

AUSTRALIAN INFRASTRUCTURE FINANCING FACILITY FOR THE PACIFIC Investment Design

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Delivery of the Australian Infrastructure Financing Facility for the Pacific will evolve during implementation and details may change. This design is accurate at the time of approval (June 2019).

LIST OF ACRONYMS	III
A. EXECUTIVE SUMMARY	1
B. DEVELOPMENT CONTEXT AND SITUATIONAL ANALYSIS. WHAT PROBLEM ARE WE ADDRESSING?	2
C. STRATEGIC INTENT AND RATIONALE (WHY?)	4
D. PROPOSED OUTCOMES AND INVESTMENT OPTIONS	8
E. GOVERNANCE ARRANGEMENTS	9
F. FINANCING ARRANGEMENTS	13
G. IMPLEMENTATION ARRANGEMENTS	14
H. DEVELOPMENT IMPACT	20
I. RESOURCES	23
J. PROCUREMENT AND PARTNERING	26
K. MONITORING AND EVALUATION: HOW WILL DFAT MEASURE PERFORMANCE?	27
L. RISK MANAGEMENT AND SAFEGUARDS (WHAT MIGHT GO WRONG?)	29
M. ANNEXES	32
ANNEX 1: DFAT POLICIES	32
ANNEX 2: LESSONS FROM DEVELOPMENT INFRASTRUCTURE FOR AIFFP	33
ANNEX 3: GENDER EQUALITY AND SOCIAL INCLUSION	38
ANNEX 4: LIST OF EXTERNAL PARTNERS CONSULTED/BRIEFED DURING THE DESIGN PROCESS	41

LIST OF ACRONYMS

ADB	Asian Development Bank
AIFFP	Australian Infrastructure Financing Facility for the Pacific
AP3F	Asia Pacific Project Preparation Facility
AS	Assistant Secretary
AUD	Australian Dollars
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAC	Development Assistance Committee (OECD)
DFAT	Department of Foreign Affairs and Trade
DFI	Development Finance Institutions
Efic	Export Finance and Insurance Corporation
Efic Act	<i>Export Finance and Insurance Corporation Act 1991</i>
EINRIP	Eastern Indonesia National Roads Improvement Program
ERC	Expenditure Review Committee
FAS	First Assistant Secretary
FM	Foreign Minister
GDP	Gross Domestic Product
GESI	Gender equality and social inclusion
GIF	Global Infrastructure Facility
IBRD	World Bank International Bank of Reconstruction and Development
IDA	International Development Association
IFB	Pacific Infrastructure Branch
IFC	International Finance Corporation
IMF	International Monetary Fund
IT	Information Technology
LIBOR	London Interbank Offered Rate
M&E	Monitoring and evaluation
MDB	Multilateral Development Bank
NIA	National Interest Account
OCR	Asian Development Bank Ordinary Capital Resources
ODA	Official Development Assistance
ODE	Office of Development Effectiveness
OECD	Organisation for Economic Co-operation and Development
PNG	Papua New Guinea
PRIF	Pacific Region Infrastructure Facility
SDG	Sustainable Development Goal
SES	Senior executive service
SOE	State Owned Enterprise
TA	Technical Assistance
TSSP	PNG–Australia Transport Sector Support Program
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollars
US	United States of America
WoG	Whole-of-government



A. Executive summary

1. Economic growth is constrained for most Pacific island countries due to a combination of geographic isolation, smallness of economies, limited land and resource bases and vulnerability to shocks. Despite impressive progress since independence, Timor-Leste's economic challenges are considerable, with similar constraints to those in the Pacific. To address this, Australia is engaging through more integrated and innovative policy, including to address the significant infrastructure needs in the region.
2. Infrastructure is critical to the Pacific's sustainable economic growth. It enables the movement of people and goods, and provides access to local and global markets, as well as health, education, water, energy and communications services. Without adequate infrastructure, countries are unable to fulfil their economic potential and benefits of growth are not spread to poorer and more remote areas. In 2017, the Asian Development Bank (ADB) assessed that Pacific countries require infrastructure investments of USD3.1 billion per year to 2030 to meet their needs. The Pacific infrastructure financing gap significantly exceeds levels of domestic revenue and bilateral donor resources.
3. The stability and economic progress of Pacific island countries and Timor-Leste is fundamental to Australia, as stated in the 2017 Foreign Policy White Paper. The White Paper notes the 'massive and wide-ranging' infrastructure needs of our region. Australia has an interest in this infrastructure being developed responsibly in line with agreed international principles, consistent with robust social and environmental safeguards and maximising development impact.
4. In creating the AIFFP, the Australian Government seeks to support the infrastructure needs of our Pacific neighbours more directly. Implementation of the AIFFP will deliver three high level outcomes: supporting Pacific countries and Timor-Leste to have greater access to capital to support quality, inclusive and resilient economic infrastructure; delivering infrastructure financing that meets the development needs of the partner countries; and, making Australia a partner of choice for infrastructure in the Pacific and Timor-Leste.
5. AIFFP will be operational by 1 July 2019 and will provide loans (up to a cap of AUD1.5 billion) and grants (AUD500 million of Official Development Assistance (ODA) over four years). The lending cap of AUD1.5 billion will be disbursed by the Export Finance and Insurance Corporation (Efic).¹ AIFFP projects may involve loans, grants, or contain both loan and grant elements. Loans may be to sovereign, state-owned enterprise or private sector partners.
6. For sovereign borrowers, the AIFFP will draw on relevant Multilateral Development Banks' (MDBs) lending rates to help determine competitive financing that meets the AIFFP's investment mandate. For loans to the private sector, the AIFFP will adopt the market pricing approach used by Efic. Any subsequent loan default would increase Commonwealth net debt and the risk of default would sit with the Commonwealth (with no offset to the ODA allocation).
7. The AIFFP will identify a robust pipeline of quality infrastructure projects. Project assessment, investment and implementation will proceed according to a set process involving clear decision points, due diligence and accountability. Debt sustainability will be carefully considered when providing a loan to a sovereign entity. The AIFFP will be a responsible lender in the region.
8. The Australian Government will retain decision-making authority for all AIFFP investments. An AIFFP Board will be established, as part of existing Department of Foreign Affairs and Trade (DFAT) governance mechanisms, to make recommendations on projects for ministerial endorsement. Recommendations for loans will be approved by the Minister for Foreign Affairs in consultation with the Expenditure Review

¹ From 1 July 2019, Efic will be publicly rebranded as Export Finance Australia. This rebranding is in line with changes made to the *Export Finance and Insurance Corporation Act 1991* by the *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) Bill 2019* (which came into effect on 6 April 2019).

Committee of Cabinet (ERC). The instruction to issue loans, once approved, will be formally issued by the Minister for Trade, Tourism and Investment to Efic. Existing DFAT processes will be used for grant administration, with the Minister for Foreign Affairs having discretion to refer grant-only proposals also to ERC.

9. DFAT's diplomatic missions (Posts) have an important role in delivering the AIFFP. Posts will be a valuable source of reporting to Canberra and liaising with counterparts during project origination. Posts' advice on potential projects will inform decision-making by the Board. The role of Posts during implementation will vary depending on the type of finance provided and the partners involved in the project. Posts will provide complementary investments for capacity building and policy reform to support AIFFP project implementation. AIFFP will work closely with Posts to ensure complementarity and mutual support.
10. The DFAT-based AIFFP front office will be led by a DFAT SES officer and staffed by experienced DFAT officers, whole-of-government secondees to DFAT and contracted experts. This team will manage relationships with stakeholders, identify and assess projects, structure loan and grant packages, provide secretariat services to the AIFFP Board, provide grant administration, manage implementation issues, lead on monitoring and evaluation, development impact and safeguard issues, and deliver AIFFP branding and communications. The Efic-based back office will conduct credit assessments, establish and conduct loan transactions, finalise loan agreements, and monitor AIFFP loans including repayments. DFAT will implement a capability plan to ensure the Department has access to the skills and experience needed to deliver the AIFFP over the long term.
11. AIFFP will be delivered in line with DFAT's Economic Infrastructure Development Strategy, other existing DFAT policies, and reflect lessons learned from infrastructure investments undertaken by DFAT and other donors. AIFFP will ensure considerations of disaster and climate risks and seek opportunities to address climate and disaster resilience. AIFFP will ensure considerations of gender equality, disability and social inclusion, DFAT branding, environmental and social safeguards, monitoring and evaluation, and risk reduction.²

B. Development context and situational analysis. What problem are we addressing?

12. Pacific island economies are projected to grow at different rates in 2019. This ranges from Timor-Leste at 5.7% (largely due to oil and gas revenue) to Nauru at 0%.³ The Pacific is vulnerable to shocks. For example, civil unrest in Solomon Islands from 1998–2003 had a severe impact on the economy, and recent losses due to Cyclone Pam, Winston and Gita in Vanuatu, Fiji and Tonga respectively ranged from the equivalent of 20 per cent of GDP up to 64 per cent of GDP. At the 2018 Pacific Islands Forum, through the Boe Declaration, Pacific leaders reaffirmed that climate change remains the single greatest threat to the livelihoods, security and wellbeing of the Pacific.⁴ Economic growth has not translated to equitable development, particularly for women and girls and those in remote areas. Across the Pacific, men outnumber women in paid employment (outside the agricultural sector) by approximately two to one.⁵
13. Infrastructure is critical to sustainable economic growth and poverty reduction. It enables the movement of people and goods, and provides access to local and global markets, as well as health, education, water, energy and communications services. Without adequate infrastructure, countries are unable to fulfil their economic potential and the benefits of growth are not spread to poorer and more remote

² See DFAT's *Gender Equality and Women's Empowerment Strategy* (2016); *Climate Resilient Infrastructure Guidance Note* (2016); *Environmental and Social Safeguard Policy for the Aid Program* (2019); and *Development for All 2015–2020: Strategy for Strengthening Disability-inclusive Development in Australia's Aid Program* (2015).

³ International Finance Corporation (IFC), *Regional Economic Outlook*, May 2018.

⁴ Minister for Foreign Affairs and Minister for Women, Senator the Hon. Marise Payne, *Forty-Ninth Pacific Islands Forum: Communiqué*, https://foreignminister.gov.au/releases/Pages/2018/mp_mr_180906a.aspx.

⁵ Economist Intelligence Unit, *Women's Economic Opportunity*, 2012, p. 9.

areas. Australia's health, education and other development cooperation priorities in the Pacific can be supported directly and indirectly through better connection of households with healthcare and education services. Economic infrastructure can improve safety and reduce the burden, on women in particular, from time-intensive tasks such as collecting water and fuel.

