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*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*

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An aerial photograph of a coastal village in Tuvalu, showing a sandy beach, a cluster of buildings with colorful roofs, and a large lagoon with shallow, clear water. A thick teal curved line separates the image from the text below.

# Nui & Niutao Outer Islands Boat Harbour Upgrade Project - Tuvalu

Business Case

*Considered by the AIFFP Board on 5 May 2023*

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## Key Issues and Recommendations

*The Nui and Niutao Boat Harbours Upgrade Projects (the Project) will promote more reliable and efficient maritime transport infrastructure in Tuvalu's outer islands of Nui and Niutao through:*

- 1. rehabilitating existing infrastructure at Niutao harbour.*
- 2. the construction of new boat harbour facilities at Nui harbour*
- 3. improved maritime transport of passengers and cargo in Nui and Niutao,*

*AIFFP proposes to finance up to **USD15m** (AUD 21.4m) as co-finance to a **USD 84.4m** (AUD120.6m) Project which is led by the Asian Development Bank (ADB). ADB is proposing to provide USD 62.2m grant funding and the Government of Tuvalu USD 7.2m of in-kind contributions.*

*Tuvalu, with ADB's endorsement, has selected Hall Contracting as the construction contractor for both Nui Boat harbour with mobilisation scheduled in Q2 2023 and Niutao Boat Harbour (contract planned to be executed in Q4 2023).*

*While AIFFP is joining the Project at a late stage, our involvement is an important demonstration of support towards financing a critical, lifeline asset for these remote communities. AIFFP's financing may contribute to its broader objectives of encouraging quality procurement outcomes in the Pacific, including a consideration of value for money rather than price alone.*

## Key Issues

**If approved, the Tuvalu boat harbours will become AIFFP's second project to be jointly co-financed (rather than parallel financed) with the ADB after the Queen Salote wharf in Tonga.** Tuvalu, with ADB's endorsement, contracted Hall Contracting in late 2022 for works at Nui. In 2023, Tuvalu Government also contracted Hall to replace *China Civil Engineering Construction Corporation (CCECC)* on Niutao. Australian financing for this project will be an important demonstration of the value of ensuring quality procurement, and the need to emphasise quality as well as price when determining procurement outcomes.

**Funding is proposed on 100 per cent grant terms.** The Multilateral Development Banks similarly provide Tuvalu with grants only. The June 2021 joint IMF-World Bank debt sustainability analysis<sup>1</sup> rated Tuvalu's risk of external debt distress as "High" and its overall risk of debt distress as "High".

**Given overall constraints on AIFFP's grant allocation, this project will be a central investment in Tuvalu's infrastructure needs over the next few years.** All AIFFP financing will be in addition to other Australian ODA to Tuvalu, which currently amounts to about AUD 15 million per annum. Still, this level of financing will mean Australia's contribution to infrastructure in Tuvalu remains below the World Bank (which provides about AUD 30 million per year) and ADB (which currently provides between AUD20-25 million per year).

**Even with a reputed contractor such as Australian owned and operated - Hall Contracting, implementation risks are high.** Development of boat harbours in remote Pacific Island regions are inevitably complicated. Mitigating this is the ADB's historic track record of developing infrastructure in the region and Hall's track record working on major infrastructure investments in Tuvalu, as well as across the Pacific, for well over a decade.

## Key Risks

1. 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**.
2. Australia's support will enable Hall to construct the outer island boat harbours to international standards, and Australian safeguards, and then supervise the construction to

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<sup>1</sup> IMF 2021, "Tuvalu Staff Report for the 2021 ARTICLE IV Consultation – Staff Report and Statement by the Executive Director for Tuvalu — Debt Sustainability Analysis", Country Report No. 2021/176, IMF, Washington DC, ([IMF.org](https://www.imf.org)). The high risk rating is largely precautionary; while Tuvalu has no net debt, the country could very quickly be pushed into debt distress with even limited and highly concessional borrowing.

ensure quality implementation. Even with a high-quality contractor such as Hall however, implementation risks are high. The remoteness of Nui and Niota islands, exposure to natural disasters (especially storm surge and cyclones), limited local resources (fuel, potable fresh water etc) and access to essential services (e.g., emergency, medical etc) create a complex operating environment for Hall. Early and continued oversight by ADB and AIFFP during construction will help to ensure Hall's resourcing and processes are adequate to manage implementation risks.

