



Project Readiness Financing Report

Project Number: 53045-001
June 2019

Kingdom of Tonga: Transport Project Development Facility

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 May 2019)

Currency unit	–	pa'anga (T\$)
\$1.00	=	T\$2.25887

ABBREVIATIONS

ADB	–	Asian Development Bank
MFNP	–	Ministry of Finance and National Planning
MOI	–	Ministry of Infrastructure
PMU	–	project management unit
PRF	–	project readiness financing
QSIW	–	Queen Salote International Wharf
TA	–	technical assistance

NOTE

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

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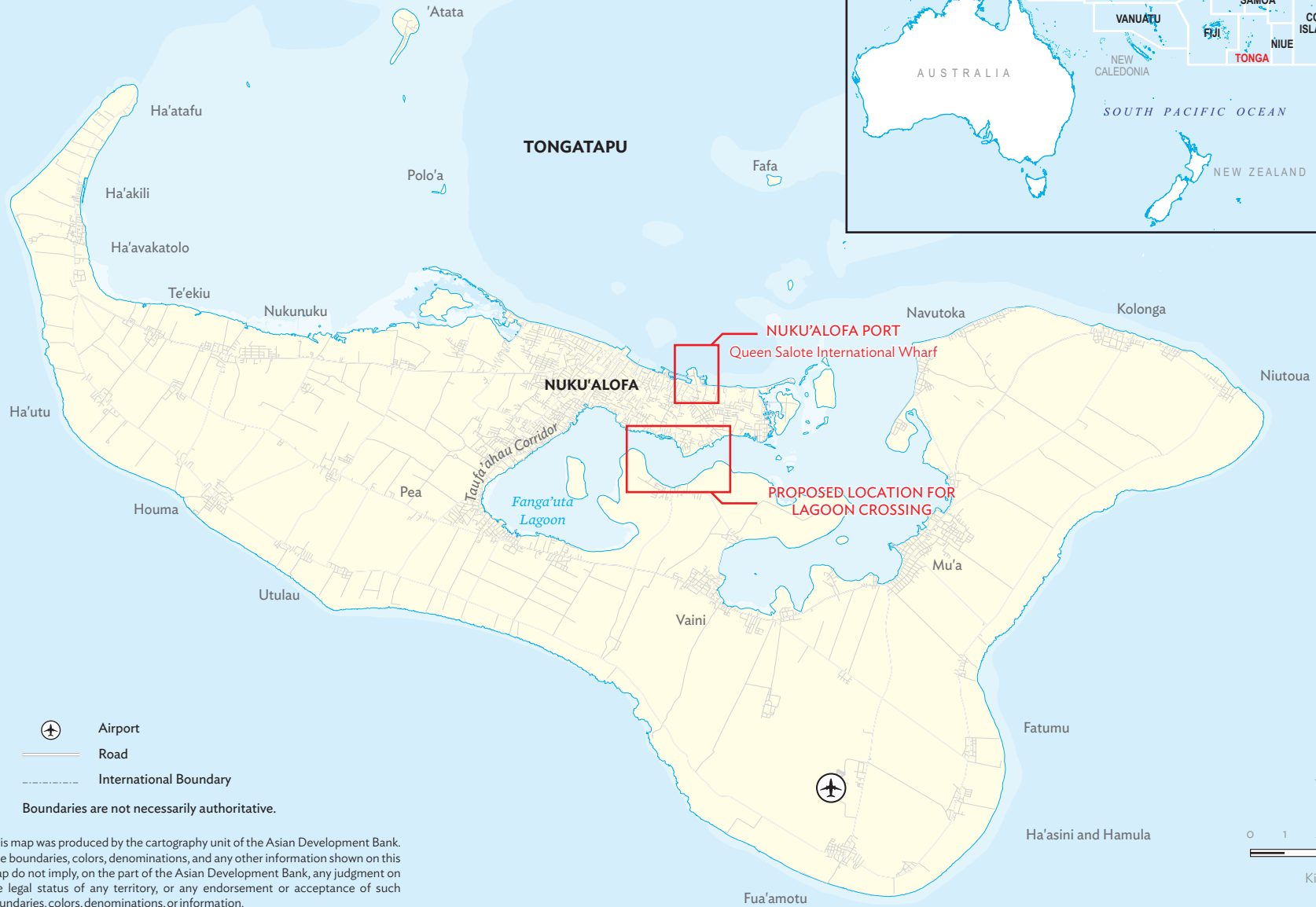
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PROJECT AT A GLANCE