14. The Pacific presents particular challenges for infrastructure. Geographic isolation and small, dispersed populations, limited capacity to prepare projects, operate and maintain assets, and complex land ownership constrain infrastructure development in the region. The Pacific is highly vulnerable to climate change and disasters, ranging from sudden-onset disasters such as cyclones and flooding, to slow-onset impacts associated with sea-level rise, salt water incursion into freshwater systems and drought.⁶ There are significant disparities in access to services and infrastructure between rural and urban areas across the Pacific. For example, 86.9% of Papua New Guinea's (PNG) population lives in rural areas with little or no access to electricity.⁷ These urban-rural disparities in access to basic services are consistent across much of Melanesia. The region is constrained by limited economies of scale, high construction costs and limited local capability. State-owned enterprises and government business enterprises hold key positions in the market. Public private partnerships are rare. Building a road in the Pacific can cost four times as much as elsewhere.⁸
15. The ADB's report, *Meeting Asia's Infrastructure Needs* (2017), assessed that Pacific countries would require USD3.1 billion in infrastructure investment each year to 2030 (cumulatively USD46 billion), or 9.1% of the Pacific's gross domestic product.⁹ It is estimated USD130 million is needed every year to 2030 for PNG's water and sanitation infrastructure alone.¹⁰ In the Pacific context, IT connectivity has the potential to be transformative. World Bank research estimates improved internet access and connectivity could grow GDP by more than USD5 billion and create close to 300,000 new jobs in the Pacific by 2040.¹¹
16. Governments across the Pacific have addressed infrastructure needs in various ways. Infrastructure is a key priority for the PNG Government. PNG's public investment strategy allocates 25% of spending to infrastructure.¹² The Solomon Islands' National Infrastructure Investment Plan (2013–2023) outlines priority projects and financing gaps. Timor-Leste's first public-private partnership for Tibar Bay Port was finalised in 2018. Fiji and Samoa are assessed by the International Finance Corporation (IFC) as having some of the best infrastructure in the Pacific, and the highest rates of access to infrastructure. The commitment of Pacific island countries to resilient economic infrastructure has been positive, although lack of financing, bank-ready projects and implementation capability are deep-set challenges.
17. Australia is the largest donor in the Pacific (AUD1.3 billion in 2018–19), with other donors active in the region, including in infrastructure development. Funds allocated to the Pacific through the World Bank's International Development Association (IDA) will increase to over USD850 million during the IDA18 replenishment period, which runs from July 2017 to June 2020 (up from USD350 million in the IDA17 replenishment). The ADB has significantly scaled up its operations in the Pacific, with its active portfolio growing from USD500 million in 2004 to USD2.6 billion at the end of 2017.
18. That said, the MDBs' expansion into the Pacific and other donors' efforts in the Pacific cannot fill the infrastructure financing gap alone. There is strong justification for additional Australian assistance to

⁶ Asian Development Bank (ADB), *Pacific Risks, Vulnerabilities, and Key Impacts of Climate Change and Natural Disasters*, 2012.

⁷ United Nations Development Program, *Papua New Guinea*, http://www.pg.undp.org/content/papua_new_guinea/en/home/countryinfo.html.

⁸ Asian Development Bank (ADB), *Meeting Asia's Infrastructure Needs*, 2017, p. 53.

⁹ *Ibid.*, p. xiv.

¹⁰ World Bank, *Water supply and sanitation in Papua New Guinea: turning finance into services for the future*, 2013, p. 6.

¹¹ World Bank, *Pacific Possible: long-term economic opportunities and challenges for Pacific Island Countries*, 2017, p. 15.

¹² DFAT, *Design: PNG–Australia Economic and Social Infrastructure Program* (ESIP), 2018, p. 8, <https://dfat.gov.au/about-us/business-opportunities/Documents/png-australia-economic-and-social-infrastructure-program.pdf>.

address these challenges, given the importance of infrastructure in driving improvements in economic and social development. The use of loans allows Australia to assist in meeting the financing needs of the region with low cost financing (by virtue of our strong credit rating), with minimal impact on the Commonwealth's underlying cash balance. Infrastructure in the Pacific can be expensive and supporting this infrastructure financing gap with loans allows the ODA grant budget to be minimally impacted. Australian Government funding can also crowd-in the private sector investment needed if Pacific countries are to fulfil their economic potential.

C. Strategic intent and rationale (why?)

Strategic intent

19. Prime Minister Morrison announced the AIFFP on 8 November 2018. The AIFFP is part of a series of economic, security and people-to-people initiatives announced by the Australian Government to boost Australia's engagement with Pacific island countries and Timor-Leste. On 15 November 2018, the Prime Minister announced that an Office of the Pacific would be established in DFAT to enhance whole-of-government (WoG) coordination. These announcements built on a 2016 commitment by former Prime Minister Turnbull to stepping up Australia's engagement in the Pacific, subsequently outlined in the 2017 White Paper. The AIFFP will support these efforts to bolster Australia's position as the partner of choice in the Pacific and Timor-Leste.
20. In creating the AIFFP, the Australian Government seeks to support the infrastructure needs of our Pacific neighbours more directly, in line with their national priorities. The announcement has been welcomed by Pacific leaders and the private sector who seek greater international support in meeting the infrastructure financing gap.

Consistency with Australia's policy objectives

21. The AIFFP is designed to deliver on Australia's foreign policy and aid program objectives. It reflects the 2017 Australian Foreign Policy White Paper's recognition that the stability and economic progress of Pacific island countries and Timor-Leste is fundamental to Australia's interests, as is the need for innovative, long-term investments in the region's development.
22. The White Paper notes the 'massive and wide-ranging' infrastructure needs of our region. Australia has an interest in this infrastructure being developed in line with agreed international principles, consistent with robust social and environmental safeguards and maximising development impact. The White Paper also notes that Australia will continue work to increase MDBs' finance and expertise to the Pacific, especially through the World Bank and ADB, to redress an estimated infrastructure deficit of USD46 billion (climate-adjusted) out to 2030 (including Timor-Leste).¹³ DFAT's submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) inquiry notes that aid funding alone cannot bridge this gap and that Australia is committed to catalysing private investment in infrastructure development.¹⁴
23. The AIFFP also supports the purpose of the aid program: promoting Australia's national interests by contributing to sustainable economic growth and poverty reduction, defined in the key aid program policy document, *Australian Aid: promoting prosperity, reducing poverty, enhancing stability*.¹⁵ DFAT

¹³ Asian Development Bank (ADB), *Meeting Asia's Infrastructure Needs*, 2017, p. xiv; cited in DFAT *Foreign Policy White Paper*, 2017, p. 100. The ADB report includes infrastructure investment needs and gaps in the Pacific. It provides two sets of estimates: (1) including the costs of climate mitigation and adaptation, and (2) excluding climate-adjusted costs.

¹⁴ DFAT, *Joint Standing Committee on Foreign Affairs, Defence and Trade - Inquiry into the strategic effectiveness and outcomes of Australia's aid program in the Indo Pacific and its role in supporting our regional interests: DFAT submission*, p. 12, https://www.apf.gov.au/Parliamentary_Business/Committees/Joint/Foreign_Affairs_Defence_and_Trade/Australiasaidprogram/Submissions.

¹⁵ DFAT, *Australian aid: promoting prosperity, reducing poverty, enhancing stability*, 2014, p. 1, <https://dfat.gov.au/about-us/publications/Documents/australian-aid-development-policy.pdf>.

identifies two key development outcomes for Australian aid globally – strengthening private sector development and enabling human development – with infrastructure one of Australia’s six investment priorities.¹⁶ The Strategy for Australia’s Aid Investment in Economic Infrastructure (2015) identifies Australia’s economic infrastructure key priorities (globally) as:

- i. Achieving real economic growth that mobilises the private sector to finance and deliver infrastructure that meets the needs of the region;
- ii. Delivering infrastructure services to facilitate private sector and human development, and to promote women’s participation and empowerment; and
- iii. Promoting infrastructure to enhance trade and connectivity through the region.

24. The White Paper highlights Australia’s commitment to pursuing gender equality and disability inclusion. The AIFFP will advance these issues through aligning with the Gender Equality and Women’s Empowerment Strategy (2016), Development for All 2015-2020: Strategy for strengthening disability-inclusive development in Australia’s aid program, and the Accessibility Design Guide.
25. At COP21 in Paris in 2015, then Prime Minister Turnbull committed to spending AUD1 billion over five years to build climate resilience and reduce emissions.¹⁷ In support of this commitment and the evidence of the benefits of managing climate risks and building climate resilience, the AIFFP will integrate climate resilience as well as have targeted climate resilience and low emissions investments. A full list of relevant policies AIFFP will comply with is at Annex 1.

Australia’s offering

26. When countries seek support from Australia for infrastructure, they do so because of our reputation for high standards, transparency and long-term commitment to prosperity and stability in the region. AIFFP will ensure we retain and build on this reputation. AIFFP finance will offer a focus on: development impact; maintenance and whole-of-life asset management including pre-project preparation; use and upskilling of local labour and project management capability; high technical quality of capital works; consideration of environmental and social safeguards; climate resilience; operational transparency; and, complementary long-term assistance for policy reform and capacity building (where this cannot be provided through bilateral development programs or other avenues). AIFFP will operate in partnership with partner government funding and priorities.
27. For private sector projects, AIFFP will support projects that have a positive development impact, or where our support enhances the development impact of a project. This will build on DFAT’s ongoing efforts to promote private sector growth and engage the private sector in achieving development outcomes consistent with the *Strategy for Australia’s aid investments in private sector development*. AIFFP financing to the private sector can offer competitive rates (Efic-recommended market rates) and flexible terms such as longer tenor financing to smooth project financing risk, or deferring interest payments to account for delayed revenue ramp-up periods.
28. Domestically, as Australia’s population has expanded, so too has its spending on large-scale infrastructure projects. Over the last fifteen years, the Australian Government has shifted from directly providing all infrastructure to creating competitive markets with public and private suppliers competing to provide infrastructure efficiently.¹⁸ Australia has seen high levels of activity in the civil engineering and construction sector and has a strong track record of delivering infrastructure projects. AIFFP will

¹⁶ DFAT, *Australia’s Aid Program*, <https://dfat.gov.au/aid/pages/australias-aid-program.aspx>.

¹⁷ *Roadmap to US\$100 Billion*, 2019, p. 13, <https://dfat.gov.au/international-relations/themes/climate-change/Documents/climate-finance-roadmap-to-us100-billion.pdf>.

¹⁸ McInerney, C., Nadarajah, C. & Perkins F, ‘Australia’s infrastructure policy and the COAG National Reform Agenda’, Australian Department of The Treasury, https://static.treasury.gov.au/uploads/sites/1/2017/06/02_NRA.pdf.

capitalise on this via consultation with local industry, Government partners and domestic expertise supporting AIFFP.

Efic's experience:

- Provided a USD350 million loan to the ExxonMobil-led liquefied natural gas project in the Southern Highlands of PNG (a joint venture including participation from PNG)—one of the world's larger project finance transactions.
- Provided contract bonds (AUD1.87 million) for a company refurbishing the water supply and sanitation infrastructure in Ebeye Island in the Marshall Islands (a project supported by the ADB).
- Provided contract bonds (AUD 4.1 million) for a company undertaking construction of new airport buildings in Kiribati's international airports.
- Provided bonding support totalling USD1.4 million for a company specialising in remote hybrid energy solutions to provide a hybrid power station (diesel, solar, battery) for an integrated coconut processing facility in Micronesia.

DFAT's experience:

- Direct delivery of the AUD463.3 million PNG Transport Sector Support Program (2013–2020).
- Delivery of the Eastern Indonesian National Roads Improvement Program (EINRIP) which combined loans and grants totalling AUD336 million, to achieve both infrastructure and institutional objectives.
- Direct delivery of the Coral Sea Cable System from 2017-2018 to 2019-20 worth up to AUD200 million.
- Direct delivery of the AUD33 million Vanuatu Roads for Development project from 2013 to 2018.
- Direct delivery of the Solomon Island Urban Water Supply Program in 2011–2018 worth AUD16.7 million.
- Supporting Kiribati Road Rehabilitation Project (2011–2019) co-financed with the World Bank and ADB. Australia's contribution was USD16.4 million (of a total USD60.4 million for the project).

29. Internationally, the AIFFP builds on a long track record of DFAT infrastructure investment through the aid program in the Pacific. It brings together development, foreign policy and financial expertise, and the deep knowledge of DFAT's Pacific network and relationships with MDBs. This is complemented by Efic's lending experience (see box above for examples). The recent changes to Efic's mandate enable it to fund Indo-Pacific infrastructure projects which result in current and future benefits for Australia and Australians.¹⁹ Current and future benefits include, but are not limited to, access to new markets for Australian businesses and stronger relationships with our regional partners, especially in the Pacific.

Donors in Pacific infrastructure

30. The AIFFP builds on existing work through the Australian aid program to support infrastructure development in our region. In 2018–19, Australia is scheduled to spend AUD584 million on infrastructure, with AUD225.7 million of this in the Pacific and Timor-Leste.
31. The Pacific Region Infrastructure Facility (PRIF) is a useful vehicle for AIFFP to coordinate with other donors in the region. AIFFP will use the PRIF, alongside bilateral and regional donor discussions, to ensure assistance is well targeted and does not conflict with the work of others.
32. AIFFP will seek to be complementary with development partners in the region, including the Pacific Resilience Facility currently in design and existing global infrastructure facilities, such as the Global

¹⁹ Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) Bill 2019, Explanatory Memorandum, https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6263_ems_57f609b5-1d40-45d0-a6aa-16a353f2afde/upload_pdf/698266.pdf;fileType=application%2Fpdf.