Risk	Mitigation
<b>Budget overruns due to global supply chain issues</b>	<p>Detailed engineering design and cost estimates were undertaken by an internationally experienced engineering firm - Royal Haskoning DHV (RHDHV). However, given current high global inflation as well as the fact the contract contains only provisional sums for a range of items, there are risks that the final price could exceed current budget allowances.</p> <p>AIFFP's grant financing will be capped and will be ring fenced to funding the Nui and Niutao Boat Harbours only.</p>
<b>ADB grant contribution delays</b>	<p>ADB may not be able to confirm additional funding until early 2025 due to ADB internal funding cycles which may further delay the project.</p> <p>ADB remain hopeful to be able to reallocate funds to cover the remaining gap by end 2023, although there remain outside risks that this may not be possible until ADB's new funding cycle which starts in January 2025</p>
<b>Cost escalations from scope changes</b>	<p>The Project has historically suffered from increases in scope and corresponding increases in costs funded through additional financing tranches. This will need to be managed.</p>
<b>Construction delays due to extreme environmental conditions.</b>	<p>The project is situated in a very remote location in the South Pacific Ocean and exposed to oceanic influenced weather conditions all year round with the possibility of severe conditions to be experienced during the cyclone seasons December to March.</p>
<b>Lack of effective coordination</b>	<p>As with all co-financed projects, there is a risk that AIFFP will be poorly informed of the Project's progress and key decisions.</p> <p>DFAT's in-country presence and strong relationship with GoT will be critical to ensuring AIFFP is kept informed of key Project developments on the ground and has genuine involvement in decision-making.</p>

**We recommend that the Board endorses:**

The provision of an AIFFP financing package, comprising a grant for **USD 15,000,000** (GST not applicable) to the ADB via a co-financing arrangement as part of the Nui and Niutao Boat Harbour Upgrade Project.

## List of Abbreviations

ADB	-	Asian Development Bank
AIFFP	-	Australian Infrastructure Financing Facility for the Pacific
AMP	-	Asset Management Plan
CCECC	-	China Civil Engineering Construction Corporation
CEMP	-	Construction Environmental Management Plan
CP	-	Child Protection
CSC	-	Construction Supervision Consultants
DOE		Department of Environment (Tuvalu)
DFAT	-	Department of Foreign Affairs and Trade
EHS	-	Environment, Health and Safety
ESMP	-	Environmental and Social Management Plan
GAP	-	Outer Island Maritime Infrastructure Project Gender Action Plan (GAP).
GBV	-	Gender Based Violence
GoT	-	Government of Tuvalu
Hall	-	Hall Contracting – Construction Contractor (Brisbane, Australia)
IEE	-	Initial Environmental Examination
M&E	-	Monitoring and Evaluation
MDB	-	Multilateral Development Bank
MoF	-	Ministry of Finance, Tuvalu
Mo	-	Ministry of Public Work, Infrastructure, Environment, Labour, Meteorology
MPWIELMD		and Disaster, Tuvalu
MTET		Ministry of Transport, Energy and Tourism
NGO	-	Non-Governmental Organisation
O&M	-	Operations and Maintenance
PDA	-	Project Design Advance
PMU	-	Project Management Unit
PRF	-	Project Readiness Facility
(P)SEAH	-	(Prevention of) Sexual Exploitation, Abuse and Harassment
RHDHV	-	Royal Haskoning DHV
SPP	-	Strategic Procurement Planning
SPS	-	Safeguard Policy Statement

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# 1 Project Overview

INVESTMENT DETAILS		
<b>Investment Objective</b>	The Nui and Niutao Outer Island Workboat Harbours (the Project) will construct a workboat harbour at the island of Nui and Niutao, including a navigation channel, a boat ramp, a passenger terminal, a cargo shed, and shoreline reclamation.	
<b>Investment Benefits</b>	<p>The Project will:</p> <ol style="list-style-type: none"> <li>1. Support Tuvalu by new infrastructure at Niutao harbour, construct new boat harbour facilities at Nui and improve maritime safety and transfer operations at both harbours.</li> <li>2. Support Tuvalu to overcome connectivity constraints between the capital and the outer islands of Nui and Niutao</li> <li>3. Promote economic and social development that is more inclusive and sustainable, including through fisheries and tourism.</li> <li>4. Improve capacity, management, and operational practices at both boat harbours.</li> <li>5. Position the Australian Government as a reliable, responsive partner of choice and demonstrate our ability to deliver quality infrastructure outcomes.</li> </ol>	
<b>Geographic Location</b>	Nui and Niutao Islands, Tuvalu	
<b>Proponent</b>	Government of Tuvalu	
<b>Debt Sustainability</b>	NA – 100% grant funded	
FINANCIAL OVERVIEW		
<b>Finance arrangement</b>	Grant only	
<b>Total Project Value</b>		
<b>Proposed AIFFP Investment</b>	Total Amount	USD 15m USD [AUD 21.4m ]
	Loan	Nil
	Grant	USD 15m USD [AUD 21.4m]
<b>Co-investors</b>	Government of Tuvalu USD 7.2m in-kind contribution	