1. Basic Data		Project Number: 53045-001	
Project Name	Transport Project Development Facility	Department /Division	PARD/PATC
Country	Tonga	Executing Agency	Ministry of Finance
Borrower	Government of Tonga		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Urban roads and traffic management		3.00
	Water transport (non-urban)		2.00
	Total		5.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Disaster risk management		
Regional integration (RCI)	Urban environmental improvement		
	Pillar 1: Cross-border infrastructure		
	Pillar 2: Trade and investment		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas	No gender elements (NGE)	✓
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	Yes	Nation-wide	High
Household Targeting	No		
General Intervention on Poverty	No		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG9, SDG10, SDG11		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		5.00	
Sovereign Project grant: Asian Development Fund		5.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.50	
Government		0.50	
Total		5.50	
Currency of ADB Financing: USD			

TONGA TRANSPORT PROJECT DEVELOPMENT FACILITY

ADB'S DEVELOPING MEMBER COUNTRIES IN THE PACIFIC



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I. PROJECT READINESS FINANCING

A. Rationale

1. The capital of Tonga, Nuku'alofa, is located on the low-lying island of Tongatapu and in a region vulnerable to climate change impacts and disasters triggered by natural hazards, such as cyclones, earthquakes, floods, and tsunamis. Traffic growth in the capital has resulted in congestion of the main roads in the city center. The Taufa'ahau corridor, the main transport link into and out of Nuku'alofa, is heavily congested during peak hours. An alternative road corridor across the Fanga'uta Lagoon would reduce congestion, serve as an emergency evacuation route to areas on higher ground, and facilitate urban development of areas high above sea level that are less vulnerable to the impact of climate change and disasters. Another critical transport infrastructure is the port, which also needs upgrading to handle future growth in trade and to improve its resilience to climate change and disaster risks.

2. In this context, the Asian Development Bank (ADB) is supporting the government through technical assistance (TA) to prepare the feasibility studies and due diligence reports for two proposed ensuing projects to be funded by ADB: (i) constructing a transport link featuring a bridge across the Fanga'uta Lagoon; and (ii) upgrading the main wharf of Nuku'alofa Port, the Queen Salote International Wharf (QSIW).¹

3. Providing additional support to increase the readiness of these projects is required. ADB has supported various Pacific developing member countries with different financial instruments, such as project design advance, to help significantly improve the levels of project readiness. Given the importance and magnitude of the proposed transport projects in Tonga, project readiness financing (PRF) is required to achieve high-level readiness of the ensuing projects and timely and cost-effective achievement of the project outcomes.

4. The PRF will support the government in continuing the project preparatory activities initiated under the TA: preparing engineering designs, updating due diligence, and assisting with procurement for the ensuing projects. The PRF will also improve the project preparation capacity of the executing and implementing agencies.

5. Tonga's development goals include safer, more reliable, and more affordable transport infrastructure and services, as presented in the Tonga Strategic Development Framework, 2015–2025.² The National Infrastructure Investment Plan, 2013–2023 outlines the vision for the development of the infrastructure sector; since transport plays a critical role in achieving the goals of the framework, the plan prioritizes the improvement of land and maritime infrastructure to cope with increased traffic demand and the impact of climate change and disasters.³

6. The PRF and the ensuing projects are aligned with the Pacific Approach, 2016–2020 in reducing costs by improving domestic and regional connectivity through transport infrastructure, managing risks, and enabling value creation.⁴ This includes the use of PRF for timely project processing and implementation, strengthening the government's project management and implementation capacity, and ultimately mobilizing and transferring development finance at a

¹ ADB. 2017. *Technical Assistance for Strengthening Domestic Transport Connectivity in the Pacific*. Manila.