Infrastructure Facility (GIF)²⁰ and the ADB's Asia Pacific Project Preparation Facility (AP3F)²¹. For example, DFAT's AP3F funding and advocacy helped secure ADB funding for an in line position in the Solomon Islands Debt Management Unit to support the Tina River Hydropower project.

33. It is likely AIFFP will finance some projects with higher risks and lower returns than those supported by the MDBs. AIFFP will consider co-investment or parallel investment with other donors where it makes sense to do so. Sharing investment risk throughout project implementation will help AIFFP build its loan portfolio and capability in a lower risk way.

Working with partner governments to determine priorities

34. DFAT works closely with governments and other development partners in the region to help determine infrastructure priorities. For example, in PNG, Australia supports the Department of Works to develop and prioritise capital works projects. DFAT also supports regional donor mechanisms, such as PRIF, to provide targeted support to help Pacific countries develop infrastructure pipelines based on cost-benefit analysis.
35. AIFFP will give priority to investments that are aligned to partner government's long-term infrastructure plans (where these exist). AIFFP will work closely with Posts to understand and prioritise partner government proposed projects. Regular senior-officials talks between Australia and bilateral partners in the Pacific as well as DFAT's Aid Investment Plans (which outline the focus of Australia's aid programs in each country) will allow discussion on priorities, including AIFFP, at senior levels.

Debt sustainability

36. The AIFFP design recognises that debt sustainability is a challenge facing a number of Pacific island countries and that circumstances vary widely across the region. Each country's debt sustainability will be carefully considered by the AIFFP. This includes consideration of debt levels that may be under-reported, such as state-owned enterprise debt, and natural disaster-adjusted debt assessment ratings. For countries rated by the IMF as having a high risk of debt distress, AIFFP will not offer loans to sovereigns or state-owned enterprises that breach lending policies of the World Bank or the IMF's debt limit policy. Australia will continue to work with partners, including the IMF and World Bank, to improve monitoring of debt vulnerabilities, and strengthen debt data transparency, early warning systems and debt management advice for relevant countries in our region.

Supporting global development priorities

37. The AIFFP supports a number of Sustainable Development Goals (SDG) which are a key component of the 2030 Agenda for Sustainable Development adopted by United Nations Member States in 2015. The goals include:
- SDG 5: Achieve gender equality and empower all women and girls;
 - SDG 6: Ensure availability and sustainable management of water and sanitation for all;
 - SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all;
 - SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;
 - SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation; and,

²⁰ The GIF is a partnership among governments, multilateral development banks, private sector investors, and financiers. It is designed to provide a new way to collaborate on preparing, structuring, and implementing complex projects that no single institution could handle on its own.

²¹ Asian Development Bank (ADB), *Asia Pacific Project Preparation Facility*, <https://www.adb.org/site/funds/funds/asia-pacific-project-preparation-facility>.

- SDG 13 Take urgent action to combat climate change and its impacts.

Trilateral Partnership for Infrastructure Investment

38. The AIFFP will support Australia's efforts as part of the Trilateral Partnership for Infrastructure Investment in the Indo-Pacific, primarily via the PNG Electrification Partnership (including New Zealand). The PNG Electrification Partnership was announced in the margins of APEC 2018.²²

Lessons learned

39. DFAT's experience, as well as engagement with other donors, has provided insights on financing infrastructure projects which have been built into the AIFFP design (see Annex 2). The AIFFP will continually review lessons learned and ensure they are reflected in implementation and decision-making.

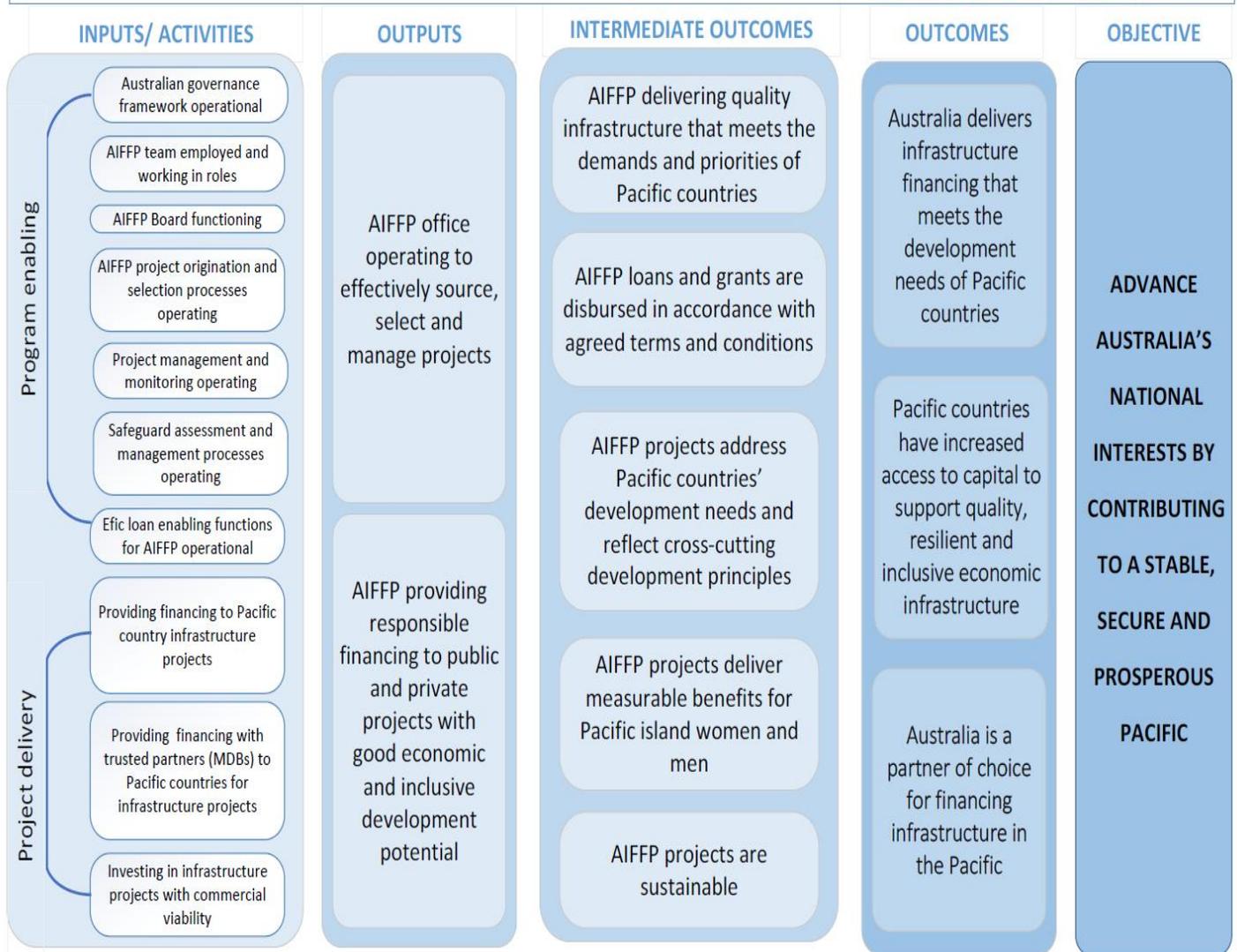
D. Proposed outcomes and investment options

40. AIFFP's overarching objective is to advance Australia's national interests by contributing to a stable, secure and prosperous Pacific. The AIFFP has three high level outcomes, which together contribute to this objective:
- Pacific countries have increased access to capital to support quality, resilient and inclusive economic infrastructure;
 - Australia delivers infrastructure financing that meets the development needs of Pacific countries; and,
 - Australia is partner of choice for financing infrastructure in the Pacific.
41. The AIFFP is a financing facility. It delivers activities and inputs in two categories:
- Program enabling – activities that deliver an AIFFP office operating to effectively source, screen and oversee the management of projects, and
 - Project delivery – activities that ensure the AIFFP provides responsible financing to public and private priority projects with good economic and inclusive development potential.
42. The below 'theory of change' assumes long-term policy reform assistance will be facilitated by bilateral programs as a complement to AIFFP finance. Lessons learned from infrastructure investments show capital works are most successful when coupled with policy reform (see Annex 2). The AIFFP can fund long-term technical assistance directly related to the project delivery, such as project implementation units. Bilateral programs or other regional/global programs supported by DFAT will fund medium-long term policy reform, regulatory development and capacity building to support Pacific island countries to manage projects and increase their attractiveness to financiers.
43. The AIFFP will work with Posts and global initiatives such as GIF to align technical assistance and ensure complementarity. For larger bilateral programs with existing infrastructure programs and/or nimble facilities, this is likely to be relatively straightforward. For small Posts with more rigid programs and smaller bilateral budgets, AIFFP will work closely with the Post to determine the best solution to delivering complementary support.
44. This 'theory of change' is the foundation for the program logic, monitoring and evaluation, risk matrix and future reporting. The AIFFP will review the theory of change at regular intervals and make adjustments to reflect lessons learned during implementation.

²² Then-Minister for Foreign Affairs, Hon. Julie Bishop MP, *Media Release*, 2018, https://foreignminister.gov.au/releases/Pages/2018/jb_mr_180731.aspx?w=tb1CaGpkPX%2FISOK%2Bg9ZKEg%3D%3D.

AIFFP Theory of Change

All references to the Pacific or Pacific countries should be read to include Timor Leste



This theory of change makes assumptions, including that:

- Broader policy reforms and technical assistance will be facilitated by bilateral programs which complement individual AIFFP projects
- Infrastructure engagement of MDBs and other development partners will continue to complement the AIFFP

Further assumptions will be articulated in detail with the Monitoring and Evaluation Plan to follow

E. Governance arrangements

Governance arrangements

45. The Australian Government retains decision-making authority for all AIFFP investments. An AIFFP Board will be established within DFAT to make recommendations on projects for ministerial endorsement. The Board will be chaired by the Head of the Office of the Pacific and will include:

- DFAT nominees (appointed by DFAT Secretary in consultation with the Foreign Minister);
- Treasury nominee (appointed by Treasury Secretary in consultation with the Foreign Minister);
- Finance nominee (appointed by Finance Secretary in consultation with the Foreign Minister);
- PM&C senior representation nominee (appointed by PM&C Secretary in consultation with the Foreign Minister); and,



- Independent external appointees (appointed by the Foreign Minister).
46. The Board will include the full suite of skills required to guide the AIFFP (e.g. Pacific experience and commercial and development skills). The independent external nominees will be selected based on their skills and experience, complementing the Board’s skill set to ensure recommendations are fully informed.
 47. The AIFFP will be supported by a panel of experts – the AIFFP Advisory Panel. These experts in infrastructure, development finance and other relevant specialisations will support the AIFFP, on an ‘as requested’ basis, to prepare advice for the AIFFP. Consistent with DFAT practices, both the Board and Advisory Panel will aim for at least 40 per cent female and 40 per cent male gender representation and will take into account the Department’s other diversity objectives.
 48. The AIFFP will provide a secretariat to prepare formal documentation, including recommendations for project proposals, for consideration by the Board. The AIFFP will also update the Board on future pipeline projects, and implementation of current projects. The AIFFP will draw on DFAT, Efic and external advice in making recommendations. It will be responsible for ensuring projects recommended for approval by the AIFFP Board have been informed by relevant DFAT areas.
 49. Where the Board recommends a project be pursued, AIFFP will make a recommendation to the Minister for Foreign Affairs. For projects involving loans, where the Foreign Minister supports the project, she/he will refer the project to Efic’s Board for consideration and referral to the Trade, Tourism and Investment Minister. The Foreign Minister and the Trade, Tourism and Investment Minister will jointly take the project to the ERC for consideration. If the project proceeds, the Trade, Tourism and Investment Minister will approve Efic entering into the loan. This decision-making process (involving the ERC, Efic Board and Trade Minister) is determined by Efic’s National Interest Account (NIA) operations. In the future, ERC may see fit to delegate consideration of AIFFP loans to DFAT portfolio ministers.
 50. Grant projects (with no loan component) do not require ERC or Efic consideration. In these cases, the Foreign Minister will consider AIFFP’s recommendation and may consult with ERC at her/his discretion, and will advise DFAT of her/his decision.
 51. At any stage, the Foreign Minister and the ERC may request further information or reject the project and refer this back to AIFFP. Where a project has been declined, this will be referred back to the AIFFP to advise partners.
 52. The Board Chair will report half-yearly on the activities of the AIFFP Board to the DFAT Performance, Risk and Resourcing Committee, DFAT’s Aid Governance Board, DFAT’s Audit and Risk Committee and as required to Ministers (at least annually). The AIFFP will report to the Development Assistance Committee and other external entities as part of DFAT’s standard ODA reporting processes.

