



Australian Government
Department of Foreign Affairs and Trade



Australian
Infrastructure
Financing Facility
for the Pacific

OFFICIAL

Project Status: This paper provides a detailed overview and business case of the financing proposal as at the time it was received and endorsed by the AIFFP Board. Some aspects of the proposal may have changed following subsequent negotiations or during implementation.

Note: Sensitive and confidential information has been removed to enable publication

OFFICIAL



Australian Government
Department of Foreign Affairs and Trade



Australian
Infrastructure
Financing Facility
for the Pacific

OFFICIAL

Nuku'alofa Port Upgrade Project

Business Case

Considered by the AIFFP Board on 28 February 2023

Key Issues and Recommendations

The Nuku'alofa Port Upgrade Project (the Project) will promote safer, more reliable, and more affordable transport infrastructure and services in Tonga through (i) rehabilitating existing port infrastructure; (ii) expanding existing port infrastructure; and (iii) improving capacity, management, and operational practices at the Queen Salote International Wharf (QSIW). AIFFP will provide a grant of up to **USD20 million** to co-finance the Project with the Asian Development Bank (ADB). McConnell Dowell (NZ) was selected as the Project's construction contractor and begun works in October 2022. While AIFFP is joining the Project at a late stage, our involvement is an important show of support towards financing a critical, lifeline asset.

Key Issues

- i. **Queen Salote International Wharf (QSIW) is in a state of deterioration and requires immediate upgrades.** A lack of ongoing maintenance and investment has rendered international wharf no. 1 in a very advanced state of deterioration – operations were suspended in April 2019 due to safety concerns and remain suspended to date. The other three wharves are in serviceable condition and their structural integrity remains sound. Related facilities such as the container yard and the port's access road are also deteriorating and pose safety risks. Rehabilitation, expansion and improvements are required to extend the service life of the infrastructure and avoid the higher costs of renewal. The proposed upgrades will ensure the longevity of the asset through climate-resilient design and expand shipping capabilities to facilitate increased international operations.
- ii. **This is AIFFP's first project to be co-financed (rather than parallel financed) with the ADB.** Co-financing is an important part of AIFFP operations: almost all AIFFP projects entail working with partners, with only a single project in the portfolio involving standalone AIFFP financing. In the case of this Project, co-financing presents an efficient way to engage with the ADB and the Tongan Government on a priority project, without the associated development costs. AIFFP funding, if approved, is critical to enable this important Project to continue.
- iii. **Funding is proposed on 100 per cent grant terms.** The Multilateral Development Banks similarly provide Tonga with grants only. The June 2022 joint IMF-World Bank debt sustainability analysis¹ rated Tonga's risk of external debt distress as "High" and its overall risk of debt distress as "High".
- iv. **Even with a high-quality contractor such as McConnell Dowell, implementation risks are high.** Large port investments are inevitably complicated. While ADB has a historic track record of developing infrastructure in the region, strong engagement through implementation is likely to be required to ensure that AIFFP is fully involved in key Project decisions.

¹ IMF 2022, "Tonga Staff Report for the 2022 ARTICLE IV Consultation and Request for Disbursement under the Rapid Credit Facility — Debt Sustainability Analysis", Country Report No. 2022/282, IMF, Washington DC, ([IMF.org](https://www.imf.org)).

Key Risks

- v. AIFFP Management has reviewed the Project risks and proposed control measures and notes that the residual risk ratings do not exceed the AIFFP Risk Policy and Appetite Statement. The Project's overall residual risk rating is **Moderate**.

Risk	Mitigation
Global supply chain issues and cost escalations cause cost overruns	Detailed engineering design and cost estimates were undertaken by an internationally experienced consultant and validated by an independent peer reviewer to ensure precision. ADB and AIFFP will closely monitor utilisation of Project funds, assisted by the Project Management Unit's (PMU) Project Accountant, and AIFFP's funding envelope is capped.
Poor coordination between the ADB and AIFFP	AIFFP is presently negotiating the co-financing arrangement with ADB to ensure close coordination. DFAT's in-country presence and strong relationship with GoT will also be critical in ensuring AIFFP is kept informed of key Project developments.

