

FOR OFFICIAL USE ONLY

R61-16
26 July 2016

Proposed Grant and Technical Assistance Grant Kulhudhuffushi Harbor Expansion Project (Maldives)

1. The Report and Recommendation of the President (RRP: MLD 36111-013) on the proposed grant and technical assistance grant to the Maldives for the Kulhudhuffushi Harbor Expansion Project is circulated herewith.
2. This Report and Recommendation should be read with *Country Operations Business Plan: Maldives 2016–2018*, which was circulated to the Board on 28 August 2015 (DOC.IN.285-15).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 16 August 2016), the recommendation in paragraph 37 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

For Inquiries: A. Heriawan, South Asia Department
(Ext. 6842)
K. Emzita, Office of the General Counsel
(Ext. 4904)



Report and Recommendation of the President to the Board of Directors

Project Number: 36111-013
July 2016

Proposed Grant and Technical Assistance Grant Republic of the Maldives: Kulhudhuffushi Harbor Expansion Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 13 July 2016)

Currency unit – rufiyaa (Rf)

Rf1.00 = \$0.065

\$1.00 = Rf15.41

ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
EMP	–	environmental management plan
MHI	–	Ministry of Housing and Infrastructure
MOFT	–	Ministry of Finance and Treasury
PAM	–	project administration manual
PMC	–	project management consultant
PMU	–	project management unit
TA	–	technical assistance
TES	–	Tender Evaluation Section

NOTE

In this report, “\$” refers to US dollars.

Vice-President	W. Zhang, Operations 1
Director General	H. Kim, South Asia Department (SARD)
Director	H. Yamaguchi, Transport and Communications, SARD
Team leader	A. Heriawan, Transport Specialist, SARD
Team members	K. Emzita, Principal Counsel, Office of the General Counsel J. Georget, Transport Specialist, SARD A. Nanayakkara, Senior Project Officer (Road and Transport), SARD I. Ranatunge, Associate Financial Controller Analyst, SARD J. Ranaweera, Associate Financial Control Officer, SARD M. Rueda, Project Analyst, SARD K. Yangzom, Environmental Specialist, SARD S. Zhao, Social Development Specialist, SARD
Peer reviewer	W. Tawisook, Senior Transport Specialist, Central and West Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

Page

PROJECT AT A GLANCE

MAP

I.	THE PROPOSAL	1
II.	THE PROJECT	1
	A. Rationale	1
	B. Impact and Outcome	3
	C. Outputs	3
	D. Investment and Financing Plans	3
	E. Implementation Arrangements	4
III.	TECHNICAL ASSISTANCE	5
IV.	DUE DILIGENCE	5
	A. Technical	5
	B. Economic and Financial	6
	C. Governance	7
	D. Poverty and Social	8
	E. Safeguards	8
	F. Risks and Mitigating Measures	10
V.	ASSURANCES	10
VI.	RECOMMENDATION	10

APPENDIXES

1.	Design and Monitoring Framework	11
2.	List of Linked Documents	13

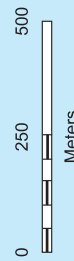
PROJECT AT A GLANCE






1. Basic Data		Project Number: 36111-013	
Project Name	Kulhudhuffushi Harbor Expansion Project	Department /Division Executing Agency	SARD/SATC Ministry of Finance and Treasury
Country Borrower	Maldives Republic of the Maldives		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Water transport (non-urban)		10.19
		Total	10.19
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Adaptation (\$ million)	0.90
Environmentally sustainable growth (ESG)	Disaster risk management	Climate Change impact on the Project	High
	Global and regional transboundary environmental concerns		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural	Low
		Urban	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		10.19	
Sovereign Capacity development technical assistance: Technical Assistance Special Fund		0.50	
Sovereign Grant projects: Asian Development Fund		9.69	
Cofinancing		0.00	
None		0.00	
Counterpart		0.75	
Government		0.75	
Total		10.94	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

