



Asian Development Bank


Memorandum


Pacific Department


Pacific Subregional Office

8 April 2021

For Information

To: Masayuki Tachiiri, Regional Director, SPSO 

Through: Jagath Peththawadu, Unit Head – Project Administration, SPSO 

From: Grace King, Senior Project Officer (Financial Management), SPSO 

Subject: **G0347/G0348/G0444/G0445/G0446/G0528/L3509/G0586/G0587/G0588/
G0768-TON: Outer Island Renewable Energy Project, Mid-Term Review
Mission (24-30 March 2021)
—Back-to-Office Report**

I. OVERVIEW

1. The Mission¹ conducted a virtual mid-term review² and discussed implementation progress since the last review mission of 5-8 November 2020. The MOU summarizes key findings and actions which the Ministry of Finance (MOF); Ministry of Energy, Information, Disaster Management, Climate Change and Communication (MEIDECC); Tonga Power Limited (TPL); Delegation of the European Union to the Pacific (EU) and Government of Australia's Department of Foreign Affairs and Trade (DFAT) agreed to, is attached (Attachment 1).

2. As of 6 April 2021, against eOps cumulative projections, cumulative contract awards achieved are 93.43% and cumulative disbursements achieved are 91.33%.³ The outputs, financial management and safeguards ratings are on track, resulting in an overall 'on track' project performance rating. Grant Nos 0347/0348/0444/0445/0446/0528 and Loan No. 3509-TON will close on 31 March 2022, while Grant Nos. 0586/0587/0588/0768-TON will close on 31 July 2022.

3. Key progress since the last review mission in November 2020 include: (i) receipt of the 2020 second semi-annual safeguards monitoring report, the 2020 Q4 quarterly progress report and the 2020 annual progress report in January 2021; (ii) financial closure of Grant Nos. 0444/0446 in December 2020 and Grant Nos. 0445/0528 in March 2021; (iii) receipt of TPL's audited project financial statements and entity financial statements for the year ended 30 June 2020 in March 2021; (iv) approval of a minor change in implementation arrangements to modify the condition for withdrawal under Grant No. 0768 in March 2021, (v) recruitment of the O&M consultant and the resignation of the project manager in March 2021; (vi) contract awards of \$1.02 million against projections of \$0.99 million in Q1 2021; and (vii) disbursements of \$0.71 million against projections of \$1.31 million in Q1 2021.

¹ The Mission comprised: (i) Grace King, Senior Project Officer (FM)/Team Leader, SPSO; (ii) Ferila Brown, Safeguards Officer, SPSO; and (iii) Lavenia Uruvaru, Project Analyst, SPSO.

² The GEF, which is funding Grant No. 0587-TON that was approved on 31 July 2018, requires that a mid-term review be conducted.

³ Cumulative contract awards achieved is \$23.31 million against projections of \$24.95 million and cumulative disbursements achieved is \$17.12 million against projections of \$18.74 million.

II. MISSION FINDINGS

4. There are four Phases of works being conducted under the project. Phase 1 On-grid generation, and parts of Phase 2 Mini-grid generation and Phase 3 On-grid distribution, have been completed. The remaining works are summarized below.

5. **Phase 2 Mini-grid generation on 4 Ha'apai outer islands and on Niuatoputapu.** During their February/March 2021 site visits, MEIDECC found defects with works by Gamma Solutions (the contractor of this component). It was concerning that these defects were only noted at this late stage of the works, despite the Project Manager's regular site visits. The communities advised that the Project Manager had not visited the project sites on their islands, since the COVID-19 pandemic lockdown in March 2020. Further checks revealed discrepancies, with the supporting documents of the site visits that the Project Manager had submitted, with his withdrawal applications. A case of suspected fraud was submitted to OAI on 4 March 2021, who will advise the outcome of their assessment in 2-6 months. The Project Manager tendered his resignation on 15 March 2021, which was accepted by the government. The recruitment of a new Project Manager is under preparation (para. 9).

6. Gamma Solutions need 2 staff to travel to Tonga, to complete the remaining works, including the commissioning and hand-over of assets. MEIDECC submitted the required documentation to Gamma Solutions in March 2021, which will enable the 2 staff to arrange their flights and quarantine in New Zealand. According to MEIDECC, His Majesty the King is very interested in commissioning the subproject in Niuatoputapu, which was planned for December 2020. The communities in the 4 Ha'apai outer islands have requested that shelters be built for their old generators, which are still in working condition and can be used as a potential back-up system. The old generators were removed from the power houses to make way for the new generators that the project funded. MEIDECC would also like to install cyclone shutters on the window and submitted a request, for the project to fund the works which is estimated to cost \$100,000. A minor change memo, to accommodate these requests, is being prepared for Management approval.