We recommend that the Board endorses:

- vi. The provision of an AIFFP financing package, comprising a grant for **USD20,000,000** (GST not applicable) to the Asian Development Bank via a co-financing arrangement as part of the Nuku'alofa Port Upgrade Project.

List of Abbreviations

ADB	-	Asian Development Bank
AIFFP	-	Australian Infrastructure Financing Facility for the Pacific
AMP	-	Asset Management Plan
CCTV	-	Closed-Circuit Television
CDRA	-	Climate and Disaster Risk Assessment
CEMP	-	Construction Environmental Management Plan
CP	-	Child Protection
CSC	-	Construction Supervision Consultants
DFAT	-	Department of Foreign Affairs and Trade
EHS	-	Environment, Health and Safety
ESMP	-	Environmental and Social Management Plan
GBV	-	Gender Based Violence
GoT	-	Government of the Kingdom of Tonga
IEE	-	Initial Environmental Examination
M&E	-	Monitoring and Evaluation
MCD	-	McConnell Dowell
MDB	-	Multilateral Development Bank
MoF	-	Ministry of Finance, Tonga
Mol	-	Ministry of Infrastructure, Tonga
NGO	-	Non-Governmental Organisation
PAT	-	Ports Authority Tonga
PMU	-	Project Management Unit
PRF	-	Project Readiness Facility
(P)SEAH	-	(Preventing) Sexual Exploitation, Abuse and Harassment
QSIW	-	Queen Salote International Wharf (Nuku'alofa Port)
SPP	-	Strategic Procurement Planning
SPS	-	Safeguard Policy Statement
TEU	-	Twenty-foot Equivalent Unit

Contents

Key Issues and Recommendations	i
Key Issues	i
Key Risks	ii
1 Project Overview	1
1.1 Project Description and Background	1
2 Strategic Assessment and Rationale for AIFFP Involvement	3
3 Financial Overview	4
3.1 Investment Capital Structure	4
3.2 AIFFP Financing Package	4
4 Investment Quality and Impact	4
4.1 Improved economic activity	4
4.2 Improved local labour and employment	5
4.3 Climate change and disaster resilience	5
4.4 Gender equality, disability and social inclusion	5
5 Environmental, Social and Governance	6
5.1 Environmental Safeguards & Governance	7
5.2 Social Safeguards & Governance	7
6 Procurement Approach	8
7 Project Implementation	9
8 Key Risks	9
9 Due diligence	10
10 Monitoring & Evaluation	10
11 Key Project Milestones	11

Project Overview

INVESTMENT DETAILS					
Investment Objective	To co-finance with the ADB in supporting climate-resilient infrastructure refurbishment/upgrades and capacity building activities of staff at the Queen Salote International Wharf (QSIW, Nuku'alofa Port) in the Kingdom of Tonga.				
Investment Benefits	<p>The Project will:</p> <ul style="list-style-type: none"> i. Support the Government of the Kingdom of Tonga (GoT) to redevelop QSIW through the construction of improved and expanded port infrastructure, expanding shipping capabilities to facilitate increased international operations, and ensuring the longevity of the asset through climate-resilient design; ii. Support improved port safety and security compliance; and iii. Support Tonga's post-COVID and post-natural disaster recovery by ensuring local content and local contractor participation. 				
Geographic Location	Nuku'alofa, Tonga.				
Proponent	The GoT, via a co-financing arrangement with the Asian Development Bank. The Project's executing agency is the Ministry of Finance (MoF), and the implementing agency is the Ministry of Infrastructure (MoI).				
Debt Sustainability	Not applicable – grant only.				
FINANCIAL OVERVIEW					
Finance arrangement/eligibility	Grant only.				
Proposed AIFFP Investment	Total Amount	USD20.35 million			
Proposed Execution Date	Signing of co-financing arrangement with ADB in March/April 2023.				
RISK ASSESSMENT <i>(Residual risk ratings (post mitigation) provided below.)</i>					
Risk Category	Reputational	Country	Financial	Compliance	Implementation
DFAT Category Risks	Moderate	Moderate	N/A	Moderate	High
DFAT Risk Weighting	20%	15%	15%	30%	20%
Overall DFAT Risk Rating	Moderate				