MALDIVES



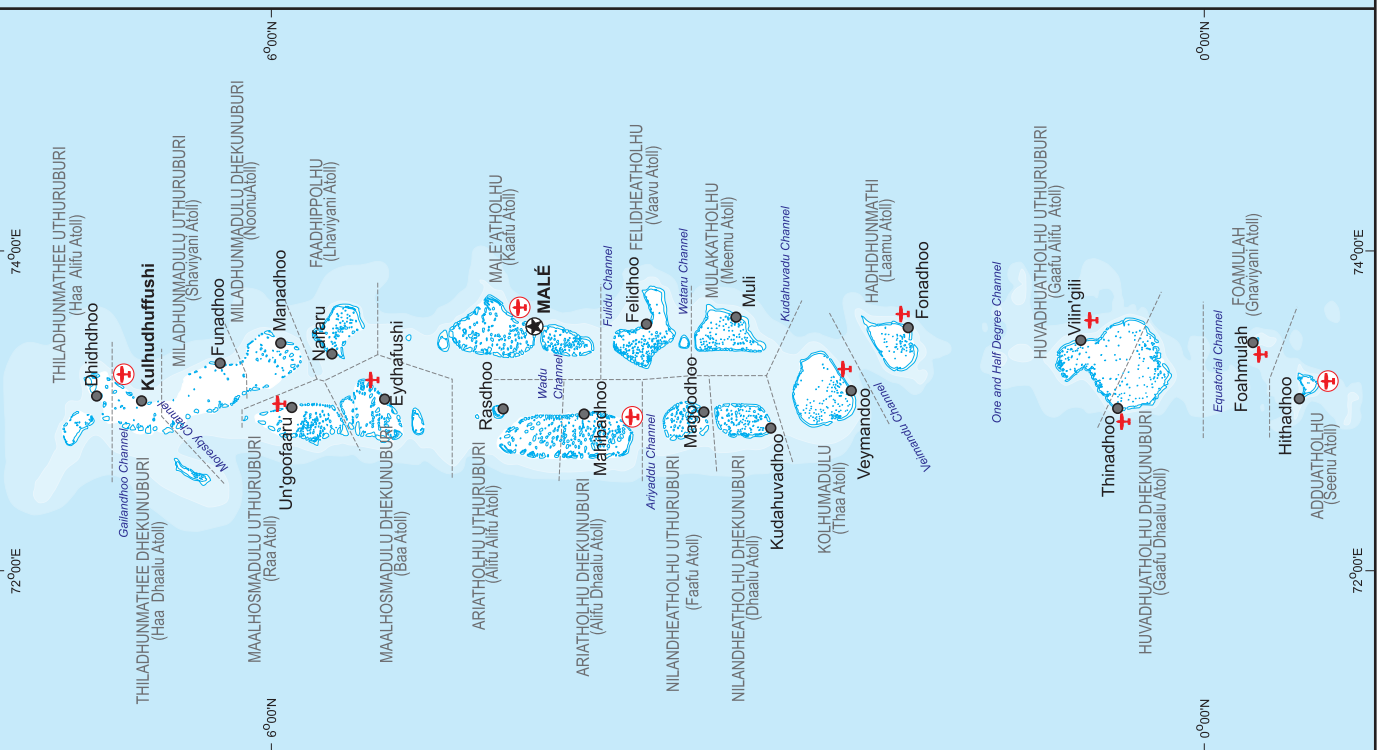
Project Site



-  National Capital
 Atoll Capital
 International Airport
 Regional Airport
 Road

----- Atoll Administrative Boundary
Boundaries are not necessarily authoritative.

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.



I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to the Republic of the Maldives for the Kulhudhuffushi Harbor Expansion Project.¹ The report also describes the proposed technical assistance (TA) for Capacity Development for Sustainable Harbor Operation and Maintenance, and if the Board approves the proposed grant, I, acting under the authority delegated to me by the Board, approve the TA.

2. The project will construct a passenger and cargo harbor on Kulhudhuffushi Island, which will be an expansion to the existing multipurpose harbor.² For the investment in the harbor infrastructure to be effective and sustainable, TA will be provided and attached to the project to enhance the institutional capacity of the operator in harbor operation, maintenance, safety, and financial management. The TA is also designed to help promote income-generating livelihood opportunities for local communities in the northern region of the Maldives.

II. THE PROJECT

A. Rationale

3. The Maldives consists of 1,190 coral islands formed by 20 natural atolls and scattered over 90,000 square kilometers of territory in the Indian Ocean, making it one of the most dispersed countries in the world. The country's total population was around 402,000 in 2014, with 96% of the population distributed across 188 administrative islands, 123 of which are occupied by fewer than 1,000 people.³ These geographic and demographic characteristics pose major development challenges in the country in terms of infrastructure development, provision of basic social services, and access to equitable economic opportunities.