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**Proposed Execution Date**

Signing of co-financing agreement with ADB – Q3 2023

RISK ASSESSMENT*					
Risk Category:	Reputational	Country	Financial	Compliance	Implementation
<b>RISK ASSESSMENT (Residual risk ratings (post mitigation) provided below.)</b>					
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				

**Table 1 – Project Risk Assessment**

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## 1.1 Project Description and Background

Tuvalu is one of the smallest and most remote Pacific countries with one of the smallest economies in the world with a nominal GDP of AUD 0.09bn (2022)<sup>2</sup>. Tuvalu is a Polynesian island nation located in the South Pacific Ocean, midway between Hawaii and Australia, with a small population of 11,192 per the 2017 census.

The economy of Tuvalu is constrained by its remoteness and lack of economies of scale. The United Nations designates Tuvalu as a least developed country because of the absence of exploitable resources and its small size and vulnerability to external economic and environmental shocks. Tuvalu's challenges in transport and economic development come from its dispersed geography.

Tuvalu is vulnerable to climate change, environmental problems such as population growth and poor coastal management also affect sustainable development. The South Pacific Applied Geoscience Commission ranks the country as extremely vulnerable using the Environmental Vulnerability Index.

### **Essential Infrastructure - Tuvalu Maritime Transport and Ports/Boat Harbours**

Tuvalu's small land mass, combined with infertile soil, create a heavy reliance on the sea. Tuvalu's primary economic activities are fishing and subsistence farming, with income from foreign fishing licenses allowing access to its exclusive economic zone (EEZ) being a major source of government revenue (comprising around 58% of non-aid revenue and 43% of the national budget or AUD 31 million in recent years). Income from Tuvaluan seafarers working on international ships has previously provided a substantial source of remittance, but this is in decline.

The effectiveness and efficiency of maritime transport is highly correlated and integral to the economic development of Tuvalu. The nation is served by an international container shipping service, and bulk fuel delivery through the main port in Funafuti. Domestic transshipment to the islands is provided by government-owned ships, which are the only means of transport between the islands. The government fleet includes two passenger-cargo ships operated by the Ministry of Transport, Energy and Tourism (MTET), a fisheries research vessel, a vessel used for a variety of development tasks, and a patrol boat. The passenger-cargo ships travel from Funafuti to the outer islands and Fiji, so each island only has access to these ships once every 2–3 weeks.

In addition to regular services, these ships are occasionally used for medical evacuations. They also carry students between Funafuti, Vaitupu, and Fiji where secondary or higher-level education is available. These ships therefore not only provide lifeline support to the Tuvaluan people but also play a vital role in keeping communities connected.

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<sup>2</sup> Tuvalu is the IMF's smallest member economy. IMF Tuvalu 2021 Article IV Consultation – Staff Report and statement by the Executive Director for Tuvalu. IMF 21/176 August 2021

Government ships carry passengers and cargo between the capital and outer islands, but no outer island has a facility for the ships to berth alongside (as is possible in Funafuti). Passengers and cargo must be carried by small workboats that shuttle between the ship and the shore, which can be dangerous in rough seas. Transferring between the ships and the workboats offshore is particularly challenging because of the differing motion between the ship and the workboats alongside.

Workboats loaded with passengers and cargo navigate narrow channels, with operators needing to adjust their timing to cater for the period and direction of the swell. While other islands in Nanumea, Nukufetau, and Vaitupu have basic reception facilities for workboats, the lack of adequate facilities in the Nui and Niutao islands means in the movement of passengers involves strenuous, potentially risky embarkation and disembarkation from workboats via shallow water, while cargo needs to be carried ashore manually. Numerous safety incidents have occurred during these transfers, including fatalities.

**Project scope includes:**

- Detailed design and construction of workboat harbour/small-scale maritime facilities in Niutao and Nui including new channel dredging, construction of a passenger terminal with a canteen and first aid room, area for the sale of handicrafts, separate disability access toilets for men and women, 24-hour solar lighting, guard rails and signage on jetty, a separate warehouse, and provision of a truck with crane. There have been several designs prepared for the Niutao boat harbour over the past 8 years. The design is now settled for both Nui and Niutao boat harbours and this proposal only considers the scope of the current design and not future requests of the GoT.
- Assistance for a harbour safety plan to be rolled out with a security guard at the site, stevedores and first aid room equipped with bed, chair, first aid kit, life rings and lifting litter. A training session on water safety and first aid will be run as a part of this plan with the Red Cross of Tuvalu, with Red Cross volunteers in Niutao staffing the first aid room when ships are at the harbour.
- As MPWIELMD is a first time Implementing Agency and its staff are not familiar with ADB's processes there will be opportunities for MPWIELMD staff to be trained on ADB's systems and disbursement procedures. To ensure that the 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 MTET the agency responsible for the ongoing O&M of the boat harbours will be created for maintenance activities creating further opportunities for capacity building.