² Government of Tonga. 2015. *Tonga Strategic Development Framework, 2015–2025*. Nuku'alofa.

³ Government of Tonga. 2013. *Tonga National Infrastructure Investment Plan, 2013–2023*. Nuku'alofa.

⁴ ADB. 2016. *Pacific Approach, 2016–2020*. Manila.

greater scale. ADB's Strategy 2030 also expands the focus on small island developing states to strengthen connectivity, access, and institutional capacity, while tackling climate change impacts and disaster risks.⁵ The PRF and the ensuing projects are listed in ADB's country operations business plan for Tonga, 2019–2021.⁶

B. Outputs and Activities

7. **Output 1: Detailed engineering design, safeguards due diligence update, and advance procurement actions for ensuing projects completed.** For the ensuing projects, the Fanga'uta Lagoon Crossing Project and the Nuku'alofa Port Upgrading Project, the PRF will (i) support the preparation of detailed engineering designs (including surveys) for civil works components, which will integrate any measures needed to (a) promote resilience to climate change and disasters triggered by natural hazards, (b) encourage benefits for women, and (c) contribute to gender equality; (ii) support the update and, as required, implementation of the safeguards due diligence activities initiated during the feasibility studies of the ensuing projects (undertaken as part of the TA); and (iii) assist in the preparation of related procurement documents and finance the support for the executing and implementing agencies in carrying out bidding through contract signing.⁷

8. **Output 2: Project preparation and implementation capacity strengthened.** The capacity of the executing and implementing agencies to prepare and implement the PRF and the ensuing projects will be strengthened with the establishment of a project management unit (PMU) within the Ministry of Infrastructure (MOI). The PMU will enable the timely start-up and preparation of the ensuing projects and, through support from consultants, provide on-the-job training and knowledge transfer to the executing and implementing agencies, including exploring institutional reforms and capacity development for gender-inclusive human resource policies, gender targets for capacity building, and other measures to enhance benefits for women and contribute to gender equality. The PRF will finance the establishment of the PMU.

C. Ensuing Projects

9. **Fanga'uta Lagoon Crossing Project.** The project will build a bridge across the Fanga'uta Lagoon in Nuku'alofa, consisting of an approximately 500-meter-long bridge and 4.5 kilometers of approach roads from Nuku'alofa to southern Tongatapu. A bridge over the Fanga'uta Lagoon was identified as a key piece of infrastructure to address constraints in the current road network and to ease traffic congestion on the southern and eastern sides of Tongatapu, including the route to the airport. The bridge and its approach roads will also provide an alternative evacuation and access route in case of disasters triggered by natural hazards. The project will play a key role in the eventual climate change-induced urban redevelopment of the island, as it will help drive land and spatial planning decisions. The indicative financing amount is \$37 million, and the expected year of approval is 2021.

10. **Nuku'alofa Port Upgrading Project.** The construction of the domestic ferry terminal has provided an opportunity for the QSIW to be replanned to handle the expected growth in international container and other international sea freight traffic for a period of 20 years.

⁵ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁶ ADB. 2018. *Country Operations Business Plan: 11 Small Pacific Island Countries, 2019–2021*. Manila.

⁷ Gender due diligence (including gender analysis) and financial due diligence (including financial analysis) are activities included in the scope of work of the consultants preparing the feasibility studies and due diligence for both ensuing projects under the TA (footnote 1).