Project Description and Background

1. Tonga is an archipelago of more than 170 islands scattered across 700,000 square kilometres of the southern Pacific Ocean. About 70 per cent of the nation's 108,000 inhabitants live on the main island of Tongatapu, which is also home to the country's capital, Nuku'alofa. The rest of the population is spread across 36 surrounding islands. As a small island nation, Tonga is highly dependent on imports of strategic commodities including fuel and food, with more than 98 per cent of imports arriving by sea. In particular, Tonga does not produce any fossil fuels and Tonga is dependent on imported petroleum to meet its energy needs for electricity and transportation. Nuku'alofa Port plays a vital role in

Tonga's economy, handling more than 95 per cent of Tonga's total containerised volume (Neiafu Port, on Vava'u island, handles the remainder²). In this way, Nuku'alofa Port is a critical, lifeline asset, given the country's geographical isolation from international markets.

2. Nuku'alofa Port is the largest in Tonga, and Ports Authority Tonga (PAT), a state-owned enterprise, is responsible for management and operations, running the asset as a natural monopoly. Its operations bring foreign-sourced income directly to the Tongan economy through port duties and marine charges levied on visiting foreign ships and cargo movements. PAT's financial performance has been satisfactory in recent years, regularly delivering dividends to GoT.
3. The QSIW has four wharves. Wharves no. 1 and no. 2 are used as international container and cargo terminals. Wharves no. 3. and no. 4 are used for local/domestic trade and some domestic ferry traffic. Wharf no. 2 is the only operational international wharf remaining, which is creating a bottleneck for the national economy. The proposed Project will rehabilitate, renew and expand existing infrastructure and improve the management and operational practices at the wharf. Specifically, the Project will:
 - i. **Rehabilitate existing port infrastructure:**
 - i) Rehabilitate four cargo wharves at QSIW, including re-instatement of the wharf no. 1 deck;
 - ii) Repair the concrete capping beam on wharf no. 2 and install cathodic protection to wharf piles;
 - iii) Build a new concrete seawall and strengthen an existing rock revetment to increase resilience to climate change impacts and natural disasters;
 - iv) Reorganise and upgrade the container yard, including provision of gender and disability-sensitive sanitation facilities for yard workers;
 - v) Upgrade the port's access road, including installation of solar powered night lighting, a pedestrian crossing, and appropriate signage; and
 - vi) Rehabilitate port services including upgrades to electrical systems, stormwater drainage, firefighting hydrants, tanks and equipment, foul water management, fuel tanks and CCTV.
 - ii. **Extend international cargo wharves and supporting infrastructure:**
 - i) Extend wharf no. 2 by 50 metres;
 - ii) Install new ladders, lifebuoys and fenders;
 - iii) Construct four mooring/berthing dolphins; and
 - iv) Install a channel navigation marker and wave measuring device.
 - iii. **Improve port operations and management:**
 - i) Implement a gender equality policy at PAT;
 - ii) Develop an asset maintenance plan;
 - iii) Review the tariff regime and institute tariff reform;
 - iv) Deliver port operations, environmental sustainability, health and safety and security training to PAT staff;
 - v) Deliver semi-annual training to PAT staff on avoiding sexual exploitation, abuse and harassment, sexually transmitted infections and gender equity issues;
 - vi) Prepare and implement a port security plan, including a COVID-19 response plan; and
 - vii) Train women in business skills to enable them to develop and manage their own businesses.

² Tonga: Nuku'alofa Port Upgrade Project (Additional Financing). Project Administration Manual. ADB. November 2022.

- The Project has been under development by the ADB since 2019, facing inevitable delays due to COVID-19. An ADB Project Readiness Facility (PRF) grant was used to prepare engineering designs, update due diligence, and provide procurement support. Engineering consultancy Royal Haskoning DHV (international, headquartered in the Netherlands) was recruited under the PRF to undertake these activities. The PRF also supported the strengthening of GoT's Project preparation capacity with the establishment in September 2019 of a Project Management Unit (PMU) under the Ministry of Infrastructure (MoI) as the Project's implementing agency. Haskoning's performance during the design phase resulted in their appointment as the Project's Construction Supervision Consultants (CSC). Due to this dual role, Haskoning's detailed design was independently reviewed by GHD to avoid legacy flaws.

