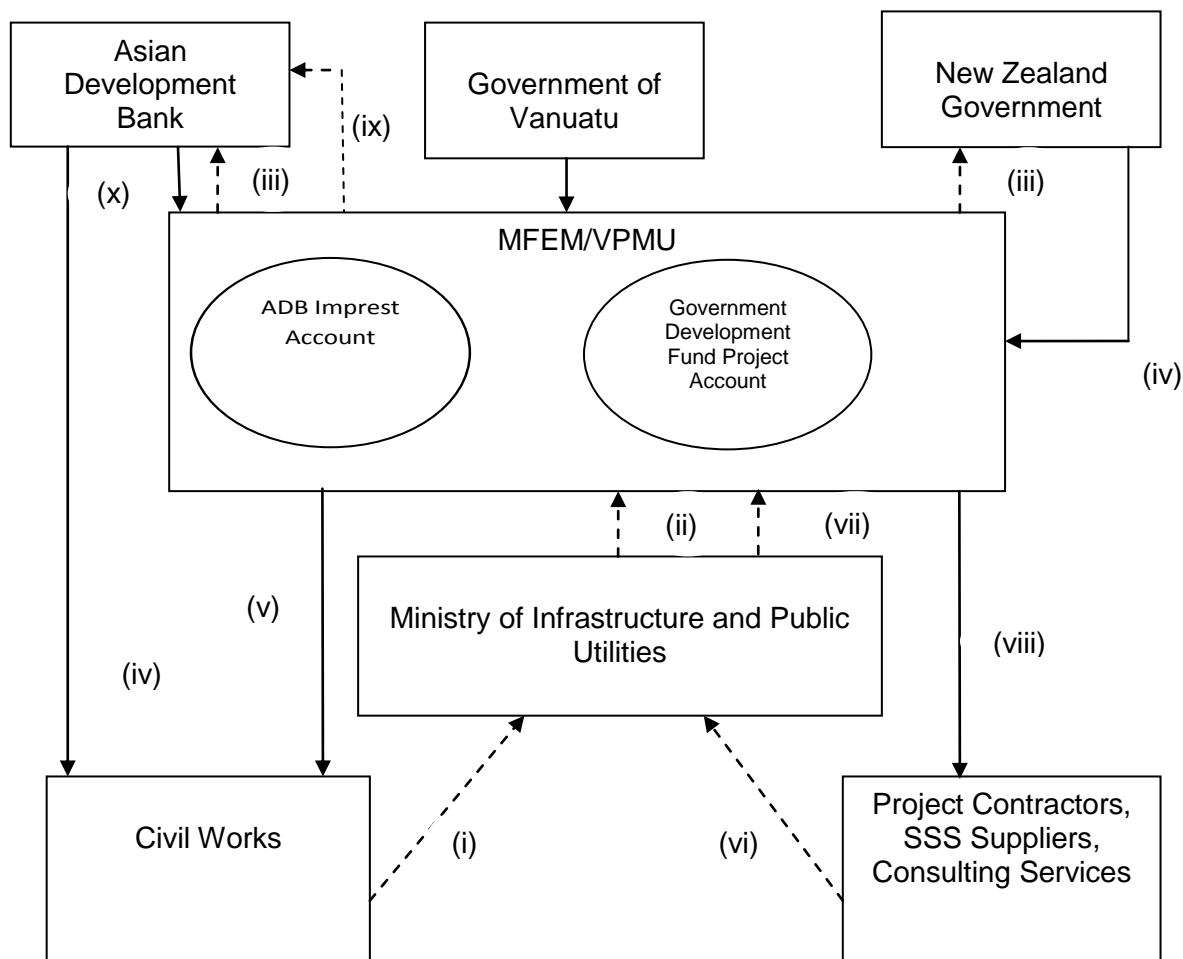
Chart 3. Vanuatu Government Contract Award and Disbursement Projections**Chart 4. Total Contract Award and Disbursement Projections**

Chart 5. Cumulative Contact Awards and Disbursements - S-Curve

G. Fund Flow Diagram

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



Direct Payment Procedure:

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

Imprest Fund Procedure:

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

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

V. financial management

A. **Financial Management Assessment**

23. The primary objective of the financial management process is to optimize financial and economic benefits from an investment. Financial management systems include the policies and practices regarding financial planning, programming, accounting, reporting, auditing, funding, organization, and personnel of a project or of an EA and IA. Both EA and IA should plan, develop and maintain financial management systems that can provide timely and reliable information suitable for monitoring the project's and the EA's progress toward ADB-agreed objectives. The information should also provide early warnings of project implementation and EA and IA management problems. EA and IA should also have an effective control environment, including internal control systems that provide assurance that financial records are reliable and complete, including adherence to management policies, orderly and efficient conduct of the borrower's business, and proper recording and safeguarding of assets and resources. The EA should be capable of providing correct and timely information on project implementation progress and, where appropriate, on its operation. ADB must also be assured that the expenditures incurred on a project are used for the purposes stated in the loan agreement.

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

B. **Disbursement**

25. Loan disbursement is a key element in the project cycle. ADB expects that proposed disbursement procedures and fund-flow mechanisms will be suitable for the project. ADB procedures for withdrawal of loan proceeds are standardized to facilitate disbursements under most loans. Loan proceeds from the ADB will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time),¹⁹ and detailed arrangements agreed upon between the government, ADB and NZMFAT.

26. Pursuant to ADB's *Safeguard Policy Statement* (June 2009),²⁰ ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the *Safeguard Policy Statement*.

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

¹⁹ Available at: http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf.

²⁰ Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

set out above.

28. Disbursements of the New Zealand Aid Programme grant for each component of the project will be directly made by MFEM, on receipt of a correctly authorized requisition and Local Payment Order from VPMU, to the consultants, suppliers and contractors in accordance with the financing plan as set out in this document and the grant agreement between the governments of Vanuatu and New Zealand. Alternatively, if requested by the Government of Vanuatu, New Zealand will make payments directly to the consultants, contractors and suppliers for payments over \$100,000, in line with the direct payment procedures below, rather than by 6 monthly grant funding tranches in advance. The Grant Funding Arrangement will be updated to reflect this. For payments less than \$100,000 an imprest account for New Zealand funding may also be opened as per paras. 32-35.

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

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

Table 2

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

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

Table 3

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

32. **Imprest Account** To expedite project implementation through the timely release of funds, the Borrower shall establish an imprest account immediately after loan effectiveness at a bank acceptable to ADB and NZMFAT (if applicable). MFEM and VPMU operate, manage, replenish, and liquidate the imprest account in accordance with the ADB's *Loan Disbursement Handbook*.

33. VPMU, acting on behalf of the executing agency MFEM, with the assistance of the project management consultants and project accountant will administer the imprest account. The maximum ceiling of the imprest account will not at any time exceed the estimated ADB-financed expenditures to be paid from the imprest account for the next 6 months or \$200,000, whichever will be lower. The request for initial advance to the imprest account should be accompanied by an Estimate of Expenditure Sheet²¹ setting out the estimated expenditures for the first 6 months of project implementation, and submission of evidence satisfactory to ADB that the imprest account has been duly opened. For every liquidation and replenishment request of the imprest account, the borrower will furnish to ADB (a) statement of account (bank statement) where the imprest account is maintained, and (b) the imprest account reconciliation statement reconciling the above mentioned bank statement against MIPU's records.²² VPMU on behalf of MFEM will submit withdrawal applications with relevant supporting documents substantiating eligible expenditures for the replenishment and liquidation of the imprest fund.

²¹ Available in Appendix 29 of the *Loan Disbursement Handbook*.

²² Follow the format provided in Appendix 30 of the *Loan Disbursement Handbook*. All bank charges in the operation of the imprest account will be financed from the loan.

34. Before the submission of the first withdrawal application, VPMU should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is \$100,000, unless otherwise approved by ADB. VPMU, supported by the project accountant within the consultants is to consolidate claims to meet this limit for reimbursement and imprest account claims. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and are eligible for ADB financing.

35. ADB's portion for claims under the Shipping Service Support Scheme component will be paid from the imprest account.

C. Accounting

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

37. The project will be implemented through existing institutions and using country systems as much as possible. In addition, the financial management arrangements for the proposed project will be significantly stronger than those for previous projects. Specific measures will include capacity building support and provision of independent accounting support, if needed, to ensure, among other things, timely and rigorous reconciliations, orderly record keeping, and strict adherence to financial management policies and internal controls. MFEM through VPMU will maintain separate project accounts and records by funding source for all expenditures incurred on the project. Project accounts will follow international accounting principles and practices.²³

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

- Quarterly progress reports in the format agreed and attached to this document
- "Fund Account Activity Statement" specifying total revenue/expenditure to date for the Total Project and total revenue/expenditure Disbursement forecast
- Bank reconciliation of all development funds and project and imprest accounts for ADB and NZ Funds
- Audited annual consolidated project financial statements
- Fixed asset register.

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

39. **Asset management and planning.** There is a need for a comprehensive and accurate Asset Register for all assets purchased or constructed under the project. This register must identify the useful life of the separate significant components of the infrastructure assets in accordance with *International Public Sector Accounting Standards – IPSAS 17: Property Plant and Equipment* (Attachment 4). The asset register is required to be maintained, updated and

²³ The Government of Vanuatu uses the International Public Sector Accounting Standards.