Expanding the international cargo yard into areas previously used for domestic port access would allow the enlargement and reorganization of the layout and circulation of the international container yard to improve yard efficiency, capacity, and security. Elements of the QSIW date back to its opening in 1967. The resilience of the QSIW to the impacts of climate change and disasters triggered by natural hazards needs to be assessed; hence, the QSIW will be upgraded to improve operations and its resilience to disaster risks and climate change. The indicative financing amount is \$25 million, and the expected year of approval is 2020.

D. Cost Estimates and Financing Arrangements

11. The PRF is estimated to cost \$5.5 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual.⁸

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount
A. Base Cost^a	
1. Detailed engineering design, safeguards due diligence update, and advance procurement actions for ensuring projects completed	
a. Fanga'uta Lagoon Crossing Project	2.29
b. Nuku'alofa Port Upgrading Project	1.71
2. Project preparation and implementation capacity strengthened	0.50
Subtotal (A)	4.50
B. Contingencies^b	0.50
C. Taxes and duties^c	0.50
Total (A+B+C)	5.50

^a In mid-2019 prices as of June 2019.

^b Physical contingencies computed at 5.0%. Price contingencies computed at average of 2.3% on foreign exchange costs and 5.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^c The government will bear taxes and duties of \$0.5 million (noncash contribution).

Source: Asian Development Bank.

12. The government has requested a grant not exceeding \$5,000,000 from ADB's Special Funds resources (Asian Development Fund) to help finance the PRF. The government will provide in-kind contributions.⁹ The summary financing plan is in Table 2.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (ADF grant)	5.0	90.91
Government	0.5	9.09
Total	5.5	100.00

ADF = Asian Development Fund.

Source: Asian Development Bank.

E. Implementation Arrangements

13. The implementation arrangements are summarized in Table 3 and described in the project administration manual (footnote 8).

⁸ Project Administration Manual (accessible from the list of linked documents in the Appendix).

⁹ In-kind contributions will include exemption from duties and taxes, office space, and counterpart support staff.

Table 3: Implementation Arrangements for Project Readiness Financing

Table 6: Implementation Arrangements for Project Readiness Financing			
Aspects	Arrangements		
PRF implementation period	March 2019–December 2022		
Estimated PRF completion date	31 December 2022		
Grant closing date	30 June 2023		
Management			
(i) Executing agency	Ministry of Finance and National Planning		
(ii) Implementing agency	Ministry of Infrastructure		
Consulting services	Direct contracting	1 firm (80 PM)	\$1.6 million
	Quality- and cost-based selection	1 firm (115 PM)	\$2.3 million
	Consultants' qualifications selection	1 firm (5 PM)	\$0.1 million
	Individual consultant selection	4 consultants (120 PM)	\$0.5 million
Advance contracting	Advance contracting will be used to commence consultant recruitment before approval and to accelerate consulting services.		
Disbursement	Disbursements under PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time).		

ADB = Asian Development Bank, PRF = project readiness financing, PM = person-months

Sources: ADB, government, and consultant estimates.

14. **Project readiness financing management.** The Ministry of Finance and National Planning (MFNP) will be the executing agency and the MOI will be the implementing agency for the PRF. The government's Technical Working Group, as the project steering committee, will lead and oversee implementation with representatives of relevant line ministries and public and private agencies. The Technical Working Group will discuss, review, and provide guidance on project preparation and implementation issues. In addition, a sector-based steering committee and the Cabinet Development Coordination Committee will provide oversight to project implementation. The PMU will be established to support the preparation of the feasibility studies and due diligence and to enable the timely start-up and preparation of the ensuing projects. Subject to satisfactory performance and to promote consistency in the implementation of oversight activities during implementation, PMU staff may be retained for the implementation of the ensuing projects. In this event, the positions will be financed from the grant proceeds of the ensuing projects.