4. In 2014, 38% of the Maldives' population lived in and around Malé, the capital city and urban center in the central region (footnote 3). Malé remains the country's fastest growing and most populated city, with rapid expansion of both the public and private sectors and establishment of major health and educational facilities. To help reduce the fiscal burden, the Government of the Maldives has decided to further develop the greater Malé area to accommodate about 70% of the country's population. This development is expected to take time, and in the meantime, the government views developments in remote atolls, which house the remainder of the population, as critical to strengthening the country's economy.

5. Lack of transport connectivity is a major constraint to the country's inclusive and sustainable development goals in remote atolls, particularly in the northern region,⁴ which have a high number of inhabitants living below the poverty line.⁵ Imbalances in accessibility to opportunities, enterprise, markets, and services in the northern region constrain the government from achieving broad-based economic growth, which is one of the major development goals

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance for the Kulhudhuffushi Harbor Expansion Project.

³ Government of the Maldives, National Bureau of Statistics. 2014. *Population and Housing Census*. Malé.

⁴ Consists of Haa Alifu, Haa Dhaalu and Shaviyani atolls.

⁵ Government of the Maldives, Department of National Planning. 2012. *The Household Income and Expenditure Survey*. Malé.

under the Seventh National Development Plan, 2006–2010,⁶ and Manifesto of the Progressive Party of Maldives for 2013 to 2017.⁷

6. To address the widening socioeconomic disparity in the northern region, the government is developing Kulhudhuffushi Island as an urban center where services and socioeconomic activities will be concentrated. Kulhudhuffushi is a major population center in the region, with a population of 8,200 as of 2014 (footnote 3). Currently, Kulhudhuffushi is home to the regional hospital that provides general medical, specialist, dental, emergency, and intensive care services. The island also houses primary, secondary, and tertiary education facilities, including a vocational training center, designed to cater to approximately 2,500 students from Kulhudhuffushi and nearby islands.

7. Residents of other islands travel daily to Kulhudhuffushi for work, use of the island's health and education facilities, or recreational purposes, reflecting Kulhudhuffushi's role as a key regional maritime connection and cargo interchange point for the northern region. With the ongoing development of Kulhudhuffushi as the northern region's urban center, the government has decided that the existing interisland connectivity in the region will be inadequate to allow efficient access to Kulhudhuffushi's services and opportunities, as mandated in the Seventh National Development Plan, 2006–2010 (footnote 6). Therefore, the government envisioned that additional harbor capacity and more efficient operation will be required at Kulhudhuffushi Harbor. This expansion is expected to benefit around 30,000 inhabitants living in the dispersed outer islands within a 30-kilometer radius of Kulhudhuffushi.

8. The multipurpose Kulhudhuffushi Harbor is currently used for passenger traffic, bulk cargo traffic, commercial fishing, and transport of agricultural commodities. The proposed additional capacity to the harbor will be required to prevent congestion, reduce delays in accessing a berth and mooring facilities in the basin, and encourage new transport links either at the regional or national level. At present there are around 150 vessels operating out of the harbor every day. It is estimated that increasing the capacity to cater to at least 250 vessels per day would be required to support Kulhudhuffushi's development as an urban center. The government plans to increase harbor capacity by constructing a new passenger and cargo harbor to cater to larger vessels, and through more efficient and sustained harbor operation. The new passenger harbor will also facilitate long-distance passenger service from the central and southern regions as recommended in the Maldives' Maritime Transport Master Plan.⁸

9. The proposed project will bring about inclusive socioeconomic benefits to the inhabitants of the northern region, and help reduce socioeconomic disparities between the central and northern regions. It aims to connect services, markets, people, and harbors through an integrated transport system with greater accessibility and affordability for all residents. It is aligned with the strategic objective established in the interim country partnership strategy, 2016 of the Asian Development Bank (ADB) to enhance movement of people and goods, including at the regional level.⁹

⁶ Government of the Maldives, Ministry of Planning and National Development. 2007. *Seventh National Development Plan, 2006-2010*. Malé.

⁷ Progressive Party of the Maldives. Manifesto of the Progressive Party of Maldives, 2013–2017. Unpublished (Unofficial English Translation).

⁸ ADB. 2013. *Maldives Maritime Transport Master Plan*. Consultant's report. Manila (TA 6337-REG).

⁹ ADB. 2015. *Interim Country Partnership Strategy: Maldives, 2016*. Manila.