Strategic Assessment and Rationale for AIFFP Involvement

The proposed project is located in one or more countries in the Pacific region or in Timor-Leste

- Australia and Tonga enjoy a close relationship supported by the DFAT Bilateral Program, Defence Cooperation, Tonga Police Development Program, and people to people links, including through Australia Awards scholars and a labour mobility program. Australia's development partnership with Tonga supports Tonga's priorities in economic growth, energy, security, infrastructure, social inclusion, health, education, climate change resilience, disaster preparedness and response, and agriculture. This support works to address the triple challenges of the Hunga-Tonga Hunga-Ha'apai volcanic eruption and tsunami, COVID-19, and global economic disruptions.

The proposed project demonstrates a broad public benefit and/or transformative effect to the economic development of host countries

- Tonga's development goals include safer, more reliable, and more affordable transport infrastructure and services, as defined in the Tonga Strategic Development Framework, 2015–2025³. The National Infrastructure Investment Plan 2021-2030 also prioritises the improvement of maritime infrastructure to cope with increased demand and the impact of climate change and disasters⁴.
- Project upgrades will improve efficiency in port operations while providing support to Tonga's economic development. The QSIW is a key component of Tonga's economic infrastructure, contributing to the functioning of its economy, providing a major gateway for the transport and distribution of imports and exports that are critical to Tonga's economic and social outcomes. Many communities are dependent on shipping for food and other imports, and for access to international markets through exports, and QSIW provides vital connectivity both domestically in Tonga and Internationally. QSIW is critical in the event of major natural catastrophes, such as the Tropical Cyclone Harold in 2020 and the 2022 volcanic eruption.⁵ Wharf no. 2 is the only international wharf in service, which is constraining the national economy, impacting supply chain logistics and costs across

³ Government of Tonga. 2015. Tonga Strategic Development Framework, 2015–2025. Nuku'alofa.

⁴ Government of Tonga. 2021. Tonga National Infrastructure Investment Plan, 2021-2030. Nuku'alofa.

⁵ The Hunga Tonga–Hunga Ha'apai volcanic eruption occurred on 15 January 2022, triggering a devastating tsunami and blanketing many of Tonga's islands in volcanic ash. Three people died and there were serious injuries. QSIW was a key node in the emergency response, including seaborne evacuations and the delivery of international assistance, such as that provided by the Australian Defence Force (dfat.gov.au).

Tonga. The Project has a basic-needs aspect: a without-Project scenario would have serious negative impacts if the population were unable to import basic goods.

8. In response to the pandemic, the Project scope was broadened to include a COVID-19 response plan to mitigate the risk of virus transmission and ensure that the port remains operational during this and any future health emergencies. The plan includes reviewing the port's operational procedures, creating an isolation facility within the port boundaries, providing essential medical equipment, and implementing a training program for employees in coordination with local health authorities. The Project will also assist in post-COVID recovery through the use of local content wherever practicable.

The proposed project reinforces Australia's relationships with host countries and supports a stable and prosperous region

9. If approved, the Project would be an opportunity for AIFFP to support a key government priority while reaping efficiency dividends with a shovel-ready critical infrastructure investment. More broadly, co-financing with the ADB in this way enables AIFFP to engage with the bank alongside a quality contractor.

Financial Overview

Investment Capital Structure

10. The GoT has requested an overall financing package from the AIFFP of up to **USD20 million**, excluding M&E, implementation costs and inclusive of ADB's co-financing fee. Financing will be provided to the GoT, through a co-financing arrangement with the ADB.

AIFFP Financing Package

11. As part of the co-financing arrangement, funds will be disbursed from AIFFP to ADB and will form a consolidated pool of funds from which payments will be made to contractors. ADB will only disburse payments to contractors upon receipt of relevant supporting documentation that works have been completed and/or services delivered. AIFFP may engage the support of a technical advisor to provide expertise, assurance and verification during this process. Project financial statements will be developed and audited in accordance with ADB standards. AIFFP is comfortable with this approach.