The role of Posts

53. DFAT’s diplomatic missions (Posts) have an important role in delivering the AIFFP. Australia’s increased commitment to the Pacific, including AIFFP, is a whole-of-Government approach, with Posts positioned to respond accordingly. For AIFFP, this is somewhat easier for larger Posts with an existing economic growth or infrastructure program and a larger bilateral budget. Lessons from the Coral Sea cable indicate that Posts will need to be resourced to support AIFFP projects, including allocation of staff time to advise on local issues throughout the process, provision of complementary technical assistance (TA), and assistance to trouble-shoot issues, largely involving representations to counterparts and reporting to Canberra.
54. During AIFFP project origination and assessment, AIFFP will work closely with Posts, having a contact officer within AIFFP for each country, to liaise on pipeline, outreach and seeking Post’s input on project screening and assessments drawing on local knowledge (which will inform decision-making by the

Board). AIFFP front office will notify partners of the outcome of financing decisions, unless otherwise agreed with Posts.

55. During AIFFP project implementation, Post's level of involvement in AIFFP will vary based on the capacity of the Post and the project details, but will become clearer once projects progress in the project screening and assessment phase. The project details include the financing type - grant and/or loan with grant potentially requiring a higher level of DFAT involvement given Efic will not be involved; the type of borrower or partner - sovereign or private sector, with sovereign partners likely to be more resource intensive for DFAT given their capacity constraints; and if a well-established partner is in the project – DFAT involvement will be higher if no well-established partners, such as a MDB, are involved in the project. See Part G below for more implementation details. Posts will provide complementary TA for medium-long term policy reform (as opposed to project-specific TA which could be funded by AIFFP) to ensure maximum chance of success of AIFFP project outcomes and achievement of the Government's objective. AIFFP will be sympathetic to the challenges facing smaller Posts to respond quickly in supporting AIFFP projects and will consider shared resources on a case-by-case basis, noting AIFFP will have relevant experts able to be sourced to support bilateral Posts delivering complementary activities. AIFFP will lead on M&E and site visits, with Posts being as involved in M&E as their resourcing allows.
56. AIFFP will not take management of/responsibility for existing or planned Pacific bilateral infrastructure programs, or compete with these programs. AIFFP will work closely with Posts to ensure investments are complementary. For example, AIFFP may fund a project in a location where DFAT supports a health initiative and AIFFP funding can increase access to these services maximising the impact of Australia's investments. Funding may also be combined with bilateral programs, with AIFFP funding aspects of the project enabling DFAT to have greater impact and scale.

Legislative and constitutional authority

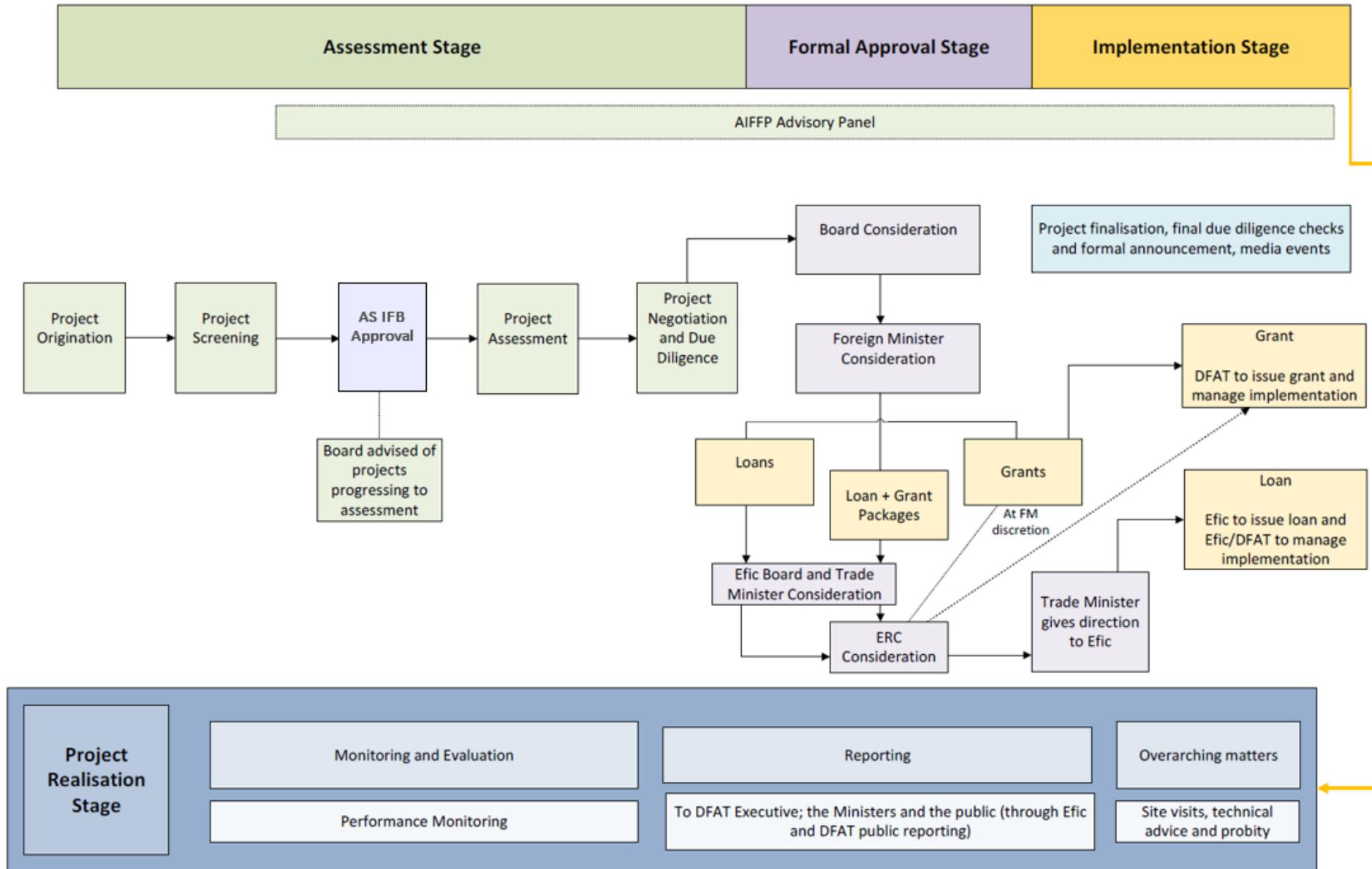
57. The AIFFP is supported by the Commonwealth's external affairs power provided in the Constitution. Efic will issue loans on behalf of the Commonwealth through a new infrastructure power and broadened requirements arising from amendments made to the Efic Act. A new definition of Australian benefit under the amended Efic Act allows for greater flexibility in financing a broader range of projects which support the Indo-Pacific region. An amendment to Schedule 1AB of the *Financial Framework (Supplementary Powers) Regulations 1997* is now in force. This provides AIFFP with legislative authority to provide grants for the development or enhancement of infrastructure that will be, or is, located or used wholly or substantially in the Pacific region (excluding Australia) or Timor-Leste.

Future models

58. The model proposed in this design enables AIFFP to be operational by 1 July 2019 with strong risk management and implementation systems in place. However, the model may evolve over time in response to Australian Government policy direction, including the potential establishment of stand-alone AIFFP legislation. Such legislation may result in a more streamlined governance process.
59. DFAT's Office of Development Effectiveness (ODE) is undertaking the evaluation *Economic Infrastructure Development in the Pacific: ODE evaluation of Australia's assistance 2008–2018*. Any relevant findings will be incorporated into the AIFFP. The G20 is seeking to promote an agenda of Quality Infrastructure Investment to boost economic productivity, mobilise private sector capital and create jobs. These principles are currently being developed by the G20 and will be considered by the AIFFP when available.



AIFFP - Successful Project Lifecycle





F. Financing arrangements

Lending arrangements

60. The AIFFP will provide loans (up to a cap of AUD1.5 billion) and grants (AUD500 million of ODA over four years) to fund infrastructure projects in Pacific island countries and Timor-Leste. AIFFP transactions may be a loan, a grant, or contain both loan and grant elements. The loans and grants will be structured under separate financing agreements. The AIFFP will reflect the OECD DAC Blended Finance Principles.²³

Grants

61. AIFFP grants can be used to fund grant-only activities or complement loans by reducing the amount the project proponent needs to borrow. Grants can be used as part of funding overall project construction and funding requirements (via separate agreements to the loans), or be used to directly fund discrete project elements, such as legal costs, feasibility studies, environmental and social safeguards assessments and compliance, climate and disaster-risk screening, project management office operations or the construction of enabling infrastructure. AIFFP grants may also fund activities or organisations that have specialist capability to increase the pipeline of bankable projects and crowd in private finance. No grant funds will be provided to or from Efic, with Efic's role being limited to loans.
62. Grant components will be considered on a project by project basis and will maintain flexibility to best support AIFFP objectives. Grants will only be used for activities that are ODA eligible. The AUD500 million in grants comes from existing ODA allocations and will not impact the Commonwealth's underlying cash balance. In addition to the AUD500 million, complementary grant support for AIFFP projects may be provided from existing bilateral programs.

Loans

63. AIFFP will structure and price all loans in consultation with Efic and according to established market practice. Lending to sovereign and private sector/ non-sovereign borrowers will carry different terms and conditions, based on a number of factors including borrower characteristics and country and project specific risks.
64. For private sector borrowers, AIFFP will adopt the market-like pricing approach used by Efic, applying the following components:
- i. A base funding rate, depending on currency (i.e. for US dollars convention is LIBOR²⁴); plus
 - ii. A liquidity premium: this is the premium above the borrowing rate based on the tenor of the loan; plus
 - iii. Additional margins will be applied to account for financial risk and operational costs. These risk premiums will be set in consultation with Efic and may reflect the rate at which similar loans or bonds are currently priced in the market.
65. For sovereign borrowers, the AIFFP will draw on relevant MDB's lending rates (World Bank International Bank of Reconstruction and Development (IBRD) and the ADB's Ordinary Capital Resources (OCR)) to determine the appropriate interest rates.²⁵

²³ The five OECD DAC Blended Finance Principles which have been agreed by Australia include: (1) Anchoring blended finance use to a development rationale, (2) Designing blended finance to increase the mobilisation of commercial finance, (3) Tailoring blended finance to local context, (4) Focusing on effective partnering for blended finance, and (5) Monitoring blended finance for transparency and results.

²⁴ LIBOR serves as a globally accepted key benchmark interest rate that indicates borrow costs between banks.

²⁵ Variable Spread' (i.e. risk margin) elements of the World Bank International Bank of Reconstruction and Development (IBRD) and Asian Development Bank Ordinary Capital Resources (OCR), noting AIFFP will reflect Efic's cost of borrowing and loan administration costs in lending rates.