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

D. Auditing

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

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

42. **Financial Statements.** MFEM will subject the detailed consolidated project financial statements to be audited in accordance with International Standards on Auditing by an auditor acceptable to ADB and NZMFAT. The audited project financial statements will be submitted in the English language to ADB within 6 months of the end of the fiscal year by MFEM. The MFEM should submit to ADB and NZMFAT:

- (i) the annual audit report, including a separate audit opinion on the use of the imprest account(s)
- (ii) audited project financial statements, and
- (iii) management letter.

43. An audit of project financial statements should include:

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

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

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

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

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

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

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

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

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

VI. Procurement and Consulting Services

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

A. *Advance Contracting*

51. Advance contracting will be undertaken in conformity with ADB's *Procurement Guidelines* (2010, as amended from time to time)²⁴ and ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time).²⁵ The issuance of invitations to bid under advance contracting will be subject to ADB approval. The borrower, executing and implementing agencies have been advised that approval of advance contracting does not commit ADB to finance the project. No retroactive financing is envisaged.

52. Advance action is encouraged to commence the recruitment of the project implementation consultants so that consultants will be mobilized by the first quarter of 2012 when the loan agreement is expected to be declared effective.

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

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

54. For civil works, two contract packages will be procured by international competitive bidding procedures (ICB) and three by NCB procedures. With respect to the shipping services support schemes, shipping routes will be procured under NCB procedures. Goods comprising a vehicle and office equipment will be procured by shopping.

55. ICB procedures will be used for civil works contracts estimated to cost \$1 million or more, and supply contracts valued at \$500,000 or higher. NCB procedures will be used for civil works contracts estimated to cost less than \$1 million. Shopping will be used for contracts for procurement of works and equipment worth less than \$100,000.

56. At the request of the government, ADB will select the consultants in accordance with its *Guidelines on the Use of Consultants*. Consultants will then be recruited through the government's procurement systems and in accordance with ADB's *Guidelines on the Use of Consultants*. The consultants for project implementation and shipping administration and shipping coordination will be engaged using the quality- and cost-based selection (QCBS) method with a standard quality:cost ratio of 80:20.²⁶ The terms of reference for all consulting

²⁴ Available at <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>.

²⁵ Available at <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>.

²⁶ Checklists for actions required to contract consultants by method available in e-Handbook on Project Implementation at <http://www.adb.org/documents/handbooks/project-implementation/>.

services are in Section D.

57. Before the start of any procurement ADB and the government, in consultation with NZMFAT, will review the public procurement laws of the government to ensure consistency with ADB's *Procurement Guidelines*.

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

59. An estimated 336 person-months (110 international, 226 national) of consulting services are required to (i) facilitate project management and implementation, (ii) undertake the shipping services scheme, and (iii) strengthen the institutional and operational capacity of MFEM. Consulting firms will be engaged using the QCBS method with a standard quality:cost ratio of 80:20.

C. Procurement Plan

1. Process Thresholds, Review and 18-Month Procurement Plan

a. Project Procurement Thresholds

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

Procurement of Goods and Works	
Method	Threshold
International Competitive Bidding (ICB) for Works	Above \$1,000,000
National Competitive Bidding (NCB) for Works	Between \$100,000 and less than \$1,000,000
Shopping for Goods	Below \$100,000

b. ADB Prior or Post Review

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

Procurement Method	Prior or Post	Comments
Procurement of Goods and Works		
ICB Works	Prior	1 st NCB documents only
NCB Works	Prior	
Shopping for Goods	Post	
Recruitment of Consulting Firms		
Quality- and Cost-Based Selection (QCBS)	Prior	Advance action for recruitment will be encouraged, based on Full Technical Proposal
Recruitment of Individual Consultants		
Individual Consultants	Prior	

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

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

General Description	Contract Value	Procurement Method	Prequalification of Bidders	Advertisement Date (quarter/Year)	Comments
Works	5,750,000	ICB	Y	IV / 2013	Port Vila Wharf
Works	6,100,000	ICB	Y	IV / 2013	Loltong & Simonsen Wharves

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

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

General Description	Contract Value	Recruitment Method	Advertisement Date (quarter/year)	International or National Assignment	Comments
Project Implementation	3,370,000	QCBS, FTP 80:20	IV / 2011	Both	
Shipping Administrator & Coordinator Scheme	380,000	ICS	III / 2013	National	

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

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

General Description	Value of Contracts (cumulative)	Number of Contracts	Procurement / Recruitment Method	Comments
Works	4,650,000	5	NCB	5 rural jetties
Shipping Services Scheme	1,000,000	5	NCB	
Equipment	75,000	5	Shopping	

f. Indicative List of Packages Required Under the Project

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

General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Domestic Preference Applicable	Comments
Works	16,500,000	5	ICB/NCB		
Shipping Services	1,000,000	5	NCB		
Goods	75,000	5	Shopping		
Services	3,760,000	2	QCBS		

2. National Competitive Bidding

66. The procedures to be followed for national competitive bidding shall be those set forth in the provisions on competitive bidding in Part 5 (Purchasing Approval and Payment for Goods and Services) of the Public Finance and Economic Management Act No. 6 (1998)²⁷ with modifications set forth below in order to ensure economy, efficiency and transparency and broad consistency with the provisions of Section I of the ADB *Procurement Guidelines* as required by paragraph 3.3 and 3.4 of the guidelines.

a. Eligibility

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

b. Registration

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

c. Advertising; Time for Bid Preparation

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

²⁷ Government of Vanuatu. 1998. *Government of Vanuatu Financial Regulations*. Port Vila.

d. Standard Bidding Documents

70. Standard bidding documents that are acceptable to the government, ADB, and NZMFAT shall be used.

e. Qualification Criteria

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

f. Bid Submission, Bid Opening, and Bid Evaluation

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

g. Rejection of All Bids and Re-bidding

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

h. Extension of the Validity of Bids

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

i. Complaints by Bidders and Handling of Complaints

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

j. Fraud and Corruption

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

obstructive practices in competing for, or in executing, a contract financed by ADB.

k. Right to Inspect/Audit

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

D. Consultant's Terms of Reference

78. Project management consultants will provide day-to-day assistance in the management and implementation of the Vanuatu Inter Island Shipping Support Project. The project will consist of four major components (i) infrastructure investments in jetties and wharves; (ii) establishment of a SSS and associated SCS; (iii) capacity development; and (iv) project management services.

1. Implementation of Infrastructure

79. The primary objective of this component is to prepare detailed engineering designs, undertake tendering processes, and supervision and management of the construction of a new interisland shipping terminal in Port Vila and four new jetties in outer islands,²⁸ and the rehabilitation of Litzlitz and Lenakel jetties and Simonsen wharf. The consultants will provide approximately 110 person-months of international consultants (i.e., project implementation advisor 40 person-months, a structural design engineer 5 person-months, maritime operations specialist 5 person-months, environmental specialist 3 person-months, social and poverty specialist 3 person-months, procurement specialist 6 person-months, a project monitoring specialist 6 person-months, a resident engineer 18 person-months, a community development specialist 6 person-months, and a field superintendent 18 person-months) and 106 person-months of national consultants (i.e., an environmental specialist 15 person-months, social and poverty specialist 15 person-months, community development specialist 15 person-months, a surveyor with technical support 5 person-months, an AutoCAD draughts person 8 person-months and project accountant and office support 48 person-months) all engaged through a firm. MIPU will provide a project manager (60 person-months), 2 resident engineers (96 person-months) and 2 works supervisors (96 person-months) for the duration of the project. MIPU will establish a technical committee comprising the consultants and technical staff to evaluate all the tenders. The consultants will support MIPU in implementing the project, particularly in the following areas:

- (i) Implement the project according to the terms and conditions specified in the loan agreement between the government and ADB, the grant agreement between the government and the Government of New Zealand, and ensure that the specified assurances under the control of MIPU are met;
- (ii) Engage a national surveyor with related technical support to carryout site and bathymetric surveys and prepare the site topography and drawings;

²⁸ The jetties are located at Lolowai, Loltong, Port Sandwich, and Waisisi.

- (iii) Prepare engineering designs and engineering drawings for all the wharf, jetties, causeways, and access roads, and storage facilities at each wharf and jetties including technical specifications, and baseline data collection. Detailed engineering designs should include climate adaptation measures;
- (iv) Prepare tender documents and conducting the tender process for all contracts for civil works, equipment, and consulting services under the project, in accordance with ADB's *Procurement Guidelines and Standard Bidding Documents*,²⁹
- (v) Provide field supervision of the civil works contracts and ensuring quality assurances and any oversight for other services deemed necessary for implementing the civil works;
- (vi) Administer, implement, and monitor international and national contracts for civil works and consulting services under the project;
- (vii) Prepare and implement EMPs, undertake environmental audits of all the contract packages as necessary, and ensure compliance with all assurances under the project;
- (viii) Prepare community participation plans for each contract site and report feedback as part of each subproject assessment and progress report;
- (ix) Ensure coordination with other projects being undertaken by MIPU, development partners, other government ministries, and the private sector;
- (x) Build the capacity of MIPU staff and national consultants through on-the-job training and establishment/improvement of procedures that can be replicated for routine MIPU projects, and future externally funded projects;
- (xi) Verify the compatibility of the initial environmental examination prepared for each site against the final engineering designs and ensure compliance with environmental safeguards;
- (xii) Ensure that social assessments are in compliance with any additional land acquisition with respect to final engineering designs;
- (xiii) Strengthen the procurement unit within PWD in procurement of works, good and services including the preparation of a procurement manual;
- (xiv) Cooperate with the Department of Health for education awareness to communities on HIV/AIDS at various contract sites;
- (xv) Assist MIPU in the management and supervision of community participation and train staff in the implementation; and
- (xvi) Publish names of bidders, winning bidders and contract amounts awarded in a widely circulated national newspaper and other media to facilitate public disclosure of information and ensure transparency and good governance.