7. **Phase 3 On-grid distribution on Vava'u.** In addition to the project savings of \$1.70 million, part of the fourth additional cofinancing totaling \$1.30 million will fund the Vava'u network distribution expansion to achieve 100% coverage. All 7 contracts have been awarded, the remaining materials are being delivered and TPL confirmed that the works will be completed by 31 December 2021.

8. **Phase 4 Mini-grid distribution on 4 Ha'apai outer islands and on Niuatoputapu.** The Evaluation Committee is finalizing their recommendation to ADB, for the last Lot of the Conductors package, which is estimated to cost \$1.00 million. Revised bids for a SHO-P4-Sand-06 package estimated to cost \$0.16 million will close on 9 April 2021 and the Committee will submit their evaluation report to ADB. The draft request for quotation document for the SHO-P4-Meters-01 package will be submitted to ADB for clearance, by 15 April 2021. Six other contracts have already been awarded and services have commenced and materials are being supplied to each island. The works will be completed by the project closing date of 31 July 2022.

9. **Project Management Unit.** The O&M consultant was recruited in March 2021 and as approved under the fourth additional cofinancing, extensions to the safeguards consultant and project accountant's contracts are being arranged by MEIDECC. The Project Manager tendered his resignation to MOF/MEIDECC on 15 March 2021 and his last day was on 31 March 2021.

The Director, Energy Division, MEIDECC is the Acting Project Manager and preparations for the recruitment of a replacement, are underway.

III. RECOMMENDATIONS AND NEXT STEPS

	Issue	Actions	Responsibility	By When
1	Remaining approved procurement \$1.39 million	<ul style="list-style-type: none"> • Conductors package Lot 1 - \$1.00m: submit bid evaluation report/review and issue no objection/award contract. • Sand package \$0.16m - submit bid evaluation report/review and issue no objection/award contract. • Meters package \$0.23m - submit draft RFQ for clearance/advertise/submit evaluation report/review and issue no objection/award contract. 	<ul style="list-style-type: none"> • MEIDECC/TPL/MOF/ADB • MEIDECC/TPL/MOF/ADB • MEIDECC/TPL/MOF/ADB 	<ul style="list-style-type: none"> • 29Apr21 • 5May21 • 15Jun21
2	Replacement Project Manager	Seek PSC approval of draft contract/advertise on CMS/local media and submit evaluation report/review and issue no objection	MEIDECC/TPL/MOF/ADB	15May21
3	Use of project savings and new small civil works procurement package \$0.10 million	<ul style="list-style-type: none"> • Submit Minor Change memo for interdept review/incorporate comments/submit for approval/advise GOT. • Draft RFQ to clearance/review and issue no objection/issue RFQ/submit evaluation report/review and issue no objection/award contract. 	<ul style="list-style-type: none"> • ADB • MEIDECC/TPL/MOF/ADB 	<ul style="list-style-type: none"> • 30Apr21 • 31May21
4	Variation to the MEIDECC-Gamma Solutions contract	Submit contract variation/issue no objection	Gamma/MEIDECC/ADB	30Apr21

Attachments: (i) Mission TOR
(ii) MOU with Annex 1-8

cc: Director General/Deputy Director General, PARD; Director, PAEN; Advisor/Unit Head, PAOD-PRQ; R. Wimalasena/F. Brown/L. Uruvaru/Project files, SPSO.

Appendix 1

Terms of Reference

Project:	Grant Nos. 0347/0348/0444/0445/0446/0528/0586/0587/0588/0768 and Loan No. 3509-TON: Outer Island Renewable Energy Project
Mission:	Mid-Term Review Mission
Mission Dates:	24-30 March 2021
Mission Composition:	Ms. Grace King, Senior Project Officer/Mission Leader, ADB Ms. Ferila Brown, Safeguards Officer, ADB Ms. Lavenia Uruvaru, Project Analyst, ADB

The purpose of the Mission is to:

- review overall implementation of the project and update, in consultation with the EA/IA, the project implementation schedule;
- examine implementation problems that the project is encountering or is likely to encounter, and work out measures with the EA/IA to resolve them;
- discuss timelines for the contract awards and progress of candidate subprojects with the EA/IA;
- review project progress with disbursements and verify, based on a comparison with ADB's records and the PMU's records, the contracts awarded, commitments and disbursements to date with the EA/IA;
- update the procurement plan in accordance with ADB's template with the IA;
- review the borrower's compliance with grant covenants, including environmental and social safeguards, and requirements related to the audit of project financial statements. Where there is any non-compliance or delay, discuss proposed remedial measures;
- participate in the handover discussions between the outgoing Project Manager and MEIDECC
- discuss the project progress and findings of review mission with donors;
- examine any other matters related to the project that requires ADB and the EA/IA's attention;
- prepare and discuss a Memorandum of Understanding describing the major findings and the agreements reached between the Mission, the Government, and other stakeholders.