66. Following Government consideration, the Minister for Trade, Tourism and Investment will instruct Efic to issue and manage the loan according to agreed terms. Efic will raise funds for scheduled transactions by borrowing on global debt markets through its own treasury (no appropriation for loans required). Efic will issue loan tranches to the borrower according to agreed payment schedules, and will receive repayments (principal and interest) in line with contracted loan service obligations.
67. Efic will report principal and interest repayments to the Commonwealth Consolidated Revenue Fund quarterly and will transfer net proceeds annually.

Lending risks

68. Financial risk (the calculated cost to offset potential default and related issues) will be reflected in lending rates. AIFFP will lend in major currencies, primarily AUD and USD, and will consider the viability of lending in local currencies. Default risk will be mitigated by AIFFP's focus on commercial infrastructure, ensuring project risks are appropriately allocated to the stakeholder best placed to manage them, ongoing strong relationships with borrowers, proactive loan management, and through appropriate risk oversight. Efic will conduct the credit assessment consistent with its usual practices and loan documentation and rights of lenders will be consistent with international norms. Lending by Efic is through the National Interest Account, with the Commonwealth accepting liability for the total value of the loan. Liquidity risk is managed by Efic.

Debt and underlying cash balance

69. If fully drawn down, the AIFFP lending component would increase gross Commonwealth debt by AUD1.5 billion. Interest paid to the Australian Government may slightly increase underlying cash, partially offset by an increase in public debt interest. Interest charged will be calculated to cover financial risk and public debt interest.
70. Any subsequent loan default would increase net debt and the risk of default will sit with the Commonwealth.

G. Implementation arrangements

Front and back office arrangements

71. The AIFFP front office (comprising DFAT staff, contracted expertise and secondees from other Australian Government departments) will:
- Manage relationships with stakeholders in the Pacific, in Australia and globally;
 - Identify and assess projects;
 - Structure loan and grant packages including negotiating projects and relevant documents;
 - Provide secretariat services to AIFFP governance such as the AIFFP Board and manage project approval process;
 - Provide grant administration (managing grant finances in accordance with the Financial Framework (Supplementary powers) Regulations 1997, delegation to spend according to the *Public Governance, Performance and Accountability Act 2013* and reporting in line with DFAT policies);
 - Deliver AIFFP branding and communications; and,
 - Lead on monitoring and evaluation, development impact and safeguards issues.
72. AIFFP's back office (largely delivered by Efic) will:
- Conduct credit assessments

- Finalise loan agreements
- Establish and conduct loan transactions
- Monitor and manage repayment of those loans
- Evaluate amendments to loan transactions, and
- Restructure loan transactions that are deteriorating or in default.

73. In general, DFAT will have overall responsibility for front office, while Efic will predominantly provide back office functions (there are no back office roles for grant only AIFFP projects). There will be a close working relationships between AIFFP and Efic with flexibility in arrangements to provide surge capacity as AIFFP matures. Functions of Efic and DFAT for AIFFP are detailed in a service level agreement.

Project origination and initial screening

74. Identifying quality infrastructure projects will be central to the AIFFP. The Facility will leverage the full breadth of DFAT's global networks to ensure a robust pipeline of quality project proposals. To generate these projects, AIFFP will use DFAT's existing networks with project sponsors, private sector, MDBs and other donors, as well as direct approaches from the private sector, sovereigns, ministerial referrals, Efic referrals, and Australia's diplomatic missions. Project proposals can also be submitted through the AIFFP website. An appropriate feedback mechanism will be developed by the AIFFP to ensure transparency and to improve the quality of future proposals.
75. The project pipeline will be a live list, updated as information is gathered and proposals are received. AIFFP will use a staged screening process similar to the MDBs and other commercial financiers. Projects may be regional or bilateral.
76. In the first instance, the AIFFP will ensure the potential project meets AIFFP's investment mandate. If the project meets the mandate, the project will move to an initial screening phase. This can only occur with the approval of the Assistant Secretary, Pacific Infrastructure Branch (AS, IFB). This includes agreement to allocate resources (staff and budget) for project assessment. Initial project screening and a due diligence review is conducted on all proposals to determine their financial viability, along with the development and strategic value of the proposed project. This includes a detailed assessment of:
- The alignment of the project with AIFFP objectives;
 - Developmental value: what economic, social and other developmental impact and value does the project offer;
 - Deliverability: high-level consideration of the risks inherent in delivering the project and the measures to mitigate and manage these; and,
 - Financial viability: high level consideration of the financial and business case of the project proposal, including an assessment of the type of financing required.

Project assessment

77. Projects that meet initial screening requirements will progress to the project assessment stage. This involves a detailed assessment (proportional to the size and risk of the investment) of the project. In some instances where rapid decisions need to be made, any deviations from the below will be determined by AIFFP management and raised with the Board. All projects progressing to project assessment will be reviewed by the AIFFP Board (for early visibility of pipeline).
78. The project assessment stage will consider:

- Financial and commercial viability: reviewing the business case for the project and acceptability of underlying capital expenditure, operation and maintenance expenditure and revenue estimates. Reviewing a detailed financial model and stress testing the assumptions that underpin the model. Providing a credit risk rating score (estimate of the likelihood of default and loss given default). Determining the acceptability of the proposed capital structure, project partners and type of AIFFP financing required;
- Counterparty risk: an assessment of project partners (sponsors, engineering, procurement and construction, proposed financing partners, major off-takers) and all associated contracts/agreements. Loans will employ a 'know-your-customer' due diligence process to help prevent an organisation involved in the project being used by criminal elements for money laundering. This includes making reasonable efforts to determine the true identity and beneficial ownership of accounts, source of funds, the nature of the customer's business and reasonableness of operations;
- Economic analysis: a review of the economic drivers of the project, including a detailed cost-benefit analysis and an assessment of least-cost principles within the project (if a better and cheaper solution is available), consideration of debt sustainability (including information drawn from the World Bank, ADB and private rating agencies) and compliance with OECD Blended Finance Principles;
- Partner government systems: assessments of the adequacy of partner government systems that may be relied upon, including fiduciary risk assessments (including information drawn from existing DFAT and MDB reports);
- Development impact: an assessment of the development impact of the project and the expected beneficiaries, including identifying the need for policy reform to support project objectives and development of a plan for implementation, alignment with other DFAT and donors programs, climate change and disaster resilience, and gender equality and social inclusion considerations;
- Safeguards (environmental and social): all investments must be screened for key risks and environmental and social safeguards and a plan established for implementation;
- Feedback and support from Posts, relevant DFAT areas and whole-of-government partner agencies;
- Legal and regulatory considerations; and,
- Alignment with DFAT policies not considered under the above (see Annex 1).

79. Grant-only projects will follow the above screening steps as applicable.

80. For loans, a non-disclosure agreement may be signed with the proposed partners for AIFFP to access information at any stage of the process (initial screening or project assessment). A draft or indicative term sheet may be prepared by the front and back offices together and discussed with partners at this stage. Transactions that are structured with recourse to a creditworthy counterparty or a sovereign require due diligence. A transaction that does not have the benefit of recourse to a creditworthy counterparty may be structured to rely on the benefits of the contracts that the borrowing entity has entered into through the use of project finance.

81. Project proposals will undergo DFAT aid quality assurance processes appropriate to their risk and value including, where required, through peer review by key DFAT areas and appraisal by Advisory Panel members or others. The Board will be informed of any major findings at project assessment stage (unless the assessment concludes that the project not proceed to the negotiation and final due diligence stage).

Project negotiation and final due diligence

82. During project negotiation and final due diligence, AIFFP will:

- Finalise commercial pricing (fees and margins) and grant and/or loan terms and conditions and inter-creditor rights (if relevant);
- Finalise key commercial contracts;
- Prepare a model audit if required;
- Undertake a final legal review;
- Finalise a monitoring and evaluation plan;
- Finalise a safeguards plan; and
- Finalise a development impact plan.

83. For loans, this stage also includes settling with the borrower terms and conditions, disbursements, covenants, and performance and monitoring requirements. AIFFP will negotiate terms based on the due diligence process. Key loan documents include a term sheet (loan conditions), inter-creditor agreement and security documents.

84. Loan terms may include one or more flexible terms depending on project specific issues:

- Longer tenor than that offered by commercial financiers but similar to that offered by other development finance institutions;
- Periods of capitalisation of interest beyond construction completion;
- Tailored and flexible loan repayment profiles;
- Deferral of loan repayments, including grace periods;
- Local currency financing;
- Being subordinated in payment priority and in any other respects to the financing provided by other financiers;
- Different voting and intercreditor rights to those enjoyed by other financiers; and
- Different or no security compared to other financiers in the same transaction.

Board consideration and ministerial approval

85. In considering the project, the AIFFP Board may:

- Approve the project for negotiation and final due diligence;
- Seek further information from AIFFP on any aspects of the project;
- Request that further assessment activities (including external advice) be conducted; or
- Reject or adjust the project assessment.

86. Where the Board recommends a project be pursued, the AIFFP will make a recommendation to the Minister for Foreign Affairs. For details on the ministerial approval process, see the governance section (part E) of this design document.

Investment risk

87. See Part L of this document for details on risk. The AIFFP will be risk-aware but not risk-averse. The Board must satisfy itself that:

- There is a reasonable allocation of risk for each project between AIFFP and other sources of finance for the project (if applicable);
- AIFFP can appropriately manage the AIFFP's risk exposure to each project; and
- AIFFP has performed due diligence on the suitability of the borrowers (for loans), recipients (of grants), other financiers, sponsors, off takers, contractors and operators, as well as on the technical and financial viability of the project.

Finalisation of project documents

88. The front office will monitor the satisfaction of conditions precedent prior to execution and financial close of loan documentation. The front office will also finalise branding and conduct promotional events. In conjunction with Posts, the AIFFP will be responsible for liaising with partner governments on all potential and ongoing projects, including those with non-sovereign entities.
89. For loans, the back office will administer loan arrangements including finalising loan documentation and contract execution, drawdowns and systems entry and tracking. It will notify the front office if there are proposed changes to terms and conditions and overdue payments. Amendments to loan or grant arrangements may be approved by the Board. The Board has the discretion to seek Ministerial approval for amendments.

Disbursement of funds

90. For loans, funding instructions will be issued to creditors. Clients will submit requests for drawdowns based on their eligibility for payment. Drawdowns will be approved when all conditions are satisfied and when the drawdowns comply with the contractual terms. Loan funds may be disbursed directly to a firm contracted in a project (based on advice from the borrower (and verified as appropriate) that works have been undertaken), to a private sector borrower or sovereign borrower's account, to a special purpose vehicle or similar quarantined project account to make payments to the supplier, or to a well-established intermediary.
91. Grants funds will be managed in AidWorks, DFAT's internal ODA management database.

Implementation

92. Implementation will vary depending on the financial product (loan or grant), the type of borrower (e.g. sovereign, private sector or via a project vehicle) and if AIFFP is investing with or without a well-established intermediary as an investment partner. Each of the above circumstances embody different levels of risk and require different approaches – see Table 1 below.
93. It is expected that AIFFP loans to sovereign borrowers with no well-established partners (such as an MDB) involved will require the greatest amount of time and resources from AIFFP (although potentially where the greatest need will be for AIFFP financing given the funding gap and lack of bankable projects). Documentation is likely to require greater supplementation by AIFFP (including external specialists to conduct relevant assessments, due diligence and project preparation). Capacity of the borrower may be limited. The engagement and management of project management units (or parts of the units) within the partner government and a deeper level of involvement in services for project preparation and implementation and oversight will likely be required from AIFFP. In such cases, AIFFP may engage a construction manager to assist in supervision and management of the project, including provision and management of the project management unit.
94. In other cases DFAT will not be the lead investment partner in AIFFP projects, such as an AIFFP project that is co-financed with the World Bank. Here, the front office will assess whether partners' policies adequately meet DFAT's policy requirements. If so, AIFFP may rely fully or partially on assessments and

practices of partners. Where the front office identifies gaps or weaknesses in a partner’s systems, it will supplement these areas to ensure they are consistent with DFAT’s policy and risk appetite.