2. Implementation of the Shipping Support Scheme (SSS) and Shipping Coordinator Scheme (SCS)

80. Shipping support and coordination will consist of two activities. An SSS will provide subsidies for a fixed number of voyages at designated frequencies on otherwise commercially unviable routes based on a least-cost tender process. Under an output-based approach, subsidies will be tied to performance, including vessel suitability, franchise areas and routes, call locations and frequency, substantiation of calls and submission of voyage data. Vessels will be required to meet safety standards and to provide facilities to reduce barriers to use by women. An SCS will appoint people in each province with the responsibility of promoting and aggregating demand and communicating needs for voyages to private sector vessel operators. The overall support program is scheduled to be implemented over a 5-year period but will be

²⁹ ADB. 2005. *Procurement of Works: Standard Bidding Document*. Manila.

regularly reviewed for adjustment during implementation. The consultants will provide approximately 7 person-months of international consultants (i.e., maritime operation specialist 5 person-months and procurement specialist 2 person-months). MIPU will engage national consultants for administering the SSS and SCS. The consultants will undertake the SSS and SCS schemes through the following activities:

- (i) For the places already identified and eligible for the SSS, identify the required level of service;
- (ii) Design a simple and efficient output-based subsidy mechanism that provides incentives for private operators to provide the required services at least cost to government, and provides targeted support to isolated communities on the identified routes and places through a process of minimum-subsidy competitive tenders;
- (iii) Establish systems for performance monitoring and payment methods;
- (iv) Develop a competitive tendering scheme, prepare prequalification and tender documents on shipping services, and conduct the implementation of the tendering scheme for all contracts for the SSS, in accordance with ADB's *Procurement Guidelines* and *Standard Bidding Documents*;
- (v) Prepare workshops to provide technical assistance for ship operators and MIPU staff to participate in the tender process;
- (vi) Assist MIPU in the management and supervision of community participation;
- (vii) Design and implement an appropriate system of financial management for the SSS, including procedures for the operation of the project imprest bank account;
- (viii) Assist MIPU with monitoring the SSS in terms of finance, contract compliance, and service provision under SSS operation;
- (ix) Assist in recruitment of national consultants for management of the day-to-day operations of the SSS, and assist MIPU in implementing it; and
- (x) Publish names of bidders, winning bidders and contract amounts awarded in a widely circulated national newspaper and other media to facilitate public disclosure of information and ensure transparency and good governance.

81. MIPU will engage national consultants as administrator of the SSS for an initial period of 3 years. The shipping administrator (an Accountant with administrative support for 36 person-months) will be required for financial and operational monitoring of ship voyages and to provide capacity building for the local shipping industry. The shipping administrator will also implement and manage the SCS. The principal responsibilities include:

- (i) Manage the SSS contracts on the routes and locations identified and ensure the levels of services required are complied with by the shipping operators;
- (ii) Assist MIPU in monitoring operational activity (before, during and after voyages) to ensure compliance with the SSS contract including random and regular verification activities regarding operational service quality and financial matters;
- (iii) Liaise with project manager on pre-voyage to establish familiarity with initial and subsequent 6-monthly service schedules for each voyage, and check that the advertised departure date publicized by the operator is compatible with agreed service schedule;
- (iv) Monitor progress of operator's vessel by checking with MIPU's Marine Affairs and confirm pre-booking passenger and cargo numbers with the operator during the voyage;

- (v) Receive and check voyage report to confirm compliance with service schedule and voyage itinerary in timing and ports of call in conjunction with MIPU's Marine Affairs;
- (vi) Obtain copies of log book pages for the duration of the voyage; confirm that log book copies are unaltered; and verify that all log book entries are consistent with the voyage report;
- (vii) Verify invoices and supporting documentation to ensure accurate and timely payments are made by MIPU to contracted ship operators and will:
 - (a) verify all entries on the Voyage Finance and Statistics Report including comparison with revenue and passenger/cargo volume calculations as per voyage subsidy;
 - (b) collate data from the passenger list and cargo manifest and check against Voyage Finance and Statistics Report for errors and omissions;
 - (c) collate data for calculation of revenue adjustment and compute adjustment if required and advise project manager and MIPU;
 - (d) collate, analyze and report on data relating to cargo and passenger traffic volumes, freight rates, fare pricing, from government's price control unit and determine fuel cost adjustments;
 - (e) compile progressive performance report from Voyage Finance and Statistics Report data. Note and report on favorable or adverse trends; and
 - (f) endorse shipping operators invoices to MIPU with revenue and fuel adjustments applied;
- (viii) Build capacity through workplace counseling for ship operators administrative personnel and MIPU staff;
- (ix) Provide quarterly and annual cash flow projections to MIPU for the SSS; and
- (x) Collate data to establish a meaningful database of information relating to communities served and the franchise routes.

82. The shipping scheme administrator will engage a shipping coordinator (24 person-months intermittently) to assist in managing the demand side of shipping services to isolated communities, promote trade, and coordinate the provision of information and support between the isolated communities and the providers of the shipping services. The shipping coordinator will:

- (i) Establish a program of ship calls to isolated communities and advise provincial coordinators on the program of ship calls, based on the frequency of services for each route for the identified locations;
- (ii) Advise communities on the appointment of provincial coordinators;
- (iii) Visit isolated communities with the provincial coordinators to establish an education awareness program focused on promoting increased production of goods that can be traded with the objective of maintaining and improving the frequency of ship calls through the establishment of a minimum threshold volume of cargo that will attract ship calls;
- (iv) Coordinate the timing of ship calls to optimize the harvest of marketable cash crops;
- (v) Ensure isolated communities are informed of shipping support measures including ship schedules, freight rates, etc.;
- (vi) Build and maintain a network of purchasers of produce in urban markets and advising of the availability of crops for market;
- (vii) Ensure isolated communities will have produce ready for loading and inwards goods (orders) arranged for shipping services provided under the SSS;

- (viii) In liaison with provincial coordinators, advise ship owners of shipping services demands when cargoes will be ready for shipping and facilitate the ship calls to collect the cargo;
- (ix) Maintain communications between the isolated communities receiving support and contracted ship owners;
- (x) Assist provincial coordinators in educating isolated communities in ways to secure the maximum benefit from the SSS;
- (xi) Represent isolated communities on matters relating to shipping support measures; and
- (xii) Assist in the dissemination of information and education awareness on HIV/AIDS to the communities.

83. The shipping scheme administrator will engage eight provincial coordinators (one in each province intermittently) to assist in the implementation and management of the SSS and the SCS to help secure the supply of shipping services to match the demand for shipping services and to foster economic and social development in isolated communities. The provincial coordinator's role is to promote and coordinate the efforts of an isolated community to attract shipping, to promote increases in the production of local produce for market and to maintain communications with the shipping coordinator. The provincial coordinators' tasks are to:

- (i) Ensure isolated communities are well informed about the SSS, particularly the obligations and responsibilities of individual communities and how best they can benefit from the scheme;
- (ii) Assist in educating isolated communities in ways to secure the maximum benefit from the SSS initially through a sea transport and trade awareness program, prices of cash crops in the urban markets, and potential buyers of their produce, which will enable communities to appropriately plan their activities;
- (iii) Assist isolated communities in the selection of consolidation or focal points as the designated trading posts for shipping services;
- (iv) Inform isolated communities of shipping support measures including ship schedules, freight rates, etc., and promote the use of these services;
- (v) Ensure isolated communities have produce ready and inwards cargo (orders) arranged for shipping services provided under the SSS;
- (vi) Maintain communications between the isolated communities receiving support measures and the shipping coordinator;
- (vii) Maintain and preserve records and documents relating to shipping operations, cargo volumes and passenger numbers using support measures to assist in determining the effectiveness of these measures at the selected focal points;
- (viii) Advise the shipping coordinator on general matters relating to SSS and the SCS for their isolated community(s);
- (ix) Represent their remote community(ies) on matters relating to the administration, management, and operation of the SSS and the SCS;
- (x) Share and exchange information with other onsite coordinators; and
- (xi) Assist in the dissemination of information and education awareness on HIV/AIDS to the communities.