B. Impact and Outcome

10. The impact will be enhanced access to services by 2020, aligned with the government's Seventh National Development Plan, 2006–2010 and Manifesto of the Progressive Party of Maldives for 2013 to 2017. The outcome will be improved interisland connectivity in the northern region.

C. Outputs

11. The outputs will be (i) increased harbor passenger and cargo capacity in Kulhudhuffushi through expansion of the existing multipurpose harbor, and (ii) strengthened institutional capacity in harbor operation, maintenance, safety, and financial management (para. 18).

D. Investment and Financing Plans

12. The project is estimated to cost \$10.44 million, including taxes and duties (Table 1). The detailed cost estimate is included in the project administration manual (PAM).¹⁰

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Harbor development	9.11
Subtotal (A)	9.11
B. Contingencies^c	1.33
Total (A+B)	10.44

^a Includes taxes and duties of \$0.68 million to be financed from government resources by cash contribution.

^b In mid-2016 prices.

^c Physical contingencies computed at 10% for civil works, field research and development, training, surveys, and studies. Price contingencies computed at 1.5% on foreign exchange costs and 2.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank estimates.

13. The government has requested a grant not exceeding \$9.69 million from ADB's Special Funds resources to help finance the project.¹¹

14. The ADB grant will finance 92.82% of the project cost; the government will bear local taxes and duties. The government commits that it will finance any shortfall in the finances, if required. The financing plan is in Table 2.

¹⁰ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹¹ A country's eligibility for Asian Development Fund grants under the revised grant framework is determined by its risk of debt distress. The latest debt sustainability analysis determined that the Maldives had a moderate risk of debt distress. However, the Maldives was eligible to receive 100% of its Asian Development Fund allocation as grants based on the 2014 debt sustainability analysis.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (grant)	9.69	92.82
Government	0.75	7.18
Total	10.44	100.00

Source: Asian Development Bank estimates.

E. Implementation Arrangements

15. The executing agency will be the Ministry of Finance and Treasury (MOFT) and the implementing agency will be the Ministry of Housing and Infrastructure (MHI). The MHI will establish a project management unit (PMU) to assist it during implementation. The PMU will be responsible for day-to-day project implementation and management, and it will report directly to the director general of the Infrastructure Department of the MHI. The PMU will consist of a project director, a project officer, and a project accountant, who will all be recruited by the MHI using the individual consultant selection method. The project director of the PMU will be delegated technical and administrative authority for expeditious project implementation. The MHI will also recruit an international consulting firm as the project management consultant (PMC) for general project management support, detailed design, procurement, and construction supervision. For the PMC recruitment, consulting firms will be requested to submit a simplified technical proposal, and the selection will be in accordance with the quality- and cost-based method, using a quality–cost ratio of 90:10. Procurement of works will be undertaken in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). All consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

16. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 10).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	November 2016–December 2019		
Estimated completion date	31 December 2019 (Grant closing date: 30 June 2020)		
Management			
(i) Oversight body	Project steering committee, comprising senior officials from the Ministry of Housing and Infrastructure (chair), the Ministry of Finance and Treasury, and the Ministry of Economic Development of the Government of the Maldives (members)		
(ii) Executing agency	Ministry of Finance and Treasury		
(iii) Key implementing agency	Ministry of Housing and Infrastructure		
(iv) Implementation unit	Project management unit located at the Ministry of Housing and Infrastructure, 3 staff		
Procurement	International competitive bidding	1 contract	\$8.11 million
	Shopping	1 contract	\$10,000
Consulting services	Quality- and cost-based selection	46 person-months	\$899,000
	Individual consultant selection	78 person-months	\$170,000
Retroactive financing and/or advance contracting	Retroactive financing and advance contracting for consultant recruitment and project management		

Aspects	Arrangements
Disbursement	The grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

ADB = Asian Development Bank.

Source: ADB estimates.