## 1.2 Key Considerations

Subject to board endorsement and Ministerial approvals, AIFFP intends to finalise the co-financing arrangement with the ADB in the third quarter of 2023.

# 2 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 Tuvalu enjoy a close relationship based on long-standing political, diplomatic, development, security and people to people links. Key focus areas of the bilateral development program include health security, stability and access to essential goods and public services, economic recovery and climate and disaster resilience support. Key donor partners in Tuvalu included Australia, New Zealand, the Asian Development Bank (ADB) and the World Bank (WB). Australia's development partnership with Tuvalu supports Tuvalu priorities in economic growth, energy, security, infrastructure, social inclusion, health, education, climate change resilience (which was considered and adopted in the design), disaster preparedness and response. Australia has strong ties with Tuvalu, a long history in working with the GoT and was one of the three founding donating countries (Australia, New Zealand and UK) to the Tuvalu Trust Fund (sovereign wealth fund) and continues as a major donor of aid and technical assistance to Tuvalu.

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

The Project upgrades will improve reliability and efficiency in the Nui and Niutao boat harbours while providing support to Tuvalu's economic development. Many island communities in Tuvalu are dependent on shipping for food and other imports, and for access to essential food and supplies through imports and exports, and this project provides vital connectivity domestically in Tuvalu. While the populations of both islands are small (total of less than 1,500 people), the Project has a basic-needs aspect as the current method of transferring cargo and passengers to shore is unsustainable, long-term.

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

If approved, the Project would be an opportunity for AIFFP to support a key GoT government priority while reaping efficiency dividends with a shovel-ready critical infrastructure investment. The investment is a high priority for the Government and a tangible demonstration of Australia's support.

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## 3 Financial Overview

### 3.1 Investment Capital Structure

AIFFP proposes to grant finance up to **USD15m** (AUD 21.4m), excluding M&E and implementation costs.

Financing will be provided to the GoT, through a co-financing arrangement with the ADB.

### 3.2 AIFFP Financing Package

In the proposed co-financing arrangement, funds will be disbursed on a pro-rata basis from AIFFP to ADB and will contribute to 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. Project financial statements will be developed and audited in accordance with ADB standards. AIFFP is comfortable with this approach and will undertake regular reviews of financial statements as well as in country missions to verify Project progress.

## 4 Investment Quality and Impact

### 4.1 Improved economic activity

The proposed Project is considered a basic need to improve the livelihood and quality of life for the people of Nui and Niutao. The ADB undertook an economic analysis for the project however standard demand analysis for calculating the benefits of the Project were not found applicable for the project as it is non-revenue-generating infrastructure. The economic analysis for the project was carried out using least-cost analysis considering the small size of the island population served. The least-cost analysis defined the needs that must be met by the project, develops alternative options that could satisfy these needs, and ensures that the chosen option is the most cost-effective one among the mutually exclusive and technically feasible alternative interventions.

Economic growth in Tuvalu slowed from 3.0% to 2.0% in 2020 and 2.5% in 2021 because of the impact of coronavirus disease.<sup>3</sup> The growth rate of outer islands is likely to be much lower than Tuvalu's overall growth rate due to reduced economic activity in the outer islands compared to the main island of Funafuti. Considering population and economic growth, passenger and cargo traffic to the nearer Nui Island, ADB assumed a growth rate of 1.5% per annum.

As the Project consists of non-revenue-generating infrastructure, the financial analysis focused on assessing the capacity of the implementing agency to absorb the incremental O&M costs associated with the Project. The analysis involved identifying the budget allocation for O&M by the GoT, estimating the incremental O&M cost associated with the proposed Project, and assessing the likelihood of adequate budget allocation to cover the required maintenance. Government of Tuvalu's MOF will be the executing agency and the MPWIELMD the implementing agency.

Hall has been contracted for Nui Boat harbour and has been nominated preferred contractor for the Niutao Boat Harbour pending resolution of additional funding for the Project. The Project will be operated by the MTET in coordination with the local community, which receives annual budget allocations for O&M of infrastructure assets and will provide O&M capacity building opportunities for MTET.

ADB's analysis concluded that the Project will not cause an increase in recurrent expenditures but will assist with GoT budget allocations required for O&M with a moderate decline in the fuel and oil costs with more efficient ship-to-shore transfers.