15. **Consulting services.** For the Nuku'alofa Port Upgrading Project, HaskoningDHV Nederland B.V. was competitively engaged under the TA to provide feasibility services. In line with the increased flexibility for ADB operations in the Pacific, where all countries are classified as small island developing states and seven countries are considered as being in fragile and conflict-affected situations, the request for proposal and subsequent contract included a provision that, subject to satisfactory performance, the consultant could be directly engaged for subsequent stages of the project. Therefore, unless issues are encountered, the MFNP will directly contract Haskoning, on equivalent terms and conditions, to deliver the detailed engineering design, due diligence update, and bid support activities for the Nuku'alofa Port Upgrading Project. The estimated value of the contract is \$1.6 million. Quality control will be monitored through the execution of a third-party independent review. For the Fanga'uta Lagoon Crossing Project, MFNP will contract a firm using a quality- and cost-based selection method.

16. Recruitment of all consultants will follow the ADB Procurement Policy (2017, as amended from time to time), the Procurement Regulations for ADB Borrowers (2017, as amended from time to time), and associated staff instructions. The government delegated to ADB the selection of consultants and will take part in the evaluation of proposals. Upon completion of the evaluation process, the government will negotiate and sign the contract with the winning firm. The issuance

of consulting service recruitment notices or requests for proposal under advance contracting will be subject to ADB approval. ADB has advised the borrower that approval of advance contracting does not commit ADB to finance the PRF.

II. DUE DILIGENCE

17. **Technical.** Under the TA, the feasibility studies that will be prepared for the ensuing projects will consider any measures necessary to provide (i) adequate levels of operational efficiency and (ii) resilience to climate change and disasters triggered by natural hazards. In addition, this facility will support the preparation of gender analysis and actions. To support the facilitation of equal access to economic and social benefits for men and women, the PRF will update the gender due diligence conducted under the TA by further analyzing the gender dimensions of the projects (including women's time use and time poverty; and gender differences in mobility, safety, and access to and use of transport infrastructure), and encouraging the use of as many avenues for gender mainstreaming opportunities as possible. The feasibility studies will prepare and deliver concept engineering drawings, project cost estimates, and safeguards due diligence assessments. Consulting services under the PRF will use the feasibility studies as the basis for completing the designs and updating the safeguards due diligence as necessary.

18. **Governance.** ADB conducted a financial management assessment for the PRF, following ADB's financial management guidelines.¹⁰ The assessment considered the MFNP as the executing agency and the MOI as the implementing agency. The financial management capacity of the MFNP was considered adequate, based on the public expenditure and financial accountability assessment and its performance in previous ADB projects. The MOI has been an implementing agency for three other ADB projects. The overall inherent and project risk is considered *moderate*, given that a PMU will be set up and the new staff will be trained on ADB disbursement, financial reporting, and auditing requirements. A key risk mitigation measure will be to make sure that a dedicated full-time qualified project accountant forms part of the PMU.

19. **Safeguards.** The PRF will not have any social or environmental impacts. Since the activities consist of consulting services only, they have not been classified in line with ADB's Safeguard Policy Statement (2009). The anticipated safeguard classifications for the Fanga'uta Lagoon Crossing Project are *category A* for the environment, *category B* for involuntary resettlement, and *category C* for indigenous peoples; and those for the Nuku'alofa Port Upgrading Project are *category B* for the environment and *category C* for involuntary resettlement and indigenous peoples. The tentative gender category is *some gender elements* for both projects. The PRF will support updating of the safeguard instruments prepared under the TA and will also provide the government with additional resources to implement these due diligence requirements.

III. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the grant not exceeding \$5,000,000 to the Kingdom of Tonga from the Special Funds resources (Asian Development Fund) of the Asian Development Bank, for the Transport Project Development Facility, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement; and hereby reports this action to the Board.

¹⁰ ADB. 2005. *Financial Management and Analysis of Projects*. Manila; and ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=53045-001-PRF>

1. Grant Agreement
2. Project Administration Manual