Investment Quality and Impact

Improved economic activity

12. The Project will contribute to improved economic activity through increased efficiency and reduced trans-shipment costs, which will have a positive impact on the cost of Tonga's exports. Without the Project, the operational difficulties and inefficiencies at the port will continue, since only one international cargo wharf is operational, which greatly increases ship turnaround time and ship operational costs. In addition, without the Project, the safety risks will remain since the insufficient wharf length and the lack of mooring points impose risks during the loading and unloading of container ships.
13. The yard improvement component of the Project will provide several economic benefits, such as (i) an increase in container storage capacity from 40,000 Twenty-foot Equivalent Unit (TEU, a measure of volume of units of twenty-foot long containers) to 60,700 TEU per annum, (ii) a reduction in truck turnaround time from 0.75 hours to 0.25 hours and savings in vehicle operating costs, (iii) a reduction in electricity costs by approximately 25 per cent, (iv) an average reduction in maintenance costs of about USD200,000 per year, (v) a reduction in the likelihood of accidents.

Improved local labour and employment

- Local labour is being utilised through the Project's PMU and CSC, with four national team members employed. MCD is using locally-sourced materials and equipment wherever practicable. For example, aggregate from local quarries will be used for in-situ concrete, and a local concrete manufacturer will be used to deliver pavers and blockwork. The Project also has a target to use semi-skilled local labourers, which is presently being exceeded (currently 59 per cent local labour).

Climate change and disaster resilience

- The findings of the Project's Climate and Disaster Risk Assessment (CDRA) have been incorporated into the Project's design, as well as in planning construction and operations activities. The CDRA considered increases in precipitation and temperature, sea level rises, storms, wind speeds, earthquakes and tsunamis.
- Included in the Project's design are several design elements and climate change mitigation components that will increase the asset's resilience against natural disasters and risks identified in the CDRA. Review of Project documentation by technical expertise from DFAT's Climate & Development Integration Unit determined that the Project's design is fit for purpose, with proposed climate resilient design measures for the design that are cost effective and suitable in terms of engineering design over the asset's 50-year lifespan. The ability to push for further ambition with additional climate-related components as part of AIFFP's new Pacific Climate Infrastructure Finance Partnership is thus limited given the contract with MCD is signed, works are underway, and the Project's design elements are considered fit for purpose.

Gender equality, disability and social inclusion

- Gender equality, disability and social inclusion issues and opportunities have been assessed and practical measures integrated into the Project. A Poverty, Social and Gender Assessment in line with the ADB's Strategy 2030 and Safeguard Policy Statement (SPS) 2009 was undertaken as part of the Project feasibility. The assessment and the Initial Environmental Examination (IEE) identified specific improvements in the port facilities (mitigation measures) that will be taken to improve the safety of port workers, passengers and other community members, including women. The report identified key areas of inequality which impede the ability of women, young people and the vulnerable to access Project opportunities and benefits, including high unemployment, a conservative culture that limits women's participation and access to resources, and high incidences of gender-based violence, sexual exploitation, abuse and harassment (SEAH), and domestic violence. Women's representation in the transport sector is minimal, where their employment is currently limited to cargo and ship movements, and security control. Women represent a total of 14 per cent of all the staff in PAT and the Marine Department of the Mol.
- The Project will create opportunities for more women to engage in paid labour and to establish and grow their own businesses, resulting from potential employment and increased economic activity generated by an improved international seaport. Specifically, an initiative will be progressed to encourage and support at least 20 women in developing/creating their own microbusinesses, targeting self-employed women who use or could use the allocated PAT market area and will focus on providing practical training in running a business, marketing, pricing, managing supply chains, negotiating skills, accounting, and personal finance. It will target women entrepreneurs from low-income families and families headed up by women and will focus on context-relevant, practical skills. The training will be provided by local Non-Governmental Organisation (NGOs) with support from the PMU and CSC. Families more broadly should also benefit from the lower cost of goods and an increased flow of essential goods from improved trade as a result of the Project.