Maintenance dredging after every major tropical cyclone will be required, while other steel or concrete structures will not need major maintenance works for many years. Major cyclones have affected Tuvalu once every 10 years on average, and dredging would cost AUD \$500,000 – AUD \$1,000,000 depending on the number of islands affected by the cyclone. On average, a maximum of AUD \$100,000 per annum is estimated to be required for maintenance dredging.

## 4.2 Local labour and employment

Unemployment is substantially higher among both men and women on outer islands of Tuvalu. Employment for men and women outside of government jobs is scarce on the outer islands, and there is little opportunity for increasing household incomes beyond selling surplus food goods. Opportunities to earn cash income in rural areas are constrained by lack of

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<sup>3</sup> ADB. 2020. Asian Development Outlook 2020: What Drives Innovation in Asia? Manila; and ADB. Asian Development Outlook 2020 Supplement: Lockdown, Loosening, and Asia's Growth Prospects. Manila.

transport access and services limiting market accessibility. The project will have an overall positive impact on poverty reduction and social development through increasing both the availability and reliability of transport access. Villages and households in more remote communities will have improved access to markets and services, to secondary schools and health services. Communities in the outer islands will benefit from economic and social development from the improved transport connectivity.

The construction and operation of the new harbour will create some direct employment opportunities. The construction contract with Hall contains provisions which encourage the utilisation of local labour where practical. Hall has a strong principle of local engagement and participation and a track record in engaging local labourers on projects in the Pacific Islands. For example, in Tokelau, Hall trained 25 Pacific Islander workers in civil construction, working in and around water, batch plant operations, welding and operating power tools and machinery. At the conclusion of the project, the company provided civil machinery and a repair manual and training to ensure local workers could maintain the new infrastructure in the years ahead. Some Tokelauan team members were also empowered to build temporary seawalls for their community using their newly developed construction skills.

The construction of the boat harbours will create some unskilled and semiskilled employment opportunities for local men and women, and for income generation through sales of goods and services, including a target of at least 10% of women in construction roles. Ongoing employment and upskilling opportunities will include stevedores and security guards and wharf maintenance. The Construction Supervision Consultants (CSC) will support business development and mentoring with the women's groups on the island. Work opportunities will be coordinated by community leaders to target vulnerable households and spread benefits among families and clans. Hall will be required to comply with core labour standards and will be encouraged to identify upskilling opportunities for local labour.

### 4.3 Climate change and disaster resilience

Tuvalu is widely recognized as one of the most vulnerable countries in the world to the impacts of climate change, including extreme weather events due to its residents' dependence on ocean resources for their livelihoods, high exposure to climate hazards, and low adaptive capacity. It is also uniformly low, the highest points being only about 4m above sea level.<sup>4</sup> Maritime infrastructure facilities, including wharves, breakwaters are particularly vulnerable against sea level rise (SLR) and frequent extreme weather events. In March 2015, Tropical cyclone Pam caused flooding and erosion of the west coasts and damaged maritime infrastructure in Tuvalu.

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<sup>4</sup> ICF International, 2018, Niutao Harbour Climate Risk and Vulnerability Assessment



The design and construction of the harbours and landside facilities have taken and will continue to take into consideration the impacts of future climate change parameters that have been projected for the region.<sup>5</sup> Specifically, factoring in the projected rise in the mean sea level (MSLR), effect of cyclones and Coastal erosion and change in longshore sand movement. To inform design for the two harbours, RHDHV was commissioned to undertake a site-specific tropical cyclone assessment for Nui and Niutao Boat Harbours.

AIFFP engaged a DFAT climate change specialist to review the project documentation and identify any additional mitigation and adaptation opportunities beyond what is already required under relevant design standards to improve climate resiliency. Following a review of the relevant IEE, EIA and CRVA's (Climate Risk and Vulnerability Assessments<sup>6</sup>) for the two boat harbours, some key findings include:

- 1) The CRVA's used suitable sea level rise predictions based on current Pacific data from CSIRO, BoM under the PCCSP program and IPCC climate model scenarios (RCP4.5, 6.0 and 8.5) the CRVA sea levels were also checked against other data sets including existing tide gauge data and predictions from a recent analysis of sea level rise in the Pacific by the DFAT funded Pacific Regional Infrastructure Facility (PRIF).
- 2) The CRVA mean sea level rise predictions are conservative in nature, using the IPCC high level RCP8.5 scenario, the report indicates sea level rise to be the main climate related risk for the two boat harbour projects.
- 3) Other climate impacts such as ocean acidity, wind, cyclone events, rainfall and storm surge risks were identified within the CRVA, IEE and EIAs along with the use of the ADB AWARE model which was used to assess the overall climate risks for the projects.
- 4) Credible climate and weather-based assessments along with reputable data and appropriate models were used in the CRVA's with a higher level of interrogation completed for the Niutao boat harbour assessment than Nui boat harbour most likely due to the size or complexity of the projects.