Table 1: Implementation arrangements based on partner type

Borrower	Private	Private	Sovereign	Sovereign
Investment partner	Well-established intermediary	No well-established intermediary	Well-established intermediary	No well-established intermediary
Proposal	Intermediary or proponent	Borrower	Intermediary	Borrower with AIFFP support
Initial screening	AIFFP	AIFFP	AIFFP	AIFFP
Project assessment including due diligence	Primarily intermediary with AIFFP supplementation	AIFFP	Primarily intermediary with AIFFP supplementation	AIFFP
Approvals and finalisation of documents and due diligence	AIFFP	AIFFP	AIFFP	AIFFP
Procurement	Private borrower with AIFFP oversight	Private borrower with AIFFP oversight	Partner’s processes or using DFAT’s prequalified list with AIFFP oversight*	Sovereign borrower using DFAT’s prequalified list with AIFFP oversight*
Monitoring and evaluation	Primarily intermediary with AIFFP supplementation	AIFFP, with private partner input	Primarily intermediary with AIFFP supplementation	AIFFP using partner systems where possible
Safeguards	Primarily intermediary with AIFFP supplementation	Private partner with AIFFP supplementation	Primarily intermediary with AIFFP supplementation	AIFFP, using partner systems where possible
Level of involvement and oversight during implementation from AIFFP	Low	Medium	Low	High

*Subject to assessment of partner government systems, capacity, and fiduciary risk

Monitoring, evaluation and reporting

95. The AIFFP will report to the Board quarterly on implementation. Projects will undergo performance monitoring proportionate to their risk and value to ensure milestones are met and safeguards maintained.
96. Loan management will be undertaken by the AIFFP back office. Monitoring of safeguards and broader development impacts will be led by the AIFFP front office. Implementation monitoring will be jointly undertaken by the AIFFP front office and back office.

97. Project progress will be reported half yearly to DFAT's Executive through the Performance, Risk and Resourcing Committee (with a copy provided to DFAT's Aid Governance Board) and DFAT's Audit and Risk Committee. The AIFFP will also provide an annual report to Ministers. External reporting will be undertaken as part of DFAT's annual report, the annual Australian Aid Budget Summary, and briefings to the Development Assistance Committee (through DFAT's standing ODA processes). The AIFFP's climate engagement will be reported on a biennial basis to the UNFCCC at the project level. Efic will also report loans as part of its annual report. Monitoring and evaluation arrangements, including a monitoring and evaluation framework, are detailed in Section K and will be further developed by the AIFFP (front office) Monitoring and Evaluation Manager. The final plan will outline monitoring and evaluation requirements at both the facility and project level and cover both AIFFP grants and loans.

Site visits

98. The AIFFP will meet as required with partners, including site visits (consistent with loan and/or contract conditions), government offices, Posts and other partners at all stages of the project lifecycle.

Role of the advisers

99. Advisory Panel members may be engaged at any stage of the process. AIFFP will seek additional external technical advice (outside of the Advisory Panel), such as legal, commercial, safeguards etc., as required.

Probity, security and record keeping

100. AIFFP will develop a probity plan, in accordance with Commonwealth guidance and existing DFAT policies, to ensure that all projects and proponents will be treated consistently and assessments are conducted with honesty, fairness and in good faith. The framework will outline requirements to:

- i. protect and secure project information and assessment records and commercially sensitive information;
- ii. identify and manage any perceived, potential or actual conflicts of interest of AIFFP staff, contractors, Board, Advisory Panel and external advisers;
- iii. document and record all relevant matters to ensure a clear audit trail and that DFAT's filing and document-sharing protocols are followed; and
- iv. engage probity advisers for specific projects or procurement processes.

Aid programming guide

101. Principles for quality assurance and performance monitoring from DFAT's Aid Programming Guide will be mirrored in the AIFFP. Terminology and templates may not be applied in their entirety. The relevant delegates for decision points will be:

- AS IFB for initial project screening; and,
- The Board and relevant Ministers for determining which projects will proceed to implementation.

H. Development impact

Guiding principles and policy

102. The AIFFP will use DFAT's Economic Infrastructure Development Strategy as the foundation for the AIFFP's approach to gender, disability, disaster and climate resilience, and risk reduction. DFAT's Gender Equality and Women's Empowerment Strategy, Development for All 2015-2020 Strategy, and the Accessibility Design Guide will inform design and implementation of AIFFP investments. All projects being considered for investment will be screened early to identify opportunities to strengthen development impacts.

103. AIFFP will ensure:

- Project preparation includes relevant development impact assessments;
- Designs act on recommendations made in these assessments;
- Loan/grant documentation and other partnership agreements translate the development impact components of designs into deliverables; and,
- Monitoring and evaluation frameworks include measurable input, output and outcome indicators to monitor progress in these areas.

Gender equality, disability and social inclusion

104. The AIFFP will include gender equality and disability inclusion considerations as an explicit component in each project's design, implementation, governance and monitoring, recognising the clear evidence that economic infrastructure has differential impacts on women and men, especially those with disability. The overarching AIFFP objectives explicitly refer to inclusive development impact and benefits for women and men, and specifically those with disability. When the monitoring and evaluation plans are developed, these will define, measure and count the social benefits from infrastructure, as well as specifying 'infrastructure that meets the needs of women, men, including those with disabilities, and vulnerable population groups'. AIFFP senior leadership will be responsible for ensuring GESI outcomes are achieved. This responsibility will be reflected in monitoring and evaluation plans. The job descriptions of each of the contracted staff will also include responsibility for GESI.

105. AIFFP will aim to meet both women's and men's distinct infrastructure needs and design infrastructure projects so that they help narrow gender, disability, and social inclusion gaps. The facility will be explicit about development impact from a GESI perspective and mainstream GESI across the project lifecycle. The facility will seek opportunities to take specific action to identify and address constraints for women and people with disabilities to participate and benefit equally with men and those without disability, as leaders, entrepreneurs, workers, and users of infrastructure. See Annex 3 for further details.

106. AIFFP will ensure contractors receive adequate support and regular guidance on gender equality, disability and social inclusion issues to ensure GESI is mainstreamed in all AIFFP projects. A GESI manager is being recruited to join the AIFFP Front Office and will be responsible for training and supporting AIFFP contractors on DFAT GESI requirements.

Disaster risk reduction and climate change resilience

107. The risks posed by extreme weather (such as storm surges, sea flooding, cyclones, floods, damages to reefs and coastal ecosystems) and natural disasters (such as earthquakes and volcanos) will be taken into account in assessing proposals as well as designing, siting and maintaining infrastructure.

108. The following good practice principles will be applied in designing climate informed, resilient infrastructure under the AIFFP:

- Every proposal will be assessed for climate and disaster risk and against environmental safeguards, and specialist expertise will be identified as required to facilitate integration of climate and disaster risks and resilience building;
- Up-to-date climate projections and appropriate standards for risk reduction and resilience building will be accessed and applied at the proposal assessment stage, early in the investment cycle and translated into grant agreements and procurement contracts;

- Clear climate and disaster resilience objectives will be articulated for individual investments under the facility and, where relevant, activities are identified to address risks, with resourcing allocated within investment budgets;
- Options for climate and disaster resilient design will be considered as part of business cases, and avoided direct and indirect costs arising from climate and disasters will be considered as part of cost benefit analysis (per Infrastructure Australia's guidance);
- Where climate and disaster resilience is integrated into specific investments, indicators will be included to track progress towards the climate change and disaster risk reduction outcomes in the broader monitoring and evaluation framework;
- Investment risk registers will include the specific challenges associated with climate change and disasters, and identify appropriate management mechanisms; and
- Debt sustainability assessments will factor in the costs of climate change and disaster risks, including building these expected costs into country growth projections, and using disasters or climate events to stress test debt sustainability measures where appropriate.

109. AIFFP will draw on the Australia Pacific Climate Partnership Support Unit and associated Expert Panel; and resources and expertise available to DFAT through its ongoing partnerships with the UN Office for Disaster Risk Reduction (UNDRR), and the World Bank Global Facility for Disaster Reduction and Recovery as well as guidance available through the Sendai Framework for Disaster Risk Reduction 2015-2030 and the Pacific Islands Forum's new Climate Change and Disaster Relief Framework.

110. The AIFFP will complement and work closely with the Australian Private Sector Mobilisation Climate Fund currently under design.²⁶

Mobilising and incentivising private finance and expertise

111. Historically, given the region's smaller, dispersed populations, large distances and varied economic settings, private sector investment in the Pacific has not been as high as other regions such as South East Asia. The AIFFP will endeavour to mobilise private finance to expand and improve infrastructure investment in Pacific island countries and Timor-Leste, whether through well-structured public private partnerships or by building development additionality into commercially viable projects by offering competitive financing alternatives.

112. The involvement of AIFFP and the Australian Government in infrastructure transactions can lower the perceived and actual risks for investors, and crowd-in private investment. Over time, this can strengthen both local markets and the ability of the private sector to raise capital from new sources.

113. The AIFFP and DFAT's bilateral programs will also help partner governments to improve the enabling environment that supports and regulates private investment in infrastructure to complement AIFFP project investments. Over time, this will contribute to building a stronger track record and environment for infrastructure projects in the Pacific, lowering the cost of capital and further improving access to private finance.

114. The AIFFP will avoid displacing private sector financing. This will avoid the creation of market distortions which could occur through investment in projects where private partners have access to reasonable commercial lending.

Supporting infrastructure sustainability

115. In some cases, previous infrastructure investments in the region have seen a lack of resources and systems allocated to operate and maintain infrastructure. This can lead to an inefficient and

²⁶ The Fund is currently being designed for implementation by the ADB, with funding from DFAT.

unsustainable cycle of “build–neglect–rebuild”.²⁷ Where appropriate, AIFFP investments will include performance contracts with private sector entities to maintain or operate infrastructure assets. Where special project vehicles, proceed accounts or similar are used, these will be established to ensure revenue is used for operation and maintenance of assets. This will be easier in instances where there is a revenue stream from the asset and therefore an incentive to maintain it. In other instances, AIFFP may ensure adequate maintenance plans and budgets in place prior to loan or grant payments. Participatory approaches, including working with community groups and users of projects, including their ownership of project assets such as water supply or alternative energy sources, will be considered.

116. In all instances, projects will use technologies that are appropriate to country context and take full account of the country’s capacity to maintain assets. Projects will be supported by resources for technical assistance and capacity building to strengthen local systems for operations and maintenance of AIFFP financed projects, market reform and SOE reform where relevant. This may be via AIFFP grants, or through the bilateral programs or global infrastructure facilities/programs supported by DFAT.
117. In providing technical assistance, DFAT’s partner government systems assessments and relevant fiduciary risk assessments will be considered to ensure technical assistance is targeted. MDB’s existing partner government systems assessments may also be considered. The AIFFP will work closely with Posts on each project to ensure there is sufficient and continued support, including in required policy reform, to maximise the project’s sustainability. In addition, technologies, materials, systems and approaches that are used will be within the partner country’s ability to finance and maintain.
118. Use and upskilling of local labour and private sector will be a consideration of each project. An analysis of the local labour market and private sector will be conducted as part of the development impact assessment for AIFFP projects. Obligations for contractors to transfer skills to local staff will be included in loan conditions and grant agreements. AIFFP will work with DFAT’s bilateral and regional programs to ensure alignment with existing skills and training programs, volunteer programs and support for professional associations (where they exist) including supporting twinning arrangements with Australian industry groups.

I. Resources

ODA eligibility

119. Loans will not be counted as ODA for the purpose of Commonwealth budget rules. Loans may be ODA eligible under OECD definitions, but will depend on case-by-case consideration of each loan package. This will not affect Australia’s ODA budget and reporting to the OECD will be treated separately to the impact on the Commonwealth’s underlying cash balance. Loans and grants will be disbursed through separate agreements to ensure separation in OECD classification.