19. AIFFP's financing will adopt the gender and disability-related actions and measures agreed as part of the ADB Gender Action Plan, promoting gender equality and social inclusion by:
- i. Supporting development of port facilities that are access-friendly with gender-sensitive design features (including gender dedicated sanitation facilities, locks and lighting, CCTV cameras and panic buttons);
 - ii. Providing access to employment through requirements for contractors to hire local labour, with targets for women's participation;
 - iii. Delivering specific training on GBV, SEAH, child protection and maritime security to all contracted employees;
 - iv. Delivering awareness and prevention training programmes supported by a health authority or a local NGO or authorised agents, including on spread of communicable diseases, COVID-19, trafficking of drugs, guns and women;
 - v. Strengthening gender capacity of the PAT by supporting creation of a gender-equality and gender-sensitive recruitment policies, ensuring pay equality for equal work;
 - vi. Engaging the Pacific Women in Maritime Association to deliver training to skilled and semi-skilled PAT staff, including vulnerable groups;
 - vii. Supporting an initiative to encourage and support women in setting up their own businesses, with outcomes monitored and measured through PAT's Annual Reports; and
 - viii. Provision of a gender-sensitive grievance redress mechanism.

Environmental, Social and Governance

20. The Project has been designed and will be implemented in accordance with ADB safeguards, which broadly align with AIFFP safeguards requirements.
21. ADB's Initial Environmental Examination (June 2020) and updated IEE (October 2020) classified the Project as category B against its SPS, reflecting that the potential adverse environmental and social impacts are site-specific, few if any are irreversible, are able to be managed and mitigated in accordance with the Project's Environmental and Social Management Plan (ESMP) and GoT's environmental clearance/development consent and conditions, that are incorporated into the bid and contract documentation. The Project regulatory Environmental Impact Assessment (based on ADB's updated IEE) was submitted to and cleared by the Tongan Minister for Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications' Environmental Assessment Committee on 2 July 2021.
22. An environmental audit of the QSIW facilities and operation, undertaken in February 2019, identified a number of environmental, health and safety, and social issues associated with the existing facility that have been addressed in the ESMP. MCD has developed a Construction Environmental Management Plan (CEMP) based on this ESMP to ensure the construction and the operation of the Project meets legislative, contractual and other environmental obligations and targets as relevant. The CEMP includes sub-plans (a Health and Safety Plan, Traffic Management Plan, Waste Management Plan, Emergency Response Plan etc.) and site-specific plans for particular elements of the work. The CEMP was reviewed and cleared by the PMU and CSC prior to the contractor being given no objection to commence works.
23. MCD has hired suitably qualified environmental and social safeguard specialists to oversee the implementation of the safeguards suite of plans and prepare monthly reports on CEMP implementation. MCD's compliance with the CEMP will be monitored by the National Safeguards Specialist and International Environmental Specialist monthly and reported to the PMU, ADB and AIFFP through project semi-annual safeguard monitoring reports. AIFFP Safeguards will also participate as needed in joint safeguard review missions to ensure proposed measures, including around potential impacts on marine environment, health

and safety, Child Protection (CP), PSEAH and modern slavery meet DFAT safeguard requirements.

24. For the operational phase of the Project, various 'green port' initiatives are proposed, which will provide benefits to the physical, biological and human environments, largely through the avoidance of adverse effects.

Environmental Safeguards & Governance

25. **Biophysical impacts.** The scope of works includes upgrades and refurbishment on largely the same footprint above and below water. Project risks to the biophysical environment have been categorised as 'low to moderate' when compared against the ADB's SPS (2009), World Bank Environment, Health and Safety Guidelines (EHS Guidelines) and DFAT safeguard policies: this is primarily due to Project areas already being highly modified through urban/industrial development.
26. Specific construction activities, including gravel crushing and screening, laydown areas for materials and soil stockpiles will also be contained within the port boundary, and are not in proximity to any community infrastructure. The main environmental risks include drainage and runoff from construction sites (particularly during flood events), waste generation and management (hazardous and non-hazardous), soil and water contamination (e.g. fuel spillage).
27. During the construction phase of the Project, no or insignificant impacts are predicted with regard to geology; climate; coastal processes; water, sediment and land quality; vibration; and recreation. With the proposed mitigation set out in the ESMP and CEMP in place, impacts are also predicted to be mitigated to insignificant levels and without long term residual impacts.
28. During operation, the potential for the introduction of invasive non-native species exists during this phase, but management measures (through a biosecurity method statement) are proposed to control and prevent this risk. If PAT undertakes dredging during the operational phase, its significance will remain minor given the proposed mitigation measures.
29. **Hazardous waste.** Assessed as a 'low risk' under the International Finance Corporation EHS owing to no pre-existing history of the use of hazardous materials in the port operations. During construction, benefits will arise during this phase as a clean-up of the existing facility and adjacent seabed is undertaken. During the operational phase significant beneficial effects will occur for both the physical and human environment. For example, oil and grease traps will be operational, septic tanks will be managed appropriately and fuel drums will be stored in bunded areas. Major health and safety improvements will similarly occur, alongside the implementation of green port initiatives.