Additional climate resilient design features may be considered during the construction phase of work following further investigation and discussion with the ADB.

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<sup>5</sup> ADB, 2021, Initial Environmental Examination (IEE) Tuvalu: Outer Island Maritime Infrastructure Project – Additional Financing Niutao Workboat Harbour (48484-002) and ADB, 2023, Environmental Impact Assessment, Tuvalu: Outer Island Maritime Infrastructure Project – Additional Financing Nui Boat Harbor (48484-005).

<sup>6</sup> ICF International, Niutao Harbour CRVA Assessment, June 2018  
ADB CRVA RRP TUV 48484-005, Climate Change Assessment

## 4.4 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. Specifically, 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 stage. Key issues for women identified in the project areas continue to be high levels of time poverty, barriers to income generation such as lack of market development and limited infrastructure to sell goods, and high levels of all forms of violence against women and girls. Consultations with women in outer islands highlight their challenges with maritime transport, including being uncomfortable with the level of risk during the transfer (boat-side and land-side), the difficulty of accessing important services such as health care for themselves or their children, and the risk of violence. The harbour will facilitate improved access to boat transport, including safer access to inter-island transport for people with limited mobility, such as pregnant women, the elderly, young children, and people with disabilities, as well as facilitate the range of services available to Nui because of the docking capabilities. Indirectly, the project will contribute to social mobility, family cohesion (for those who work on other islands by facilitating more regular transport), and livelihoods and economic development (less loss or damage of cargo).

AIFFP's financing will support the gender and disability-related actions and measures agreed in ADB's Outer Island Maritime Infrastructure Project Gender Action Plan (GAP). The GAP is focused on enhancing benefit distribution (and minimizing risk and/or harm) to women during construction and operation of the boat harbours. The Project addresses the physical difficulties and unsafe transfer of people such as pregnant women and the elderly from small workboats to the government ship. The new facilities will be designed for inclusion with railings, ramps, lighting, and other security features, giving women and children safer access to transport. The passenger terminals will also include separate toilets for men and women, priority seating for women and people with disabilities, and facilities for canteens and handicraft outlets. Employment quotas for women (including the opportunity for one female trainee) will provide economic opportunities. Combined with participatory workshops on water safety and harbour use and maintenance (minimum of 40% women, including women-only consultations) and research into barriers to non-traditional employment, these actions will promote women's employment and inform future projects. Access to vegetation from clearing operations for construction will be provided to women for use in handicraft production. All male and female construction workers will receive training prior to and during the construction on sexual and reproductive health, gender sensitivity, gender-based violence, and diversity and inclusion. A minimum of 30% of community members (with at least half being women) will also receive this training.

The GAP also features details of how Civil society organizations (CSOs) such as the Matapulapula Women's Group (Nui) will support the delivery of training and awareness

raising activities. This group, as well as national CSOs, will continue to be consulted during construction, monitoring, and completion. A national CSO (such as the Tuvalu Red Cross) will be engaged by the contractor to deliver health- and HIV/AIDS-related training and undertake awareness raising activities. The PAM contains a stakeholder communication strategy, and a communication and participation plan has been prepared. A gender and social development specialist will implement the GAP and communication and participation plan, ensure vulnerable groups are actively involved, and support and monitor gender targets. The PMU will prepare quarterly progress reports and semi-annual safeguard monitoring reports. The reports will include sex-disaggregated data and participation indicators relating to consultations, training, and employment statistics.

## 5 Environmental, Social and Governance

The Project has been designed and will be implemented in accordance with ADB safeguards, which broadly align with AIFFP safeguards requirements. An Environmental Impact Assessment (EIA) and Initial Environmental Examination (IEE) were completed for the Nui and Niutao boat harbours, respectively. The Ministry of Public Works, Infrastructure, Environment, Labour, Meteorology and Disaster (MPWIELMD)'s Department of Environment (DOE) provided approval for the Nui and Niutao harbours, subject to conditions, including the completion of an environmental impact assessment (EIA); settlement of land acquisition and approvals; stakeholder consultation; development of thorough Construction Environmental Management Plan (CEMPs) and related sub-plans; and the provision of weekly and monthly contractor compliance reports.

The Project EIAs classified Nui (February 2023) and Niutao (July 2021) boat harbours as Category B against ADB's 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 to an acceptable level in accordance with the Project's Environmental and Social Management Plan (ESMP) and GoT's environmental clearance/development consent and conditions, and effective monitoring of the same by the CE and ES who will support the PMU and act for and on behalf of MPWIELMD.