17. The government has requested retroactive financing for eligible expenditures on consulting services and project management for up to 20% of the grant proceeds, incurred before grant effectiveness but not earlier than 12 months before the signing of the grant agreement. Advance contracting for consultant recruitment was provided by default; recruitment of the PMC is ongoing. The government has been advised that ADB's approval of advance contracting and retroactive financing in principle does not commit ADB to finance the project.¹²

III. TECHNICAL ASSISTANCE

18. TA will be provided to strengthen the institutional capacity of the agencies responsible for harbor operation and maintenance in Kulhudhuffushi. To achieve this objective, the TA will (i) train the staff of the Secretariat of the Kulhudhuffushi Council and the staff of Public Works Services in Kulhudhuffushi on sustainable harbor operation, maintenance, safety, and financial management; (ii) implement a harbor safety campaign and conduct training for vessel drivers in passenger safety; (iii) conduct a feasibility study and recommend action plan for introducing harbor user charging in Kulhudhuffushi; and (iv) train local residents on income-generating livelihood opportunities.¹³ The TA is estimated to cost \$543,200, of which \$500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The government will provide counterpart support in the form of staff, logistical support, and other in-kind contributions. The executing agency of the TA will be the MOFT and the implementing agency will be the MHI. The TA will be implemented over 18 calendar-months, from January 2017 to June 2018. An international consulting firm will be recruited as the capacity building consultant. The recruitment will be carried out in accordance with ADB's Guidelines on the Use of Consultants. The consulting firm will be asked to submit a biodata technical proposal, and the selection will be in accordance with the quality- and cost-based selection method, using a quality–cost ratio of 90:10.

IV. DUE DILIGENCE

19. The project is considered viable based on due diligence and assessments of the costs, benefits, and impacts. It will benefit the islands of the Maldives by improving access to socioeconomic activities and services in the northern region.

A. Technical

20. The preliminary engineering design was completed during the project preparatory stage. The design objective was to minimize environmental impacts by minimizing the project footprint, and to promote cost efficiency while meeting the increasing travel demand in the northern region. The harbor area comprises a main basin for passenger and cargo vessels and a mooring area for smaller boats. The proposed expansion comprises (i) construction of breakwaters, a quay wall, and revetments; and (ii) dredging of the main harbor basin up to 4

¹² ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank*. Manila.

¹³ Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

meters below mean sea level. An administrative building and trading facilities are included as part of the harbor's ancillary facilities. Given that the Maldives is a low-lying country, the preliminary design considered the impacts of climate change such as the increase of the mean sea level and storm surges. The harbor infrastructure also has cost-effective shore protection features to enhance resilience against such impacts.

21. Actions during the project preparatory stage to improve institutional capacity in harbor operation, maintenance, safety, and financial management in Kulhudhuffushi will be addressed by the TA.

B. Economic and Financial

22. Economic analysis, which was undertaken according to ADB guidelines,¹⁴ concluded that the project is economically viable.¹⁵ The project's economic internal rate of return (EIRR) is 12.70% and the economic net present value is \$415,800. A discount rate of 12% was adopted for the analysis. The economic analysis compared the benefits and costs of with- and without-project situations. The potential benefits include travel time and cost savings for existing users of the harbor, generated demand due to the increased connectivity, operational efficiency, employment benefits, safety benefits, erosion protection, and utilization of surplus dredging material. Sensitivity analyses were conducted to assess the robustness of the economic viability of the project and determine the impact of key input parameters on the EIRR. Ten scenarios were analyzed, which included delays in project implementation, an increase in capital costs, a decrease in estimated travel demand, and decreases in key economic parameters.¹⁶ The results of the sensitivity analyses show that the EIRR is most sensitive to an unlikely scenario of an increase in capital costs, and that variations in key project parameters—including an increase in capital costs, project delays, and changes in key economic inputs—would still render the project economically viable. The results therefore show the robustness of the EIRR with regard to reasonable changes in costs and benefits. Considering the overall contribution of the project, which will promote sustainable and inclusive growth in the northern region and is expected to deliver significant wider unquantified benefits (especially regarding health, education, services, and employment opportunities), the results of the economic analysis are considered as conservative, and the integrated benefits of the project are expected to outweigh the capital costs.

23. The Secretariat of the Kulhudhuffushi Council is responsible for the cost of routine maintenance and day-to-day operation of Kulhudhuffushi Harbor. The incremental recurrent costs for harbor operation and routine maintenance are estimated to be around Rf267,000 per year. The Secretariat of the Kulhudhuffushi Council has committed to fund these costs through annual budget allocation and any revenue that may be generated from commercial use of the harbor. On the other hand, large-scale harbor maintenance, primarily dredging, is performed by Public Works Services under the MHI, and financed under the MHI's annual budget for recurrent expenditure. Large-scale harbor maintenance is managed by the MHI and is given priority based on need, as assessed by its technical staff. The dredging costs for the harbor expansion are expected to be around Rf2.7 million every 5 years, representing only 2.9% of the MHI's budget. MHI historical financial information in 2014 and 2015 shows that funds released for large-scale maintenance and upkeep have exceeded the initial budget allocations. In addition,

¹⁴ ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila.