3. Capacity Development

84. Capacity development in MIPU is required to enable standards of design and implementation management to be sustained at a satisfactory level with minimal assistance after project completion. Also, capacity development is necessary for shipping operators to

understand the tendering processes and manage business operations. Capacity development of shipping coordinators is necessary for the successful implementation of the SSS and will be provided by the Shipping Administrator. Capacity development will be accomplished through on-the-job training conducted by the consultants, development/improvement and implementation of standard procedures for MIPU, and through training conducted by national business training providers for shipping operators. Capacity development in procurement of works, goods and services will be undertaken to strengthen MIPU's procurement unit. The consultants will undertake the following capacity-building activities:

- (i) Refine tools based on past achievements, including manuals, guidelines and procedures, software and project management tools, knowledge management, and communications;
- (ii) Provide opportunities through the project for on-the-job training of MIPU/PWD staff and national consultants in procedures, documentation, and systems developed under the project and related activities;
- (iii) Provide hands-on training to national consultants and MIPU counterparts on data collection, monitoring, and evaluation;
- (iv) Assist the private sector in increasing its participation in maritime transport service provision to enhance capacity, increase efficiency and compliance with regulation, and improve the quality of services;
- (v) Establish a contract with a local business training provider to deliver small-business training in accounting and financial management to ship owners and operators, if necessary;
- (vi) Conduct workshops for ship owners and operators in preparing competitive tenders for the SSS, based on templates to be included in contract documents;
- (vii) Develop a 12-month work plan and schedule which the shipping coordinator will use to report to MIPU, ADB, and NZMFAT as appropriate;
- (viii) Design the transport and trading awareness program and assist in its delivery to selected remote communities that would in the first instance be used as a pilot program;
- (ix) Develop communication networks and procedures between the shipping coordinator, onsite coordinators, MIPU, shipping companies, produce buyers, provincial secretaries and local area councils in order to keep all informed of transport and trading requirements;
- (x) Establish systems to record ship calls, cargo types and volumes, and passengers embarked and disembarked at remote communities that fall under the SSS;
- (xi) Establish performance measurements to gauge the success and progress of the SSS;
- (xii) Promote the SSS to buyers of cash crops.

4. Monitoring

85. MIPU will establish a project performance and monitoring system under the guidance of a project performance monitoring specialist engaged intermittently for 6 person-months. The consultants will conduct a baseline survey, monitor and evaluate the project's progress annually, and provide a final report within 6 months of the end of the contract. Specifically, it will also undertake the following:

- (i) Prepare indicators for monitoring and evaluating project performance before project commencement, and refine and monitor these indicators during project implementation, in accordance with the design and monitoring framework,

- guidelines for project performance monitoring indicators, environmental management plans, and environmental assessment and review procedures for the project;
- (ii) Prepare all documentation required by ADB and NZMFAT for monitoring the technical progress of the project, including the budget and implementation schedule, as well as quarterly payment and disbursement forecasts;
 - (iii) Monitor institutional strengthening and capacity building for incorporation into regular project progress reports;
 - (iv) Report all activities and monitoring outcomes under the project in accordance with the Project Administration Manual and the relevant grant agreements, including, but not limited to, quarterly reports, annual reports, and project completion report;
 - (v) Monitor service delivery and reporting by contractors for SSS activities and ensure timeliness and quality of reporting to support SSS management review;
 - (vi) Monitor that the voyages are conducted according to requirements of the contract, which will be checked by the shipping scheme administrator;
 - (vii) Record voyage, cargo and passenger information on MIPU's database for domestic interisland shipping to assist in ascertaining or establishing the need for shipping services support, which will be facilitated by the shipping coordinator; and
 - (viii) Assess the effectiveness of the SSS and SCS in fostering social and economic development in terms of changes in quality of shipping services, which will be monitored by the shipping coordinator.

5. Project Administration

86. The project manager will supervise administration, accounting, bookkeeping and payments during the implementation of the project. A national consultant for the position of the project accountant for 48 person-months (para. 79) and clerical support services will assist MIPU with the administration of the project. The consultants will support MIPU in administering the project, through the following activities:

- (i) Ensure that the project is implemented in accordance with these terms of reference, the laws of Vanuatu, the terms and conditions specified in the loan agreement between the government and ADB, and the grant agreement between the government and the Government of New Zealand;
- (ii) Exercise efficient and effective implementation methodologies to ensure that the specified assurances under the control of MIPU are met;
- (iii) Prepare and maintain a detailed project implementation schedule for all project activities, and identify key milestones to be achieved, in accordance with the Project Administration Manual and grant agreements;
- (iv) Provide the necessary secretarial and accounting services to ensure effective project administration;
- (v) Establish and administer a financial management system for the project in accordance with Government of Vanuatu financial regulations and relevant ADB guidelines³⁰ concerning administration of disbursements, imprest account replenishment, submission of withdrawal applications, and arrangement of direct payments to contractors;

³⁰ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

- (vi) Manage and facilitate the timely disbursement of project funds in accordance with ADB's *Loan Disbursement Handbook*;
- (vii) Report regularly on the project accounts to the project steering committee;
- (viii) Prepare project financial statements for auditors and submit the audited reports and financial statements to ADB and NZMFAT before their due dates, ensuring the financial covenants under the project are complied with;
- (ix) Assist the project manager in the providing quarterly disbursements against the projected target disbursement for the quarter;
- (x) Follow the government's environmental assessment procedure and obtain development consent prior to start of civil works, and comply with ADB's *Environmental Assessment Guidelines* (2003) and applicable policies of NZMFAT; and
- (xi) Prepare and implement a public communication plan covering activities under the project in accordance with ADB's *Public Communications Policy* (2005) and applicable policies of NZMFAT.

6. Outputs

87. The consultants will produce the following outputs:

- (i) Detailed engineering designs, engineering drawings and technical specifications for all wharves and jetties;
- (ii) Tender documentation and tender evaluation reports for all proposed contract packages;
- (iii) Executed all civil works and SSS contracts;
- (iv) Project reports (as detailed in para. 70);
- (v) Detailed project performance monitoring system (including detailed indicators);
- (vi) Environmental management plans;
- (vii) Public communications plan;
- (viii) SSS operation guidelines, procedures, and regulations;
- (ix) A procurement manual/guide for works, goods and services; and
- (x) SSS quarterly reports.

7. Reporting

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

- (i) Inception report, within 4 weeks of start of the project;
- (ii) Quarterly progress reports (Attachment 5), submitted within 1 month of the end of the quarter including the project performance report (Attachment 6), environmental management and environmental audit reports, risks and mitigation undertaken, and progress against the Gender Action Plan;
- (iii) Consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for the next 12 months;
- (v) Draft final report and draft project completion report (Attachment 7) in ADB format; and
- (vi) Final report and final project completion report 1 month after receiving the comments on the draft final report from the government, ADB, and NZMFAT.

VII. Safeguards

89. MIPU, as the implementing agency, will have overall responsibility for compliance with safeguard requirements. MIPU will coordinate staff requirements for audit of safeguard activities with relevant government agencies, including the Ministry of Lands and the Ministry of Environment. The project manager of the MIPU will manage day-to-day activities.

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

91. The project is classified as environmental category B. The initial environmental examinations for the project have been prepared in accordance with ADB's *Safeguard Policy Statement*. MIPU will supervise implementation of the Environmental Management Plans (EMP) which include (i) revising the construction section of the EMP and attaching this to the Bid and Contract documents, (ii) reviewing and approving the Contractor's EMP, (iii) training of MIPU technical staff and contractors in implementing the EMP and monitoring requirements, and (iv) undertaking compliance monitoring of the EMP. The budget for personnel and operational support related to safeguards compliance has been included in the project cost.

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

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

VIII. Social AND Gender dimensions

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

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

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

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

98. Project activities will be implemented in accordance with the Gender Action Plan (GAP). MIPU will assign responsible staff and allocate resources for implementation of the GAP and will monitor and report against the targets.

GENDER ACTION PLAN

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

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

ADB = Asian Development Bank; CGS = community development and gender specialist, DMA = Department of Maritime Affairs; GAP = Gender Action Plan; MIPU = Ministry of Infrastructure and Public Utilities; NGO = nongovernment organization; NZMFAT = New Zealand Ministry of Foreign Affairs and Trade; PWD = Public Works Department.