Staffing and capability

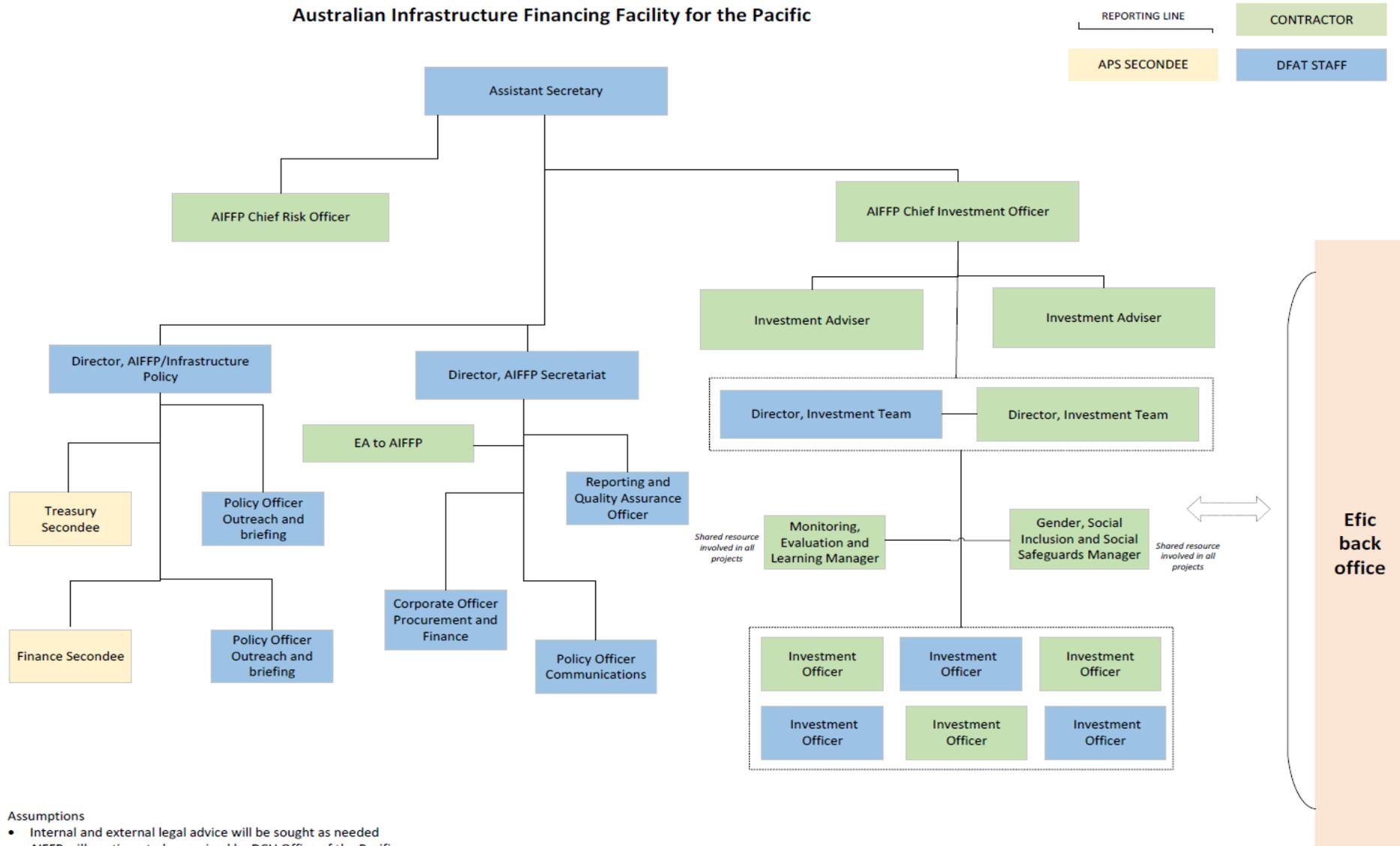
120. The AIFFP builds on existing experience within Government on infrastructure financing, including Efic’s long-standing financing experience in emerging markets and DFAT’s experience in managing infrastructure projects through grant programs in the Pacific. At commencement, the AIFFP front office will be run by experienced DFAT officers, whole-of-government secondees to DFAT, and contracted experts in infrastructure finance. DFAT will draw in external infrastructure financing expertise with emerging market experience (sovereigns and private sector). The AIFFP will also draw on existing specialist advice within DFAT on areas such as governance, disability, gender and social inclusion as well as partnerships that offer expertise such as the Australian Water Partnership.

²⁷ Pacific Region Infrastructure Facility (PRIF), *Infrastructure Maintenance in the Pacific: Challenging the Build-Neglect-Rebuild Paradigm*, pp. 1-2, <https://www.theprif.org/documents/regional/infrastructure-planning-and-management/infrastructure-maintenance-pacific>.

121. DFAT will develop an implementation capability plan to ensure it is equipped to deliver the AIFFP now and in the future. The plan will provide pathways to upskill DFAT staff on finance issues as well as contracted AIFFP staff on development, Pacific issues and DFAT systems. There will be an emphasis, not only on skills, but on culture and systems. Secure software to manage project data (with access by the front and back office) will be utilised. An agile, result-oriented, innovative and ethical culture will be fostered within the team.
122. Staff capacity will be built over time, including through targeted training. As well as the contracted expertise and secondees, AIFFP will work with MDBs, development finance institutions and other financiers with established systems for loans. Options are being explored for secondments and shared training with MDBs, and twinning arrangements with other private sector firms. The AIFFP will have an adaptive management approach to implementation, including regular meetings to share lessons and learn from successes and failures.
123. AIFFP's organisational chart is below in figure 1. This will be revisited as needed, but at a minimum of six months into implementation, to ensure adequate staffing levels and ability to respond as AIFFP matures. The AIFFP team will be supported by DFAT's Corporate Management Group and other relevant enabling divisions, including the Office of the Pacific.
124. The AIFFP will be led by a DFAT SES officer (currently AS IFB). Upon implementation, AS IFB, with overarching operational responsibility for the AIFFP, will continue to report directly to the FAS, Pacific Strategy Division. AS IFB will oversee the operations, staffing, policy, cross government engagement of the AIFFP, and engagement with external stakeholders and diplomatic partners. The AIFFP Chief Investment Officer (an externally contracted position) will oversee the project pipeline, selection, analysis, recommendation and implementation. The AIFFP Chief Investment Officer will report to the AS IFB. The Chief Risk Officer will identify, evaluate, manage and report on financial and project risk. This position will report directly to the AS IFB and work closely with the team to mitigate significant risks.
125. Competitive recruitment and procurement processes will be used to source external contracted staff on long-term contracts (up to four years), with regular performance reviews.
126. Relevant areas of DFAT, including Posts, will need to consider broader resourcing implications of AIFFP to ensure adequate support across the Department.



Figure 1: AIFFP organisational chart



- Assumptions**
- Internal and external legal advice will be sought as needed
 - AIFFP will continue to be serviced by DCU Office of the Pacific
 - Resources for climate change and resilience advice via the Pacific Climate Change Program

J. Procurement and partnering*Value for money statement:*

127. The AIFFP is committed to a process for developing and delivering infrastructure projects that is non-discriminatory, open and transparent. Infrastructure investments will be effectively and efficiently managed and overseen throughout the project cycle (project selection, preparation, finance, construction, operation, maintenance and dispute resolution). Investments will be fit for purpose, subject to a risk management framework (including managing corruption), and deliver the intended benefits and service levels.
128. Procurement and grants for the AIFFP will be conducted in a manner consistent with the Commonwealth Procurement Rules and the Commonwealth Grant Rules and Guidelines. Where possible, all contracts will tie payments to delivery, with incentives for positive performance such as completion on time, to specified standard, and by maximising local labour components.

Procurement

129. DFAT will establish a construction management panel with services ranging from feasibility and project preparation, design, supervision and quality assurance, construction and management. Having services delivered by a construction manager (rather than engaging several contractors to deliver separate elements of a project such as design, supervision etc.) will minimise administration and duplication by using one contractor for end-to-end capability for a project whilst retaining the option to separately contract for particular elements of a project. Components of a project are likely to be sub-contracted by those on the construction management panel (maximising local business and local labour content, and allowing more specialist firms to deliver parts of the services as needed). The panel allows the user to request proposals from companies on the panel and select a partner offering the best value for money solution based on the needs of each project.
130. The panel can service multiple needs:
- AIFFP activities funded from the AUD500 million in grant and the AIFFP operating budget;
 - Other areas of DFAT requiring construction management services outside of AIFFP;
 - Whole-of-Government Commonwealth agencies with access to the panel; and,
 - Projects funded by AIFFP loans to sovereign borrowers (and AIFFP grant funds provided to sovereigns). In this instance, AIFFP loan conditions will stipulate sovereign borrowers must use the DFAT pre-qualified list (those on the panel) for activities over a certain threshold (threshold to be determined based on fiduciary risk assessments and due diligence). As the panel will have demonstrated suitability to meet DFAT standards via DFAT's tender to establish the panel, sovereign borrowers' use of the list will maximise compliance with DFAT's focus on quality while providing more timely project implementation than would be possible if undertaking separate procurement processes for each project.
131. The panel will be established to provide sufficient flexibility to deliver on various AIFFP needs (including size, duration, location and type). Criteria for supplier selection will emphasise demonstrated ability to deliver high quality construction projects that have positive environmental and development impact and delivery of climate resilience, use and upskilling of local labour and local business, social and environmental safeguards, GESI and high construction standards.
132. Prior to the panel being finalised in early 2020, AIFFP can access a range of existing whole-of-government panels such as those managed by CSIRO, the Australian Federal Police and DFAT's overseas property panel 'Property Professional Services'. In addition, the Solomon Islands Infrastructure Program and the South East Asia Infrastructure Facility are in design phase and may offer opportunities to support

the AIFFP. DFAT is establishing, or already has, panels and arrangements for gender, climate change, monitoring and evaluation, and project management (overseas property panel) that the AIFFP can access.

133. AIFFP will engage closely with industry and partner governments to ensure the procurement approach is viable for each project and circumstance, and to promote the upcoming opportunity. Alternative approaches to the prequalified list may be utilised where appropriate.

Partner performance assessments and due diligence

134. Partner performance and due diligence assessments (including partner systems assessments and fiduciary risk assessments where applicable) will apply to all grant recipients in line with DFAT's existing policies and processes. Loan due diligence is covered in Part G of this document.

Industry engagement

135. DFAT will continue to work with Austrade to promote opportunities and linkages, including through dedicated Austrade-led infrastructure sector missions to the Pacific and other targeted private sector outreach. The AIFFP will also engage actively in the executive committee meetings of the Australia Pacific Islands/ Fiji/ Papua New Guinea Business Councils and their associated annual business forums to promote opportunities.

K. Monitoring and evaluation: how will DFAT measure performance?

Guiding principles

136. The AIFFP monitoring and evaluation framework will comply with DFAT's standards and Efic's policy and processes.

Monitoring and evaluation framework

137. Performance information and impact will be captured at the Facility and project levels. Both levels will be supported by monitoring and evaluation plans. The Facility-level plan will be developed by December 2019. Project-level plans will be finalised during project negotiation and final due diligence.
138. At the Facility level, output level indicators will include, but not be limited to:
- Cumulative size of AIFFP portfolio;
 - Number of new project agreements signed;
 - Number of projects that have reached financial close;
 - Cumulative number of projects by sector;
 - Amount of additional financing leveraged;
 - Cumulative number of projects by country;
 - Quantitative and qualitative measures of economic and social impact across portfolio of projects;
 - Number of beneficiaries (disaggregated by gender, location (urban, peri-urban/rural) and disadvantaged groups such as minorities, people with disability, ethnic minorities, and indigenous and land-connected peoples);
 - Amount of climate finance;
 - Tonnes of greenhouse gas emissions reduced from relevant projects; and
 - Client feedback.