¹⁵ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

¹⁶ These are gross domestic product, value of time, travel cost, standard conversion factor, and shadow wage rate.

the MHI is committed to adequately maintaining public harbors throughout the Maldives.¹⁷ Based on the analysis of the incremental recurrent cost and the government's financial ability and commitment to maintain all public harbors in the Maldives, it is likely that the operation and maintenance of the expanded harbor will be sustained. While the proposed passenger and cargo harbor under the project will be operated free of port dues or cargo handling charges, the TA attached to this project will support the government in assessing the feasibility of, and developing an action plan related to, introducing harbor user charging in Kulhudhuffushi in the future, which would help enhance sustainability of harbor operation.

C. Governance

24. **Institutional.** The MHI has sufficient capacity to implement the project. The MHI was the technical agency responsible for contract supervision and approval of progress payments for the ADB-funded Domestic Maritime Transport Project, under which Malé North Harbor was constructed.¹⁸ The experience gained from the development of 10 harbors funded by the Islamic Development Bank has further strengthened the MHI's capacity to implement the project.¹⁹ Capacity development TA to be provided to the Secretariat of the Kulhudhuffushi Council, and the Public Works Services will help sustain and streamline harbor operation and maintenance.

25. **Financial management.** The financial management assessment concludes that the overall financial management risk is moderate and suggests mitigation measures for key risks. It also concludes that the MOFT and MHI have sufficient experience and capacity to manage the project funds as well as adequate fund flow, accounting, and budgeting arrangements. Notwithstanding this, the MHI requires to develop an internal audit function. In addition, the MHI also committed to (i) ensure adequate counterpart fund allocation; (ii) with ADB support, conduct training in ADB's rules and regulations in disbursement, financial management, and procurement; and (iii) appoint a dedicated accountant at the PMU. The proposed fund flow arrangement is straightforward, and the financial management arrangements have been designed based on the financial management assessment results; both are expected to be adequate.

26. **Procurement.** The Tender Evaluation Section (TES) of the MOFT, in coordination with MHI as the line ministry, will carry out the procurement and consultant recruitment activities. An assessment of the procurement capacity of the TES and MHI shows that both agencies have the skilled and experienced staff, and well-established procedures and systems, required to manage the procurement process. In the last 4 years, the TES and MHI have procured a total of 37 civil works contracts for harbor projects funded by the government and external resources. In addition, the TES in the last 2 years has procured about 90 civil works contracts for projects funded by the government, the Islamic Development Bank, or the World Bank. However, both agencies have limited experience in ADB procurement. During the project preparatory stage, TES and MHI staff received training on ADB procurement. During the project implementation stage, the MHI, as the implementing agency, will be supported by the PMC during the preparation of bidding documents and the procurement of civil works.

¹⁷ The actual expenditures for large-scale harbor maintenance by the MHI were around 38% higher than the budget allocation in 2014 and 53% higher in 2015.

¹⁸ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Maldives for the Domestic Maritime Transport Project*. Manila (Loan 2327-MLD).

¹⁹ Cofinanced by the Saudi Fund for Development and the OPEC Fund for International Development.

27. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the PAM (footnote 10).

D. Poverty and Social

28. **Poverty and social.** The economy of the northern region is mainly based on fishing, agriculture, transport, and trading activities. The expanded harbor will allow those living in the outer islands to access services and amenities provided in Kulhudhuffushi such as housing, secondary education, quality health facilities, and financial services. For residents of Kulhudhuffushi, the project will generate employment-supporting construction activities and increase opportunities in the commercial sector. The project will bring about inclusive socioeconomic benefits for the inhabitants of Kulhudhuffushi and the northern region as a whole through improving the island's connectivity to regional and national markets, and promoting local and visiting populations' access to key services.