IX. Performance Monitoring, Evaluation, and Reporting

A. *Project Design and Monitoring Framework*

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact People throughout Vanuatu have improved access to socioeconomic opportunities	3% annual growth in cargo and passenger volumes from rural areas by 2020. (Baselines: Cargo baseline is 65,000 tons per annum in 2010, passenger baseline to be established during implementation.) Women in rural areas establish markets at more than half of the project jetties and wharves by 2018. (Baseline: zero in 2010.)	Baseline survey and monitoring surveys at inception, midterm, and completion Shipping support scheme voyage reports Government socioeconomic monitoring reports	Assumptions Private sector operators respond to opportunities Sufficient incentives for rural agriculture to grow in response to services Risks Deterioration in domestic and external economic conditions, constraining growth and development Inefficient franchise management could affect service provision
Outcome Private sector operators provide interisland shipping services that are reliable, safe, and adequately frequent	Sailing schedules to all islands are published and 90% of vessel calls are delivered without cancellations or delays greater than 24 hours. All vessels in Vanuatu comply with national safety regulations by 2017 Main population centers in project areas receive a vessel call at least once every two months	Maritime regulatory authority reports Reports from provincial shipping coordinators Reports from the Vanuatu Maritime Safety Administration Shipping support scheme voyage reports	Assumptions Continued political stability and support Private sector operators respond to opportunities Sufficient incentives for rural agriculture to grow in response to services Risks Rural production might not grow enough to increase services Inefficient franchise management could affect service provision
Outputs 1. Improved maritime infrastructure is provided in the capital and rural areas	1.1. Construction is complete in Port Vila and at four rural sites by 2017 1.2. Rehabilitation is complete at three rural sites by 2017 1.3. All project facilities provide separate waiting areas and amenities for women by 2017	Quarterly reports from project steering committee	Assumptions Government counterpart funding and NZMFAT cofinancing provided as planned Risks Limited availability of capable contractors to complete projects on

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
2. Shipping support and coordination schemes have been established	2.1. Shipping services provided to project areas by 2013 2.2. Shipping coordinators appointed in each province by 2013 2.3. At least 25% of shipping coordinators are women by 2012 2.4. Shipping coordinators collect and maintain sex-disaggregated information on demand for services by 2015	Shipping support scheme voyage reports	schedule Delayed or incomplete institutional restructuring Delayed passage of the appropriate regulations and legislation
3. Project management services ensure efficient and effective project implementation.	3.1. Project activities are completed on schedule by 2017 3.2. At least 25% of national staff of the project management consultants are women by 2014	Quarterly reports from project steering committee	
4. The Vanuatu Maritime Safety Administration is established	4.1. Enabling legislation passed 4.2 Budget approved and staff appointed	Government gazette Ministry of Infrastructure and Public Utilities annual work plan	
Activities with Milestones			Inputs
1. Infrastructure improvements			ADB: \$10.82 million ADF loan
1.1 Implementation of civil works contracts (2014–2016)			\$0.5 million TA grant
2. Shipping support scheme			Item Amount (\$ million)
2.1 Appointment of provincial shipping coordinators (2013)			Works 9.58
2.2 Implementation of shipping support scheme (2013–2016)			Services 0.38
3. Project Management			Other 0.86
3.1 Short listing and finalization of requests for proposals (2012)			TA 0.50
3.2 Evaluation and award of contract (2012)			Government \$3.40 million
3.3 Preparation of design and bid documents (2013)			Item Amount (\$ million)
3.4 Recruitment of shipping support scheme manager (2013)			Works 1.50
3.5 Tendering and award of franchise contracts (2013-14)			Services 0.25
3.6 Tendering and award of civil works contracts (2013-14)			
3.7 Supervision of civil works (2014–2016)			

4. TA to establish the Vanuatu Maritime Safety Administration 4.1 Review legislation and regulations/draft amendments (2013) 4.2 Prepare organization development plan (2013) 4.3 Develop capacity of appointed staff (2013–2015) 4.4 Enact revised legislation and regulations (2015–2016)	Consulting	0.62
	Other	1.03
	New Zealand: \$13.60 million grant	
	Item	Amount (\$ million)
	Works	7.14
	Services	0.42
	Consulting	3.37
	Other	1.67
	TA	1.00

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

Source: Asian Development Bank.

B. Monitoring

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

100. The consultants will provide hands-on training to MIPU staff and national consultants in data collection, monitoring, and evaluation. MIPU shall monitor and evaluate the indicators according to the agreed framework on a quarterly basis to determine the efficiency and effectiveness of the project. Disaggregated baseline data for output and outcome indicators gathered during project processing will be updated and reported quarterly through MIPU's quarterly progress reports and after each review mission. These quarterly reports will provide information necessary to update ADB's project performance reporting system.³¹ Beneficiaries will be involved in project monitoring and evaluation through the shipping coordinators.

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

102. A project steering committee will be formed to oversee the overall implementation of the project. The composition and terms of reference for the project steering committee are in Attachment 1.

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

³¹ ADB's project performance reporting system is available at:
<http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltooland>.

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

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

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

107. **Involuntary Resettlement.** Although most of the works will be undertaken at the locations of existing facilities, there may be a requirement for some additional land acquisition which may require development of a resettlement plan. If changes in conditions may result in acquisition of land or resettlement for civil works, the government will inform ADB and prepare a resettlement plan in accordance with laws and regulations; ADB's *Safeguard Policy Statement* (2009); and the resettlement framework. MIPU will ensure that no construction activities begin until ADB has reviewed and approved such resettlement plan. MIPU will monitor and report quarterly through progress reports to ADB and stakeholders.

108. **Indigenous Peoples.** Native Melanesians, who comprise the vast majority of the population, are the indigenous people of Vanuatu. The project is not expected to have a negative impact on indigenous peoples that would trigger ADB's *Safeguard Policy Statement*. The project is categorized as indigenous peoples Category C; therefore no monitoring is required.

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

C. Evaluation

110. Soon after the loan is approved, ADB will field a joint inception mission with NZMFAT to agree with MIPU on a checklist of implementation requirements of the projects as well as discuss in detail the procedures relating to procurement of works and goods, recruitment of consultants, and disbursements. The government, ADB, and NZMFAT will undertake semiannual reviews of the project to consider in detail the (i) scope of the project, (ii) implementation arrangements, (iii) compliance with loan and grant covenants, (iv) physical achievements against targets and milestones, and (v) project implementation issues requiring resolution or action. The midterm review will be made after 2 years of the loan effectiveness date. The midterm review will examine in detail the implementation progress and project design (institutional, administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, and financial aspects), and identify courses of action that would improve project performance, viability, and the achievement of targets and project objectives. All the assumptions and risks noted in the design and monitoring framework will be reviewed. Within 6 months of physical completion of the project, MIPU will submit a project completion report through MFEM and VPMU to ADB and NZMFAT.³²

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

D. Reporting

112. VPMU (based on information submitted by MIPU and the project consultants) will provide to ADB and NZMFAT with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system last week of first month ending the quarter; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated

³² Project completion report format available at <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>.

procurement plan and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the project. To ensure projects continue to be both viable and sustainable, project accounts and the associated auditor's report should be adequately reviewed. These will be authorized by the Director of VPMU.

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

X. Anticorruption Policy

114. ADB reserves the right to investigate, directly or through its agents, any violations of the *Anticorruption Policy* (1998, as amended to date) relating to the project.³³ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.³⁴

115. To support these efforts, relevant provisions are included in the loan agreement/regulations and the bidding documents for the project. Procurement will follow ADB's *Procurement Guidelines* (2010, as amended from time to time), consultant selection will adopt ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time), and disbursement will be made in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time).

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

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

³³ Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>.

³⁴ ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>.

XI. Accountability Mechanism

118. People who are, or may in the future be, adversely affected by the project may address complaints to ADB, or request the review of ADB's compliance under the Accountability Mechanism.³⁵

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

³⁵ For further information see: <http://compliance.adb.org/>.

XII. TECHNICAL ASSISTANCE

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

121. The TA will consist of three main components: sector governance reforms to legislation and regulation, institutional restructuring to rationalize the tasks belonging to MIPU (primarily the Department of Ports and Harbours and the Maritime Affairs Division), and capacity development of Vanuatu Maritime Safety Administration staff. Details are provided in Linked Document 13: Technical Assistance (accessible from the list of linked documents in Appendix 2 of the Report and Recommendation of the President).

122. The implementing agency for the TA will be MIPU. The project steering committee will also serve as the steering committee for the TA. MIPU will be responsible for overseeing and monitoring TA implementation, including (i) policy guidance and coordination, (ii) specific outputs as described in the terms of reference, and (iii) project progress reports and other project documentation.

123. ADB will administer the TA as the executing agency. Administration and disbursements of ADB funding will be done in accordance with the ADB's *Technical Assistance Disbursement Handbook* (May 2010, amended time to time).

124. Consulting services are required as shown in Table 1. ADB will recruit consulting services in accordance with ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time). Terms of reference are also provided in Attachment 8.

Table 1: Summary of Consulting Services Requirement

International			National	
Name of Positions		Person-months	Name of Positions	Person-months
Maritime Institutional Expert/Team Leader		16	Maritime Safety Expert	16
Legal Experts		14	Legal Expert	15
Financial Management Expert		3	Financial Management Advisor	6
			Training Advisor	6

Source: Asian Development Bank and Government of Vanuatu estimates

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

- (i) Inception report, within 4 weeks of start of the project, including a design and monitoring framework, an outline program, and milestones; approach, methodology, and work plan; any cost implications for consulting services; and recommendations for changes in the implementation arrangements.
- (ii) Monthly activity reports to document inputs and accompany invoices.

- (iii) Quarterly progress reports, summarizing activities and progress to date against the work plan, submitted within 1 month of the end of the quarter.
- (iv) Draft final report, summarizing activities and achievements against the terms of reference, including recommendations for future activities, within 1 month of completion.
- (v) Final report 1 month after receiving the comments on the draft final report from the government, ADB and NZMFAT.

XIII. record of PAM changes

August 2011: 1st version completed.