Social Safeguards & Governance

30. **Displacement and resettlement.** The ADB's Social Safeguard Due Diligence Report (SSDR) (2019) found that the Project will not involve involuntary land acquisition that could result in physical and economic displacement as no one lives within the PAT port boundaries. The Project does not have the potential to affect indigenous peoples or their resources.
31. **Livelihoods.** Fishing and other non-port related activity is prohibited within the jurisdiction of the port, so the Project should not have an adverse effect on livelihoods. An increase in waterfront projects adjacent to the Project has contributed to a number of social impacts on local residents, including access to shallow fishing areas, water for washing, bathing and recreation. ADB's safeguards due diligence report has recommended that the PMU and Mol monitor these issues, and if necessary, implement a livelihood restoration and

improvement plan.

32. **Community health and safety.** During construction, the Project will increase heavy vehicle traffic through residential areas, increase noise/dust and vibration impacts on the community. MCD has developed a Health and Safety Management Plan and a traffic management plan to minimise disruption to and ensure safety of the local community. The residual impacts associated with the construction phase (air quality, noise and tourism) after implementation of the proposed mitigation measures are not predicted to be significant.
33. **Worker influx and communicable diseases.** The spread of communicable diseases (such as sexually transmitted infections and HIV) can be associated with marine construction sites, along with trafficking of drugs, firearms and women. MCD's health and safety management plan will address these impacts, including through screening and induction of workers; enforcing a worker's code of conduct; and facilitating awareness and prevention training on trafficking and communicable diseases, all in coordination with the PMU and the involvement of health authorities (and possibly civil society organisations). The residual impacts following mitigation are expected to be of negligible significance.
34. **Labour and working conditions.** The project will abide by the International Labour Organisation's core labour standards and rights, which will be covered in any training provided to workers and the community.
35. **Child Protection (CP), Sexual Exploitation, Abuse and Harassment (SEAH), Modern slavery.** The inherent CP and SEAH risks for the Project are considered high. MCD will be required to meet GoT laws and DFAT's minimum standards for CP and SEAH. Additionally, ADB's Pacific Department has recruited a SEAH expert to provide support across the portfolio and this expert will prioritise the SEAH risk assessment for the Project. MCD also has a standard Code of Conduct which outlines how staff must conduct themselves across all areas of the business. Following mitigation, CP, SEAH and modern slavery risks are assessed as moderate.

Procurement Approach

36. While the CSC and works contractor have already been selected, it is important to note that to arrive at these outcomes, the ADB conducted a Strategic Procurement Planning (SPP) process to ensure a value for money approach in procurement. This involved utilising the GoT's e-procurement technology to lower transaction costs and enhance transparency, ensuring quality international firms would bid by utilising a prequalification process with a focus on merit-point based evaluation criteria, and direct contracting of the CSC given their satisfactory performance in providing feasibility and detailed design services.
37. The SPP included a procurement risk assessment and mitigation plan, which concluded that additional technical capacity was needed to support MoF and Mol for the procurement of major development partner-financed projects, and to prepare bidding documents and supervise contracts. To supplement the capacity of the CSC and address risks, a four-person PMU (Project Coordinator, Technical Project Manager, Project Accountant, Document Controller) remains engaged under Mol to support GoT during implementation.
38. The procurement process for MCD has been an example of what AIFFP would consider best practice with ADB utilising the full flexibility in its 2017 Procurement Policy. In addition to standard criteria (eligibility, historical contract non-performances, financial and construction experience), the prequalification also included criteria such as demonstrated construction planning and management experience, demonstrated innovation in past projects, quality

assurance, health safety and environment management process and risk identification and management systems.