29. **Gender and development.** Women residing in Kulhudhuffushi have direct access to health and education facilities and are active in the civil service and other sectors. The expanded harbor will give women from the outer islands better access to higher education and specialized health services, especially prenatal and postnatal support. The expanded harbor will also create more opportunities for women entrepreneurs. During project preparation, findings from meaningful consultations with women guided the design of practical and implementable gender-inclusive features that include (i) integrating features friendly to the elderly, women, children, and the disabled in the designs of the harbor, including separate toilets and ablution and prayer facilities for male and female passengers, lighted waiting rooms, and disability-friendly access; (ii) mandating that two of the five members of the grievance redressal committee are women; and (iii) including a provision in the civil works contract to promote compliance with all applicable labor laws, including not employing child labor for construction, encouraging increased employment of women and the local poor, and setting equal wages for men and women for work of equal value.

30. **Health and labor.** Based on findings from public consultations during project preparation, there is a high level of HIV/AIDS and sexually transmitted infection awareness among all segments of the population in Kulhudhuffushi. This is due to the high number of targeted HIV/AIDS awareness campaigns that have been conducted in Kulhudhuffushi by the government. Ongoing awareness campaigns organized by the government's Women's Development Committee together with a national-level nongovernment organization have included (i) forming an alliance, and educating and building the capacity of parent stakeholder groups; (ii) training young people as peer educators for drugs and HIV prevention on the island; and (iii) conducting a widespread door-to-door outreach and information dissemination program. The civil works contractor will conduct semiannual awareness-building sessions for all workers in a form and language(s) understandable to them. Awareness-raising materials will also be displayed in strategic areas of the expanded harbor. The civil works contractor will follow core labor standards.

E. Safeguards

31. **Environment.** The project scope includes the construction of a harbor for passenger and cargo vessels on Kulhudhuffushi Island. There are no endangered species, unique habitats, or protected areas in the project site or surrounding area. The construction works will be confined within the 12-hectare project harbor area and its immediate surroundings. Therefore,

the project is classified as environment category B according to the ADB Safeguard Policy Statement (2009). An initial environmental examination report including an environmental management plan (EMP) has been prepared and disclosed on the ADB website. Anticipated irreversible impacts entail removal of about 0.6 hectares of corals and 2.0 hectares of sea grass for construction of the harbor, neither of which is a critical habitat; neither area includes endangered or critically endangered species. Anticipated impacts during construction are (i) increased noise levels, air pollution, waste, water pollution, and sedimentation of seawater; and (ii) occupational health and safety issues caused by dredging works and construction of the breakwater and quay wall. These impacts are not significant, though, as they will be restricted to the harbor construction site, with the nearest residential area approximately 240 meters away. The only long-term impact expected during the harbor operations is water contamination due to the solid and liquid waste generated from passenger and cargo boats. The EMP, which will form part of the civil works contract, includes measures to address all impacts during the construction stage. The EMP will be updated during the detailed design stage of the project if necessary. Measures on waste management during harbor operations have been recommended in the initial environmental examination. Meaningful consultations have been held with Kulhudhuffushi Council officials, residents of the island, and other key stakeholders such as the Environmental Protection Agency of the Maldives. Concerns of the local residents have been addressed in the preliminary design and will be further reviewed and updated during the detailed design stage. A grievance redress mechanism has been proposed to facilitate receiving and resolving complaints during project construction.

32. The project director of the PMU will be responsible for overseeing and monitoring implementation of environment safeguards under the project. The environmental officers under the Environment Unit of the MHI will support the project director to address environmental concerns of the project as needed. The PMU will also be supported by the PMC, which will include an environment specialist who will conduct monthly site inspections and prepare monthly and semiannual environmental monitoring reports. The civil works contractor will be responsible for implementing the EMP and will include a qualified environmental expert in their team who will prepare monthly self-evaluation environmental reports. The PMC will conduct an initial training-cum-coordination workshop on implementing environment safeguards for the contractor during the pre-construction stage, followed by on-the-job training as needed during project construction.

33. **Involuntary resettlement and indigenous peoples.** The project is classified as category C for both involuntary resettlement and indigenous peoples in accordance with ADB's Safeguard Policy Statement. Due diligence confirmed that the project will be implemented on reclaimed land that has been zoned for the harbor. The government owns the project site and there are no titleholders or non-titleholders occupying the area. There are no structures being affected. Meaningful consultations were undertaken with relevant stakeholders during project preparation. The population of the Maldives is ethnically homogenous with no recognized subcategories. The social development specialist of the PMC will perform semiannual monitoring to verify that there are no impacts during implementation and that information disclosure and meaningful consultation are continued throughout the construction period.