April 2013: 2nd version completed updating the following:

- Change in the timing of the project, including the impact on the disbursement profile, key reporting dates, the Performance Monitoring Evaluation and Reporting Programme milestones;
- The establishment and role of the Vanuatu Project Management Unit (VPMU), including the VPMU Steering Committee and Program Management Unit, including updated Terms of reference, role in the authorization and disbursement of funds, provision of reporting and oversight of the project;
- The reporting requirements for the project including project progress report and fixed asset reporting;
- Inclusion of a new Total Project disbursement profile, NZ and GoV disbursement profile and revised ADB loan disbursement profile
- Specific external audit arrangements for the project
- Confirmation that Implementing Consulting Services Funds may be utilized for agreed VPMU staff and direct costs (acting on behalf of MFEM as the Executing Agency) and Office of the Auditor General Funding relating to this project.
- Revision of the Technical Assistance Terms of Reference

Additional attachments:

- Terms of Reference for VPMU Steering Committee and Program Management Unit
- Reporting Requirements for the Payment of New Zealand Aid Programme Grant Funding
- Master List of Withdrawal Applications
- Asset Register and Asset Maintenance Plan Requirements
- Executing Agency's project progress report
- Project Performance Monitoring
- Project Completion Report Guidelines
- Updated TOR of Technical Assistance

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

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

VPMU-SC Membership

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

Responsibilities of VPMU-SC

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

Meetings of SC

9. The SC shall meet as often as reasonably necessary to meet the requirements of the executing agency during implementation of the development projects but no less than once every quarter.³⁶ At all meetings of the SC, a simple majority of the voting members shall constitute a quorum for the transaction of business.

Reporting of SC

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

Signing Authority

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

³⁶ Given the number of development projects taking place in Vanuatu, the SC meets every month.

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

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

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

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

ATTACHMENT 3. Master list of withdrawal applications

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

[illegible]

ATTACHMENT 4. Asset Register and Asset Maintenance Plan Requirements

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

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

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

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

Depreciation

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

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

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

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

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

Attachment 5. EXECUTING AGENCY'S PROJECT PROGRESS REPORT

A. Introduction

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

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

B. Content and Format

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

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

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

5. A pro forma progress report with format and content agreed to by the borrower, EA, and ADB is appended to the processing mission's memorandum of understanding. The sector division or the regional or resident mission (RM) responsible for implementing the project provides the borrower or EA with an updated sample report after the loan is approved and before the project inception mission. This reminds the borrower or EA of ADB's progress reporting requirements. The sample report will be then incorporated in the project administration memorandum to be discussed and finalized during the project inception mission (PAI 1.05).

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

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

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

Appendix 1

Pro Forma of the Executing Agency's Project Progress Report

A. Introduction and Basic Data

Provide the following:

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

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

Provide the following:

- cumulative contract awards financed by the ADB loan, cofinancing, and counterpart funds (commitment of funds to date), and comparison with time-

bound projections (targets) in total and by output;

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

C. Project Purpose

Provide the following:

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

D. Implementation Progress

Provide the following:

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

E. Compliance with Covenants

Provide the following:

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

F. Major Project Issues and Problems

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

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

Appendix 2

Framework and Guidelines in Calculating Project Progress

A. Introduction

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

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

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

B. Framework for Compiling Activity List and Assigning Weights

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

1. Compilation of Activity List

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

2. Assignment of Weights

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

3. Computation of Project Progress

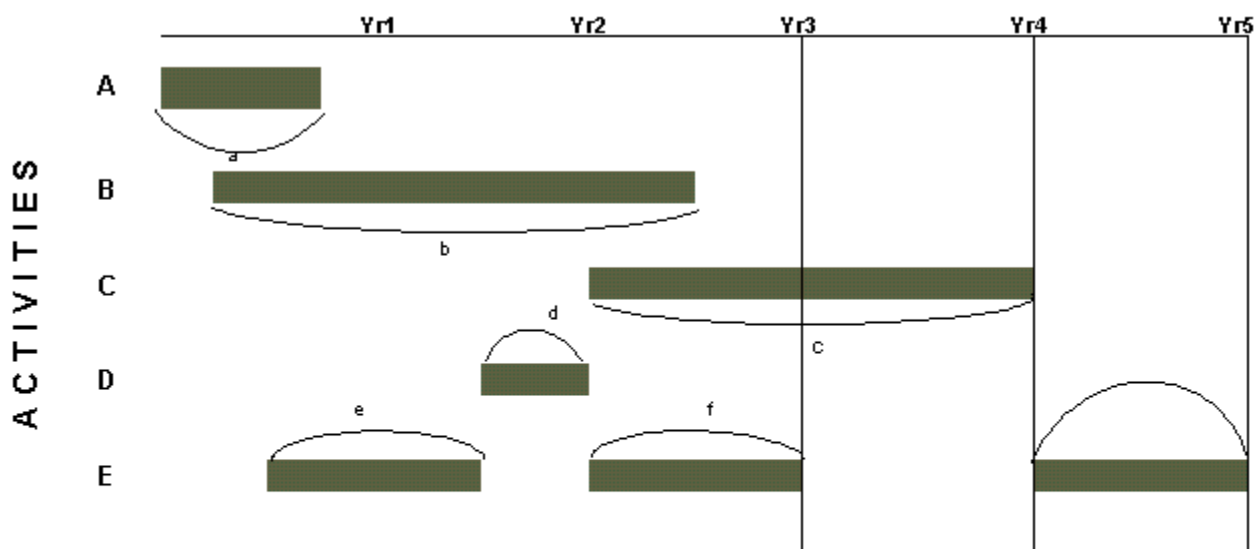
7. Once all activities are identified and corresponding weights assigned, project progress should be calculated using the following steps:

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

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

Appendix 3














Implementation Schedule with Activities and Weights



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

Appendix 4

Sample Implementation Schedule

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

(a) As signed weight for each activity

(b) Actual progress of each activity

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

Project progress = sum of all weighted progress for each activity

Appendix 5

PROJECT PERFORMANCE REPORT									
As of									
					SERIAL NO	:			
					DIVISION	:			
					DEPARTMENT	:			
					PROJECT NO	:			
					STATUS	:			
(ALL AMOUNTS IN US\$ MILLION)									
BASIC DATA									
				PROJECT AT RISK		LAST:	CURR:	Targeting Classification	
NAME				Impact and Outcome		:		Themes	
				Implementation Progress (IP)		:		Subthemes	
				Potential Problem (PP)		:			
				Override		:			
LOAN NO(S)	APPROVAL	SIGNING	EFFECTIVITY	-----CLOSING-----			PHYSICAL	ELAPSED	
				ORIGINAL	REVISED	ACTUAL	COMPLETION	LOAN PERIOD	
							ORIG:	ORIG:	
							REV:	REV:	
PROJECT PROGRESS:									
REVIEW MISSIONS:		LAST:		ACTUAL DAYS (last 12 months):					
		NEXT:		PLANNED DAYS:					
EXECUTING AGENCIES:									
FINANCING PLAN (LOAN)									
				TOTAL	COUNTERPART FUNDS ADEQUATE	CURRENT VALUE OF BANK LOAN:	BALANCE AVAILABLE FOR COMMITMENT:		
PROJECT COST						APPROVED :			
ADB						NET :			
World Bank									
Government									
LOAN UTILIZATION									
----- CUMULATIVE CONTRACT AWARDS -----				----- 2008 CONTRACT AWARDS -----					
ADB		OTHERS		CUMULATIVE					
				CONTRACTS TO	1Q	2Q	3Q	4Q	TOTAL
				NET BANK					
				LOAN(S):					
----- CUMULATIVE DISBURSEMENTS -----				----- 2008 DISBURSEMENTS -----					
ADB		OTHERS		CUMULATIVE					
				DISBURSEMENTS	1Q	2Q	3Q	4Q	TOTAL
				TO NET BANK					
				LOAN(S):					
COVENANTS									
AUDITED PROJECT		AGENCY FINANCIAL		SECTOR	ENVIRONMENTAL	SOCIAL	FINANCIAL	ECONOMIC	
ACCOUNTS / DELAY		STATEMENTS / DELAY		COVENANTS	COVENANTS	COVENANTS	COVENANTS	COVENANTS	
COMPLIANCE WITH COVENANTS:									
MAJOR ISSUES/PROBLEMS (IP, Impact and Outcome, Covenants)									
PROBLEM(S)					ACTION TAKEN/PROPOSED				
PAU ASSISTANT					PROJECT SPECIALIST				
<small>Legend: EGD - Economic Growth HD - Human Development GD - Gender and Development GG - Good Governance ENV - Environmental Protection PSD - Private Sector Development R&G - Regional Cooperation CAD - Capacity Development</small>									

IMPACT AND OUTCOME

Impact

Description

Outcome

Description

Performance Targets/Indicators	Rating (H, S, P, U)	Progress/Status

Key Assumptions/Risks	Rating (H, S, P, U)	Assessment of Current Status
Assumptions:		

Risks:	Mitigated (Y/N)		
Overall Rating		NOTE: Overall Rating is based only on Assumptions and Risks until project completion. Thereafter, immediate DO assessment will be included	

Rating Upon Suspension (for CO&O use only)		
New Impact and Outcome Rating:	Effective Date:	Date of Lifting:
Remarks:		

Recent Development (Date:)

--

Problems with Impact and Outcome

Description	Action Taken/Proposed

Project Quality (one time input)

Capacity Building Component	Training Component	Participatory Process	Project Manager/Project Office prior to Loan approval	Incorporated Lessons Learned in Sector/Country	Logical Framework

IMPLEMENTATION PROGRESS

Project Outputs

Description	Indicators / Targets	Status

Key Project Inputs

(Loan Categories from LFIS/Logical Framework)	Remarks

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

Implementation Progress

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

Design Changes

--

Recent Development (Date:)

--

Problems with IP

Description	Action Taken/Proposed

POTENTIAL PROBLEM PROJECT

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

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

Justification for Override	Justification for Lifting

COVENANTS

Project and EA Accounts

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

Project Specific Covenants

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

Problems/Remarks/Issues with Covenants

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ATTACHMENT 6. PROJECT PERFORMANCE MONITORING

A Introduction

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

B Design and Monitoring Framework

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

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

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

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

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

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

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

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

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

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

C. Project Performance Reporting

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

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

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

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

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

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

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

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

e. Inputs are automatically sourced from financial system.