In accordance with DOE's approval conditions, the CEMPs for both projects will include specific sub-plans to address key risk areas (e.g., Sediment and Erosion Control Plan; Health and Safety Plan; Traffic Management Plan; Waste Management Plan, Emergency Response Plan, Labour Management Plan etc.) and site-specific plans for elements of the work (e.g., Dredging and Excavation Plan). Hall will develop CEMPs based on the EIA/IEE ESMPs to ensure the construction and the operation of the Project meets legislative, contractual, and other environmental obligations and targets as relevant.

## 5.1 Environmental Safeguards & Governance

Hall will hire suitably qualified environmental and social safeguard specialists to oversee the implementation of the safeguards suite of plans and prepare monthly reports on CEMP implementation. Hall's compliance with the CEMP will be monitored by the National Environmental Specialist (NES) and National Social Safeguards Specialist (NSS) and International Environmental Specialist (IES) 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's safeguard requirements.

### **Biophysical impacts**

For both projects, the 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.

EIAs for both Nui and Niutao boat harbours confirmed that there is no critical habitat that will be directly affected by the project. The main environmental risks relate to the construction phase and the dredging of reef flat/crest for the new channel and marine structure foundations and the subsequent disposal of around spoil to land; drainage and runoff from construction sites, waste generation and management (hazardous and non-hazardous), soil and water contamination (e.g., fuel spillage). Overall, few of the predicted impacts are irreversible. They can be managed and reduced to acceptable levels through the implementation of the measures identified in the EMP, to be developed into a detailed CEMP by the Contractor, and effective monitoring of the same by the CE and ES who will support the PMU and act for and on behalf of MPWIELMD.

Given the limited resources on each island, Hall's construction operations will be largely self-sufficient in terms of water, power, construction materials, waste disposal and treatment. The main concrete items will be imported from a precast yard in Fiji (Concrete Solutions, located near Suva). The only material that will be used is the spoil from the dredging, already approved by the DoE and CSC. The contractor will use desalination plants to produce water for construction.

## 5.2 Social Safeguards & Governance

Consultations for both Nui and Niutao boat harbour projects were held with island councils (Kaupule) and leaders, national government offices, civil society, women, and affected persons, with key project decisions made at the local level. During implementation, a stakeholder reference committee will be formed to ensure decision-making is participatory

and inclusive, and it will hold regular consultations with the contractor regarding progress and emerging issues.

### **Displacement and resettlement**

Both Nui and Niutao boat harbour projects are categorized as Category C for Involuntary Resettlement according to ADB's Safeguard Policy Statement (SPS) 2009, as the project will not result in involuntary land acquisition nor physical or economic displacement.

The project's main components will be built on reclaimed and foreshore land recognized as Crown Land within Tuvalu laws. The project will engage in temporary leases to construct and/or widen access roads and for a construction laydown area. There will be long term leases for some minor associated facilities, including some landscaped areas, a footpath and widening of a corner of a road. There is expected to be impacts on privately owned trees and these will be compensated at scheduled government rates. As no involuntary resettlement is anticipated under this project, and landowners have expressed broad willingness to enter into land lease agreements.

### **Indigenous peoples**

Indigenous Peoples Safeguards. The project is categorized as Category C for Indigenous People within the SPS as the affected persons on Nui identify as mainstream Tuvaluans.

### **Livelihoods**

The project will have an overall positive impact on poverty reduction and social development through increasing both the availability and reliability of transport access. Villages and households in more remote communities will have improved access to markets and services, to secondary schools and health services. Communities in the outer islands will benefit from economic and social development from the improved transport connectivity.

### **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. Hall 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, vibration and noise) after implementation of the proposed mitigation measures are not predicted to be significant.

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. Hall have identified worker accommodation sites away from villages for both Nui and Niutao projects to reduce impact on communities. Hall will provide dismantlable accommodation. The residual impacts following mitigation are expected to be small.

**Labour and working conditions.**

Hall will abide by the International Labour Organisation's core labour standards (CLS) and rights, which will be covered in any training provided to workers and the community.

**Child Protection (CP), Sexual Exploitation, Abuse and Harassment (SEAH), Modern slavery.**

The inherent CP and SEAH risks for the Project are considered high. Hall will be required to meet GoT laws and ADB's minimum standards for CP and SEAH. DFAT in June 2020 conducted a baseline review of Hall and rated the firm a low risk. 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 taking learnings Tonga Port, the first SEAH risk assessment for a ADB project in the Pacific. Following mitigation, CP, SEAH and modern slavery risks are assessed as moderate. Tuvalu is not known to be a source, destination, or transit country for victims of human trafficking. Nevertheless, Hall will provide training on STIs, HIV/AIDS, gender and cultural issues, and human trafficking for construction personnel and the Nui and Niutao communities.