F. Risks and Mitigating Measures

34. The integrated benefits and impacts are expected to outweigh the costs. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁰

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Delay in the procurement of the civil works contract	The PMC will provide procurement support to the MHI, particularly in the preparation of the bidding document. A project manager will be delegated both technical and administrative authority for expeditious implementation.
Lack of supply of materials results in a higher bid price compared to the cost estimate	The government has committed to cover any financial shortfall, if required.

MHI = Ministry of Housing and Infrastructure, PMC = project management consultant.

Source: Asian Development Bank.

V. ASSURANCES

35. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and grant documents.

36. The government has agreed with ADB on certain covenants for the project, which are set forth in the grant agreement.

VI. RECOMMENDATION

37. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the grant not exceeding \$9,690,000 to the Republic of the Maldives from ADB's Special Funds resources for the Kulhudhuffushi Harbor Expansion Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
President

19 July 2016

²⁰ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Access to services enhanced by 2020 (Seventh National Development Plan, 2006–2010 ^a and Manifesto of the Progressive Party of Maldives for 2013 to 2017) ^b			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Interisland connectivity in the northern region improved	By 2020: a. Total passenger trips at Kulhudhuffushi Harbor increased by 75.9% (2015 baseline: 51,731 trips) b. Goods arriving at Kulhudhuffushi Harbor increased by 17.5% (2015 baseline: 43,251 tons) c. Number of students enrolled in tertiary and higher education in Kulhudhuffushi increased by 10% (2015 baseline: 1,098 students)	a–c. Secretariat of the Kulhudhuffushi Council survey data	Delayed development of services in Kulhudhuffushi limits number of passengers and goods
Outputs 1. Harbor passenger and cargo capacity in Kulhudhuffushi increased	By 2020: 1a. A new passenger and cargo harbor and ancillary facilities constructed and operational, including the following items: quay wall; breakwater; revetments; dredging of main harbor basin up to 4 meters below mean sea level; and ancillary facilities, e.g. administrative building and trading facilities	1a. Project management consultant's report	1a. Lack of supply of material that results in higher bid price compared to the cost estimate.
2. Institutional capacity in harbor operation, maintenance, safety, and financial management strengthened	2a. At least 3 staff of the Secretariat of the Kulhudhuffushi Council and 10 staff of the Public Works Services trained in harbor operation, maintenance, safety, and financial management 2b. A feasibility study for implementing harbor charging scheme in Kulhudhuffushi and the action plan for its implementation are completed	2a–d. Capacity building consultant's report	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p>2c. Harbor safety campaign conducted in Kulhudhuffushi and at least 20 vessel drivers trained in safety for passengers</p> <p>2d. At least 50 local inhabitants (30% of whom are women) trained in income-generating livelihood opportunities</p>		
Key Activities with Milestones Output 1: Harbor passenger and cargo capacity in Kulhudhuffushi increased 1.1 Undertake advance recruitment of project management consultant by March 2016 1.2 Award project management consultant contract and mobilize by October 2016 1.3 Prepare detailed design, cost estimates, and bidding documents by April 2017 1.4 Award civil works contract by January 2018 and complete by June 2019 Output 2: Institutional capacity in harbor operation, maintenance, safety, and financial management strengthened 2.1 Award capacity building consultant contract by July 2017 2.2 Deliver training in harbor operation, maintenance, safety, and financial management by December 2017 2.3 Carry out feasibility study on harbor charging scheme and prepare action plan by September 2017 2.4 Perform harbor safety campaign and training for vessel drivers on passenger safety by November 2017 2.5 Deliver training on income-generating livelihood opportunities by August 2017			
Inputs Project ADB: \$9,690,000 (grant) Government: \$750,000 Technical Assistance ADB: \$500,000 (grant)			
Assumptions for Partner Financing Not applicable			

ADB = Asian Development Bank

^a Government of the Maldives, Ministry of Planning and National Development. 2007. *Seventh National Development Plan, 2006–2010*. Malé.

^b Progressive Party of the Maldives. Manifesto of the Progressive Party of Maldives, 2013–2017. Unpublished (Unofficial English Translation).

Source: ADB.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=36111-013-2>

1. Grant Agreement
2. Sector Assessment (Summary): Transport (Water Transport, Non-Urban)
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Attached Technical Assistance
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Initial Environmental Examination
11. Risk Assessment and Risk Management Plan

Supplementary Documents

12. Project Climate Risk Assessment and Management Report
13. Social Safeguard Due Diligence