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

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

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

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

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

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

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

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

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

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

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

D. Portfolio Performance Indicators and Rating

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

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

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

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

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

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

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

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

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

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

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

ATTACHMENT 7. PROJECT COMPLETION REPORT

Objective and Scope

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

Timing of PCR preparation

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

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

A PCR is kept concise by

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

Determining Project Completion

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

Project Completion Report General Guidelines for Preparing Project Completion Reports

CONTENTS

BASIC DATA

MAP¹ (Title)

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

I. PROJECT DESCRIPTION

II. EVALUATION OF DESIGN AND IMPLEMENTATION

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

III. EVALUATION OF PERFORMANCE

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

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

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

BASIC DATA

A. Loan Identification

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

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

B. Loan Data

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

a. Dates

Initial Disbursement Final Disbursement Time Interval

xxx xxx xxx

Effective Date Original Closing Date Time Interval

xxx xxx xxx

b. Amount _____

(loan currency) (US\$ equivalent)

Category No. (1)	Category or Subloan (2)	Original Allocation (3)	Partial Cancellations (4 = 3 - 5)	Last Revised Allocation (5)	Amount Disbursed (6)	Undisbursed Balance ¹ (7 = 5 - 6)
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Total (loan currency)

Total US\$ Equivalent

a b c d e

¹ For final cancellation

a = US\$ equivalent per RRP

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

c = Total of (d + e)

d = Actual US\$ equivalent

e = US\$ equivalent as of report preparation

10. Local Costs (Financed)

- Amount (US Dollars)
- Percent of Local Costs
- Percent of Total Cost

C. Project Data

1. Project Cost (\$_____)

Cost		Appraisal Estimate		Actual
Foreign Exchange Cost				
Local Currency Cost				
Total				

2. Financing Plan (\$_____)

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

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

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

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

D. Disbursements

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

E. Project Schedule

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

F. Implementation Arrangements

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

G. Conditions and Covenants

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

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

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

H. Related Technical Assistance

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

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

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

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

I. Consultant Recruitment and Procurement

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

J. Performance of Consultants, Contractors, and Suppliers

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

K. Performance of the Borrower and the Executing Agency

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

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

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

L. Performance of the Asian Development Bank

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

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

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

III. EVALUATION OF PERFORMANCE

A. Relevance

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

B. Effectiveness in Achieving Outcome

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

C. Efficiency in Achieving Outcome and Outputs

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

D. Preliminary Assessment of Sustainability

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

E. Impact

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

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

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

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

B. Lessons Learned

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

C. Recommendations

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

1. Project-Related

32. Recommendations should include the following:

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

2. General

33. For project appraisal, the recommendation could focus on

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

34. For project implementation, review

- ADB's identification and discussion of design and monitoring framework performance targets with the EA;

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

ATTACHMENT 8. TECHNICAL ASSISTANCE

A. Rationale

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

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

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

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

1. Component 1: Institutional restructuring

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

2. Component 2: Sector governance reforms

5. Sector governance reforms will bring the current maritime legal framework up to date and into compliance with maritime industry developments within the region and improve the safety and economic performance of domestic shipping. The legal framework will separate economic requirements from safety and security requirements. Vanuatu's maritime law should be consolidated into three new acts, comprising (i) a Sea Transportation Act to provide for the transport (economic) requirements, (ii) a Maritime Safety Administration Act to provide for the

safety and security requirements, and (iii) a Shipping Act to provide for the registration of ships, mortgages and liens in Vanuatu and the establishment of a shipping register in accordance with best regional practice. The outputs of this component will be draft legislation for consideration by Parliament plus regulations for implementation of the new acts.

3. Component 3: Capacity Development

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

C. Implementation Arrangements

7. The executing agency for the TA will be the Ministry of Finance and Economic Management (MFEM) while ADB will provide overall administration. The project steering committee will also serve as the steering committee for the TA. MFEM will be responsible for overseeing and monitoring TA implementation, including (i) policy guidance and coordination, (ii) specific outputs as described in the terms of reference, and (iii) project progress reports and other project documentation.

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

9. Major equipment to be purchased from the TA budget includes computers and networking, a large-format copier and scanner, radios, and test equipment. Equipment will be procured in accordance with ADB's Procurement Guidelines (2010, as amended from time to time) and turned over to the government after completion of the TA.

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

D. Consulting Services

11. Approximately 33 person-months of international consulting services and 43 person-months of national consulting services are required as shown in Table 1. Consultant selection for Component 1 will be done by ADB via quality- and cost-based selection procedures with 80:20 weighting for quality and cost respectively. ADB will recruit consulting services for Component 1 in accordance with ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time).

Table 1: Summary of Consulting Services Requirement

International		Person-months	National	
Name of Positions			Name of Positions	Person-months
Maritime Institutional Expert/Team Leader		16	Maritime Safety Expert	16
Legal Experts		14	Legal Expert	15
Financial Management Expert		3	Financial Management Advisor	6
			Training Advisor	6

Source: Asian Development Bank and Government of Vanuatu estimates

E. Outline Terms of Reference

12. **Maritime Institutional Expert/Team Leader (international, 16 person-months).** The expert will have a university degree in economics, maritime safety administration, or a similar field. He/she will have at least 15 years experience in the design and implementation of operational and risk management policies, preferably in Asian/Pacific countries. The expert will be an excellent communicator with an ability to perform effectively in a cross-cultural context.

13. The expert will carry out the following specific tasks:

- (i) Prepare and implement institutional structures, processes, and documentation regarding vessel registry, inspection, survey, and licensing and certification of seafarers;
- (ii) Develop water transport operation and management systems, including business processing, and marine safety such as search and rescue, navigation aids, and environmental protection;
- (iii) Assist the major stakeholders in developing water transport service operation guidelines focusing on safety and administration;
- (iv) Undertake an assessment of options for management of operations and management of government-owned wharves and jetties;
- (v) Provide recommendations in the areas of organizational structuring, management responsibilities (staffing, budgets, strategic planning, etc.), addressing staffing issues, expanding the management information system, developing and documenting internal operating procedures and establishing an internal training, and procedures;
- (vi) Formulate and draft organizational policies and procedures of the Vanuatu Maritime Safety Authority (VMSA) and prepare procedures manuals for this regulator; review and structure the financial and accounting arrangements for VMSA;
- (vii) Monitor the development and implementation of the organizational structure of VMSA departmental and management structure, identification of workflows internally and externally, job descriptions, and staffing;
- (viii) Provide guidance in expanding operations, training in management concepts, and the implementation of a program to document and maintain internal operating procedures;
- (ix) Advise on further inputs necessary for effective implementation of the proposed recommendations, including requirements for additional analysis and financial

- evaluation, implementation planning, and any necessary regulatory issues or approvals;
- (x) Work closely with legal expert to:
 - Address regulatory issues that may relate to the above operational changes and ensure that appropriate sections of the relevant acts are amended;
 - Identify issues pertinent to corporate governance within VMSA and presenting recommendations for implementing reform based on regional and international best practices.
 - Review the board structure and develop policies and procedures in respect to the role and responsibilities of the board. Policies should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability;
 - Advise on further inputs necessary for effective implementation of the proposed recommendations, including requirements for additional analysis, implementation planning, and any necessary regulatory issues or approvals;
 - (xi) As team leader, organize extensive consultations with Government officials and other key stakeholders; develop and deliver the training programs and workshops to help improve understanding and build ownership of the reform process;
 - (xii) Prepare and submit inception, progress, and final reports; effectively lead the consultant team; and take overall responsibility for and ownership of the delivery of expected TA outputs and outcomes.

14. **Legal Expert (international, 11 person-months).** The Legal Expert will be qualified lawyer with at least 15 years professional experience and extensive experience in maritime sector laws and regulations and managing legal reform processes in developing countries. Experience with Pacific islands or small states would be an asset.