39. Seven firms applied to prequalify, five of which were high quality.

Project Implementation

40. The involvement of PAT during implementation will only be as technical advisor, providing information and guidance. However, after Project completion, PAT will be solely responsible for the operation and maintenance of the Nuku'alofa Port, including the assets provided by the Project. Financial analysis on PAT conducted by ADB showed that while PAT can cover current port operation and maintenance activities, additional support is required. There also is insufficient technical capacity and budget allocation within PAT to undertake future required maintenance.
41. To ensure that the port and Project assets are adequately maintained, the GoT will periodically update and implement an Asset Management Plan (AMP), which addresses the technical and financial requirements of maintenance. A dedicated team within PAT will be created for maintenance activities. The preparation of the AMP has been initiated under the feasibility study funded by technical assistance funding from ADB and will be updated and implemented with the support of Haskoning as the detailed design consultant and the CSC.
42. The GoT will oversee implementation via a Technical Working Group (TWG). The TWG will contain representatives of relevant GoT line ministries, and public and private agencies as required. The TWG will discuss, review, and provide guidance on project implementation issues. The Tongan Minister for Infrastructure and Tourism will head the TWG.
43. ADB (and the AIFFP) intend to meet with the PMU and CSC on a fortnightly basis to discuss Project updates and issues as they emerge. AIFFP will also join ADB as part of semi-annual review missions, the next of which is scheduled in late March. AIFFP will have available support via a technical ports advisor engaged under the AIFFP Support Unit, on an as-needed basis.

Key Risks

44. The AIFFP assessed the Project's overall risk rating as **Moderate**.

Table 1 summarises residual risk ratings across each category.

Table 1: Residual Risk Assessment

Risk Category:	REPUTATIONAL	COUNTRY	FINANCIAL	COMPLIANCE	IMPLEMENTATION
DFAT Category Risks	Moderate	Moderate	N/A grant only	Moderate	High
DFAT Risk Weighting	20%	15%	15%	30%	20%
Overall DFAT Risk Rating	Moderate				

Due diligence

45. ADB conducted a Financial Management Assessment (FMA) in February 2020, assessing the procurement capacity of MoF and Mol in areas such as funds-flow arrangements, staffing, accounting and financial reporting systems, asset management and internal and external auditing arrangements. The financial management capacity of MoF as executing agency and of Mol as implementing agency is considered adequate and the overall pre-mitigation financial management risk of MoF and Mol is moderate.
46. Noting AIFFP's late-stage involvement in the Project, AIFFP engaged a comprehensive safeguard, climate change and technical due diligence review of ADB documentation and processes. These found that overall, the Project design is fit for purpose and safeguards requirements satisfactorily fulfilled, as detailed in Section 5 above.

Monitoring & Evaluation

47. A draft M&E Plan, including an M&E Results Framework, has been developed, drawing from the ADB Project Design and Monitoring Framework (ADB Framework), which has found to be satisfactory after review by the AIFFP Support Unit. **Table 5** sets out the Project's program logic. The ADB Framework will be reviewed every six months as part of ADB's regular performance monitoring.
48. MoF will provide quarterly progress reports to AIFFP and ADB. AIFFP and ADB will conduct regular field visits to review Project progress against the Framework. Upon completion of the Project, GoT will be required to submit an investment completion report. AIFFP may also commission an independent evaluation of the investment, within three to five years of Project completion.

The findings of the ADB Framework will feed into AIFFP's annual reporting and DFAT's performance reporting and may be included in AIFFP or broader DFAT media and communication products. Grant funds of up to **USD350,000** have been allocated for Project implementation, monitoring and evaluation. **Table 2: Program Logic**

Key Project Milestones

KEY MILESTONES	
17 June 2022	GoT signs a civil works contract with MCD
October 2022	Ground breaking ceremony held, MCD begins work
February 2023	AIFFP and ADB Board meetings
March 2023	Australian Government approval
March/April 2023	Signing of co-financing arrangement with ADB, potential Project announcement
Q2 2024	Physical works completion
Q1 2025	Project completion (including capacity building activities)