## 6 Procurement Approach

The ADB Outer Islands program commenced in 2015 with four islands in the program: Nukulaelae, Nanumaga, Nui and Niutao. CCECC won the initial ADB financed contract for Nukulaelae boat harbour in 2017 and with work 95% completed except for navigation aids.

Ultimately due to the increased costs, CCECC suspended all works on the Niutao boat harbour in July 2022 and demobilised and left the island in October 2022. Hall in August 2022 won the contract for the Nui boat harbour, with ADB taking an approach that emphasised quality over price with Hall's site establishment due to occur in May 2023 for Nui boat harbour.

The current procurement outcome an example of ADB utilising 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.

## 7 Project Implementation

The engineering, supervisory and managerial aspects of the Project, including construction supervision services, is being undertaken by a Contract Engineer and Resident Supervisor directly appointed by the Ministry of Public Works, Infrastructure, Environment, Labour, Meteorology and Disaster (MPWIELMD) to the Project Management Unit (PMU). Independent

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assistance to the PMU has been provided by RHDHV. This includes design services and the services of a National Environmental Safeguards (NES) specialist, a National Social Safeguards (NSS) specialist and an International Environmental Specialist (IES).

MPWIELMD is a first time Implementing Agency, and its staff are not familiar with ADB's systems and procedures. Existing PMU will continue to manage the project. ADB will arrange for the MPWIELMD staff to be trained on ADB's CPD system and disbursement procedures. 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 MTET 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 RHDHV as the detailed design consultant and the CSC.

ADB and AIFFP representatives intend to meet with the PMU and CSC on a fortnightly basis to discuss Project updates and project implementation issues as they emerge. AIFFP will also join ADB as part of semi-annual review missions, the next of which is scheduled in Q2 2023. AIFFP will have available support via a technical maritime transport and ports advisor engaged under the AIFFP Support Unit, on an as-needed basis.

## 8 Key Risks

The AIFFP assessed the Project's overall risk rating as **Moderate**. **Table 5** summarises residual risk ratings across each category.

**Table 5:** 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				

## 9 Due diligence

DFAT classifies ADB as a trusted partner.

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Noting AIFFP’s late-stage involvement in the Project, AIFFP undertook a safeguard, climate change and technical due diligence review of ADB documentation and processes. These found that overall, the Project technical and safeguards requirements satisfactorily fulfilled, as detailed above.

## 10 Monitoring & Evaluation

### Monitoring and Reporting Arrangements

This AIFFP investment will, for the purposes of monitoring and reporting, align with ADB’s Monitoring Framework as outlined in the ADB PAM. The Framework details the indicators and corresponding data sources and reporting methods against the Project outcomes and outputs. In addition to the areas identified for monitoring and reporting in the ADB PAM, AIFFP will, through separate and additional funding, implement the following:

### Review of ADB Monitoring & Evaluation (M&E) Plan

ADB has developed M&E Plan, including an M&E Results Framework, 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 6 sets out the Project’s program logic.

AIFFP and ADB will conduct regular field visits to review Project progress against the Framework. AIFFP will commission an independent evaluation of the investment, within five years of Project completion. Given that Project is led by the ADB and has an established PAM which contains a Monitoring Framework, AIFFP has reviewed the Monitoring Framework and proposes to compliment this framework through independent evaluation and the production of a post completion study.

While an independent evaluation is particularly of interest and importance to AIFFP, the results can also contribute important insights to the ADB as well as the Government of Tuvalu. Implementation of the evaluation will present no financial burden on the Project. Given that the evaluation will be implemented (data collection, monitoring, reporting) by the AIFFP Support Unit, the time requirements/burden placed on the Project stakeholders will be minimal.

**Table 1:** Program Logic

High-Level Goal	Access to essential services of Tuvalu’s population living on the outer islands improved
	Efficient domestic maritime transportation





## Key Project Milestones

KEY MILESTONES	
<b>April 2022</b>	Request for AIFFP project funding assistance
<b>May 2022</b>	Initial discussions with ADB
<b>February 2023</b>	Project Screening Paper - AIFFP Board Meeting
<b>May 2023</b>	AIFFP Board Meeting
<b>Q2 2023</b>	Australian Government Ministerial approval
<b>Q3 2023</b>	Signing of co-financing arrangement with ADB,
<b>Q3 2023</b>	Execution of the works contract – Niutao Boat Harbour
<b>Q2 2024</b>	Physical works completion – Nui Boat Harbour
<b>Q2 2026</b>	Physical works completion – Niutao Boat Harbour