15. The legal expert will carry out the following tasks:
- (i) Review and assess the current Maritime Safety Administration Act, all related legislation and regulations, and implementing and supporting institutions.
 - (ii) Collect all relevant base line data as part of the initial analysis that must be used to support any policy recommendations.
 - (iii) Review and assess all country reports and studies that may have been prepared on maritime sector policy and existing issues.
 - (iv) Assess, together with other experts, issues pertinent to maritime policy, and the extent to which these should be incorporated into any new Act. Review international best practice in maritime legal reform. Summarize findings and policy recommendations in a comprehensive, concise report, and present it to (i) the Steering Committee and (ii) other stakeholders.
 - (v) Consider relevant legal enforcement issues, and discuss options for reform. Take into account existing weak enforcement mechanisms for the maritime sector reform.
 - (vi) Coordinate with the ongoing corporate legal reform initiative in the country, and ensure full compatibility between the two reforms.
 - (vii) Coordinate closely with the other experts on the development of the recommendations for reform.
 - (viii) Coordinate closely with border and maritime security agencies on the development of the recommendations for reform.

- (ix) Initiate stakeholder discussions, and raise public awareness of the underlying problems and the need for maritime sector law reform.
- (x) Formulate a white paper on maritime sector law reform and lead related consultations.
- (xi) Oversee the legal drafting process on the Maritime Safety Administration Bill and other relevant maritime sector Bills in close cooperation with the legal drafting expert and State Law Office (SLO); and present the draft(s) to stakeholders. Initiate wider public consultations.
- (xii) Prepare a detailed report on the consultation process undertaken for the policy reform, Maritime Safety Administration Bill and other relevant maritime sector Bills.
- (xiii) Assist the SLO, the MFEM and MIPU in supporting the Bills through the Parliamentary process including providing testimony at Parliamentary hearings and responding to any questions that may arise during the legislative stage.
- (xiv) Contribute to the provision of training for local government officials, and other stakeholders in implementing and applying the new legislation and associated regulations.
- (xv) Prepare evaluation indicators that will assist in determining the overall effectiveness of the reform and the project.
- (xvi) Develop a training program on compliance and law enforcement for VMSA and the national maritime industry including private operators;
- (xvii) Identify and contract for delivery of training courses in maritime safety and security through national and/or regional providers;
- (xviii) Establish relationships/memberships with regional organizations including the first Pacific Ports Association and the Regional Maritime Program, identify workshops and conferences to support the first two components, and arrange for participation by VMSA and MFEM staff as appropriate;
- (xix) Provide structured training through workshops and intermittent on-the-job training to Vanuatu stakeholders while in country.
- (xx) Assist the team leader to prepare and submit inception, progress, and final reports.

16. **Legal Drafting Expert (international, 3 person-months).** The legal drafting expert will be a qualified lawyer with at least 15 years professional experience. The expert should have extensive experience in practicing law in a common law jurisdiction, in legal and regulatory review, and in preparing drafts on maritime sector legislation. The expert will have experience in managing legal reform processes in developing countries. Experience with Pacific islands or small states would be an asset.

17. The legal drafting expert, in close coordination with SLO, will:

- (i) Review and provide recommendations on the drafting instructions on the Maritime Safety Administration Bill and other relevant maritime sector Bills prepared by the legal expert.
- (ii) Undertake the drafting of Maritime Safety Administration Bill, other relevant maritime sector Bills and any regulations (including consequential amendments to other laws and regulations) in conjunction with the national legal expert and the SLO. Draft any repeal provisions to existing laws.
- (i) Prepare any explanatory memoranda which may be required by the MFEM and SLO.

- (iv) Assist the legal expert and national legal expert to conduct workshops to discuss the final drafts with the Steering Committee, ADB's task manager, and country stakeholders.

18. Financial Management Expert/ Local staff (3 person-months). The Financial Management Expert will have a university degree in accounting, business administration, information technology, or a similar field. He/she will have at least 15 years experience in the design and implementation of operational and risk management policies, including accounting policies and procedures. The expert will be an excellent communicator with an ability to perform effectively in a cross-cultural context. The expert will:

- Review and design sound accounting standards, policies, and procedures incorporating internal control for VMSA. In designing accounting standards, policies, and procedures the expert should ensure that they lead to the production of: relevant; reliable; neutral; and comparable financial information for the users of financial statements;
- Design the form and content of the key financial reports and statements;
- With assistance of the local IT specialist, install the new systems and procedures in VMSA and test the systems reliability, accuracy and integrity. Develop a strategy for longer term computerizing of the systems in VMSA.
- Develop and submit a VMSA budget to input into MIPU's overall budget;
- Develop new standard procedures for procurement and control of finances; develop payroll systems and capability;
- Monitor the effectiveness of implementation of the tariff of levies, fees and charges, and ensuring that the potential for revenue collection set in place;
- Ensure the dissemination of the business processing to VMSA and ship operators;
- Assist Maritime Institutional Expert in developing recommendations in the areas of organizational structuring, management responsibilities (staffing, budgets, strategic planning, etc.), addressing staffing issues, expanding the management information system, developing and documenting internal operating procedures and establishing an internal training, and procedures;
- Develop an in-depth accounting training programs for VMSA staff to ensure that accounting staff understand the procedures and practices of the new accounting system;
- Conduct training sessions on government financial legislation and on application of the accounting policies and procedures manuals, including international accounting standards;
- Prepare a training manual for continual training by the Accounting Department on the new accounting procedures. The manual should include the topics and contents to be covered as well as a schedule for regular, ongoing training programs to be conducted by the Accounting Department in association with the Office of the Auditor General on accounting and auditing issues for public entity staff.
- Ensure that the systems and procedures set up for role definition, training analysis and staff development and succession are operating and can be sustained after TA completion.

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

- Provide technical advice to Vanuatu stakeholders on maritime safety and environmental issues;
- Support the Government and international experts in establishment of VMSA; ensure the application and dissemination of the guidelines and processes of VMSA;

- Assist in providing external training to inspectors and management staff in VMSA;
- Provide advice to ship operators on routes, ship costs and marine management, particularly in relation to calls to remote (uneconomic) routes.

20. **Financial Management Expert/ Local staff (6 person-months).** The Financial Management Expert will have a university degree in accounting, business administration, information technology, or a similar field with at least 10 years experience.

21. The local expert will assist the international financial management expert to:

- Review and design sound accounting standards, policies, and procedures incorporating internal control for VMSA. In designing accounting standards, policies, and procedures the expert should ensure that they lead to the production of: relevant; reliable; neutral; and comparable financial information for the users of financial statements;
- Install the new systems and procedures in VMSA and test the systems reliability, accuracy and integrity.
- Develop and submit a VMSA budget to input into MIPU's overall budget;
- Develop new standard procedures for procurement and control of finances; develop payroll systems and capability;
- Monitor the effectiveness of implementation of the tariff of levies, fees and charges, and ensuring that the potential for revenue collection set in place;
- Ensure the dissemination of the business processing to VMSA and ship operators;
- Assist Maritime Institutional Expert in developing recommendations in the areas of organizational structuring, management responsibilities (staffing, budgets, strategic planning, etc.), addressing staffing issues, expanding the management information system, developing and documenting internal operating procedures and establishing an internal training, and procedures;
- Conduct an in-depth accounting training programs for VMSA staff to ensure that accounting staff understand the procedures and practices of the new accounting system;
- Ensure that the systems and procedures set up for role definition, training analysis and staff development and succession are operating and can be sustained after TA completion.

22. **Legal Expert/Local Staff (15 person-months).** The Legal Expert will be qualified lawyer with at least 10 years professional experience and extensive experience in maritime sector laws and regulations and managing legal reform processes. He/she will:

- Assist the Legal Experts in reviewing and updating the maritime law related legislation and regulations.
- Assist the Legal Experts in assessing issues pertinent to corporate governance and the extent to which these should be incorporated into the new legislation;
- Assist the Legal Experts in initiating stakeholder discussions, engage decision makers, and raise public awareness of the underlying problems and the need for maritime sector reform;
- Assist in formulating a white paper for reform of the maritime law related legislation and regulations; lead related consultations;
- Assist the Legal Experts in timely translation of the maritime law related legislation and regulations into French and Bislama;
- Work closely with SLO in ensuring that maritime law related legislation and regulations are enacted by Parliament on time.
- Provide advisory and mentoring role to Vanuatu stakeholders in the absence of the International Experts' intermittent time in-country.

23. **Training Expert/Local Staff (6 person-months).** The expert will have a university degree in economics, maritime safety administration, or a similar field with 10 years experience. He/she will:

- Assist the Maritime Institutional Expert and Legal Experts in developing training programs on compliance and law enforcement for VMSA and the national maritime industry including private operators;
- Deliver training courses on maritime safety and security through national and/or regional providers.
- Provide structured training through workshops and intermittent on-the-job training to Vanuatu stakeholders.
- Facilitate participation of VMSA in on-going capacity development activities to ensure skills transfer.
- Provide advisory and mentoring role to Vanuatu stakeholders in the absence of the International Experts' intermittent time in-country.

F. Reporting Requirements

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

- (vi) Inception report, within 4 weeks of start of the project, including a design and monitoring framework, an outline program, and milestones; approach, methodology, and work plan; any cost implications for consulting services; and recommendations for changes in the implementation arrangements.
- (vii) Monthly activity reports to document inputs and accompany invoices.
- (viii) Quarterly progress reports, summarizing activities and progress to date against the work plan, submitted within 1 month of the end of the quarter.
- (ix) Draft final report, summarizing activities and achievements against the terms of reference, including recommendations for future activities, within 1 month of completion.
- (x) Final report 1 month after receiving the comments on the draft final report from the government, ADB and NZMFAT.