139. Indicators will be further refined by the AIFFP M&E Manager. Monitoring and evaluation plans will establish baseline data against which performance of AIFFP projects will be assessed. They will also identify selected indicators and/or other methods for assessing progress towards higher-level objectives and impacts. This may include social benefit/impact surveys for selected projects. In doing so, the Facility-level monitoring and evaluation plans will need to draw on project-level monitoring and evaluation plans (described below).
140. At the project level, monitoring and evaluation plans will:
- Articulate the investment’s objectives, expected end-of-program outcomes and outputs. Project outcomes will be framed so they can be plausibly attributed to project interventions (for example outputs) funded by DFAT’s investments;
 - Clearly articulate what contribution AIFFP will make beyond what is available in the market, and what indicators will be monitored to validate claims;
 - Collect baseline data against which data relating to outcomes and outputs can be compared. A rationale should be provided where appropriate baseline data are not provided for in the monitoring and evaluation plan;
 - Allow for complete financial performance monitoring, including verifying project construction runs on time and on budget;
 - Contain a schedule of monitoring activities, with details on how information will be sourced and collected (such as surveys, site visits and stakeholder meetings);
 - Appropriately combine quantitative and qualitative data;
 - To the extent possible, include indicators and performance questions that track changes for beneficiaries;
 - Where Efic or DFAT’s safeguard policies are triggered, include a process to regularly assess safeguard implementation and compliance;
 - Include feedback mechanisms to inform and adjust investments to ensure intermediate changes support long-term results;
 - Allow for complete financial performance monitoring, including verifying project construction runs on time and on budget; and,
 - Identify potential evaluation questions and the information required to address evaluation issues.
141. In addition, various indicators will be disaggregated as appropriate, including by:
- Gender – women, men, girls and boys;
 - Disadvantaged groups such as minorities, people with disability, ethnic minorities, and indigenous and land-connected peoples; and
 - Location – urban, peri-urban and rural.

Monitoring and evaluation responsibilities

142. The front office will develop monitoring and evaluation plans for all projects in consultation with the back office. An assessment of AIFFP’s capacity to undertake ongoing monitoring and reporting against the plan will be undertaken as part of the monitoring and evaluation plan development process. Additional technical support will be sourced as required.

143. Where AIFFP partners with an MDB or private sector intermediaries, AIFFP will assess the degree to which AIFFP can rely on their systems including supplementing these where necessary. Where AIFFP partners with sovereign entities, AIFFP will assess the capacity of their monitoring and evaluation systems to deliver the required project information within the required timeframes and strengthen/supplement capacity where necessary.
144. Monitoring and supervision of the development impact of the project will be integrated into all AIFFP monitoring and evaluation plans along with reporting against physical and financial performance. Debt sustainability will be built into each plan and fed into Facility-level monitoring.
145. AIFFP will engage closely with Posts on all monitoring and evaluation activities. Monitoring will include regular dialogue with partner governments and all investment partners, field visits, and collection of quantitative and qualitative data on key deliverables identified in the monitoring and evaluation plan.
146. The AIFFP will continue to monitor all projects (with the exception of those implemented by well-established partners such as MDBs) until project completion. Where AIFFP is working through MDBs or private sector partners, additional monitoring support may be provided to ensure full compliance with DFAT requirements. A completion report will be submitted for all projects which details outcomes against indicators set out in the monitoring and evaluation plan.

Performance reporting

147. Project level reporting will be completed in May and December each year to feed into Facility-level reporting. The January Facility-level performance report will be the annual outcome review and will feed into DFAT's annual reporting. Where performance benchmarks are not being met, AIFFP may require more frequent monitoring and reporting by the borrower. This annual performance report will be jointly prepared by front and back offices and will provide the basis for annual reporting to Government.
148. AIFFP financial transactions will be reported in accordance with the Financial Reporting Rules under the *Public Governance performance and Accountability Act 2013*.

AIFFP evaluation

149. A system-wide review of the AIFFP will take place after two years of operation. Its focus will be on assessing the performance of the AIFFP model and informing continuous learning and improvement. An independent evaluation of AIFFP will take place in 2022 and every four years thereafter. The evaluation will consider all aspects of AIFFP including back and front office roles as well as long-term development impacts of select projects.

Resources for monitoring and evaluation

150. AIFFP will be staffed for monitoring and evaluation and will be supported by external advisers where required. Efic currently has two staff dedicated to safeguards assessment and monitoring and evaluation for its existing loan portfolio. This is supported by additional resources as required.

L. Risk management and safeguards (what might go wrong?)

Risk management

151. The following four principles will guide the AIFFP approach to risk management. Risk management should:
- Improve risk culture – by embedding risk management into business as usual, where risk is everyone's responsibility and is actively managed across the work of the AIFFP;
 - Be proportional – by managing risks in a way that is proportionate to the potential impact on AIFFP's objectives;

- Support innovation – by accepting uncertainty where there is evidence that the benefits of doing so outweigh potential negative impacts; and,
- Be tailored – by ensuring that risk management policies and procedures address the needs of the AIFFP at each stage of the project cycle and for each project.

152. The AIFFP will demonstrate a willingness to take calculated risks, and work in challenging contexts, where the benefits are substantial. AIFFP must engage with this risk to meet its objectives.

Risk appetite statement

153. The AIFFP will develop a risk appetite statement to guide investment decisions. The risk appetite statement provides a roadmap that guides the AIFFP's risk culture and sets out boundaries on risk-taking activities. The risk appetite statement is not static but dynamic. It will be reviewed on a regular basis.

154. The assessment of reputational risk forms a key component of strategic business and credit approval processes. The AIFFP will use established DFAT operating policies and procedures, including those on fraud and anti-corruption, HR, social and environmental safeguards, sanctions and counter terrorism asset freezing regimes, whistleblowing and workplace health and safety.

155. AIFFP investments will comply with the Australian implemented United Nation's Security Council sanctions regime set out under the Charter of the United Nations Act 1945 (UN Act), the Australian autonomous sanctions regime set out under the *Autonomous Sanctions Act 2011* (AS Act). As part of this process, loan and grant recipients will adhere to requirements set out under the UN Act, AS Act and ensure that it, or any of its contractors, sub-contractors or parties to its supply chain do not fund persons and/or entities designated under Australian sanctions laws. Recipients will monitor the Consolidated List of sanctioned persons and entities available on the DFAT website.

156. AS IFB is responsible for managing AIFFP's project and operational risk.

Safeguards

157. DFAT's Environmental and Social Safeguard Policy for the Aid Program will apply to all AIFFP investments whether funded by loans, grants or a mix of both. Efic Safeguard policy and practice will reflect DFAT requirements. The AIFFP will use standard DFAT safeguard screening tools to determine risk levels for a project. DFAT will also assess the risk associated with particular implementation arrangements as per Table 1.

158. DFAT's safeguard policy requires compliance with partner government laws and regulations related to environmental and social safeguards. Partner governments will be closely involved throughout assessment, design and implementation of safeguards. In some cases the partner government will lead (with support from AIFFP and other partners) safeguards issues if partner government systems are considered adequate.

Working in partnership

159. As previously discussed (see Table 1 above), in some cases DFAT will not be the lead investment partner in AIFFP projects. Partners such as the IFC or ADB have their own environmental and social safeguard systems, which adequately meet most of DFAT's policy requirements. AIFFP will identify any gaps between partners' safeguard systems and DFAT requirements and agree with partners means of filling these gaps.

Board consideration of safeguards

160. The AIFFP Board will understand the level of safeguard risk associated with each project and how this risk will be mitigated and managed. The stage of development a project has reached by the time it goes to the Board will determine what kind of safeguard documentation is required for Board

consideration. There will be cases where project information such as land acquisition are unknown at this stage. In these instances a safeguards framework must be developed that will describe:

- When these processes and actions will be done
- Who will do what
- Who will pay for it, and
- What the final approval process for safeguards for a project will be.

161. This approach is similar to that followed by the MDBs.

Project documentation

162. All loan, grant and commercial agreements used for AIFFP projects include covenants dealing with safeguards requirements. Effective management of the risks associated with safeguards requires a careful division of accountability across the different project partners. Some risks are best owned and managed by the partner government with support from others including DFAT. Other risks are best managed by contractors implementing works for a particular project. This allocation of safeguard risks and the instruments used to enforce it will be articulated in the safeguards plan developed for each project.

Monitoring

163. AIFFP will retain a monitoring role as outlined in Part K above to ensure project partners are fulfilling their obligations, including where AIFFP is not responsible for safeguard implementation.

Resourcing

164. AIFFP will have internal resources dedicated to safeguards but will also have access to external expertise as required. Expertise will be required in both the project feasibility/assessment phase and during project implementation/monitoring. The AIFFP will also ensure that project documentation, loan/grant agreements/contracts, allocates adequate resourcing to manage safeguard risks throughout the project cycle.

What happens when AIFFP enters late?

165. There may be instances where AIFFP financing will be considered after substantial work has already been undertaken on preparing or implementing a project. In these cases AIFFP will:

- Undertake due diligence to determine the status of safeguard assessment, design and implementation;
- Provide the AIFFP Board with a safeguard plan that includes the risks and impacts associated with work already done, and how these will be managed or mitigated if AIFFP is to provide financing; and,
- Provide the resources required to manage or mitigate 'legacy' risks.



M. Annexes

ANNEX 1: DFAT POLICIES

The following checklist will be used to assess projects to ensure they are compliant with DFAT environmental and social safeguards, and consistent with DFAT’s risk and due diligence processes.

Checklist item	Screening tool
Mandatory environmental and social safeguards including: <ul style="list-style-type: none"> • Environmental protection • Children, vulnerable and disadvantaged groups • Displacement and resettlement • Indigenous peoples • Health and safety 	Environmental and Social Safeguard Policy Risk and Safeguard Tool Environmental and Social Safeguard Operational Procedures Child Protection Risk Context Tool
Gender	Gender Equality and Women’s Empowerment Strategy; Gender Equality and Women’s Empowerment in DFAT’s Aid Program – Good Practice Note
Environmental assessment	Climate change and disaster resilience ; Asbestos management in the aid program
Disability	Development for All 2015–2020 Strategy, Accessibility Design Guide, and the Disability-Inclusive Development Guidance Note.
Child protection	DFAT Child Protection Policy
Indigenous peoples	Reaching indigenous people in the Australian aid program: guidance note and Indigenous people’s strategy 2015-2019: A Framework for action
Aid for Trade	Strategy for Australia’s Aid for Trade Investments
Private sector engagement	Strategy for Australia’s investments in private sector development
Partner government systems	Assessing and using Partner Government Systems for Public Financial Management and Procurement
Risk management/due diligence	Aid Risk Management; Due Diligence
Terrorism Financing Risk	Financing terrorism risk
Fraud and anti-corruption	Fraud Control
Monitoring and evaluation	DFAT Monitoring and Evaluation Standards
Preventing Sexual Exploitation, Abuse and Harassment	Preventing Sexual Exploitation, Abuse and Harassment
Risk Management	DFAT Risk Management Framework

ANNEX 2: LESSONS FROM DEVELOPMENT INFRASTRUCTURE FOR AIFFP

Road management in Papua New Guinea: an evaluation of a decade of Australian support 2007–2017 (2018)

This evaluation (<http://dfat.gov.au/aid/how-we-measure-performance/ode/strategic-evaluations/Pages/road-management-in-papua-new-guinea.aspx>) found that Australia has made an important contribution to the maintenance of around 2,000km of national priority roads in PNG, which amounts to roughly a quarter of PNG's national roads and close to a half of national priority roads.

Donor funding accounts for 36 per cent of transport sector resources in PNG, and Australian support is a significant share of that amount. However, despite a decade of Australian assistance, PNG's roads remain in poor condition due mostly to the underfunding of road maintenance by the PNG Government. Assistance under the Transport Sector Support Program (TSSP) contributed to reforms in planning and budgeting that are widely seen as best practice in PNG's public service. However, in some cases, new infrastructure is preferred rather than maintenance of existing infrastructure. It also found that TSSP's capacity building approach, consisting of targeted technical assistance combined with a program of works implemented through government systems, provides the best prospects for supporting effective government policies and implementation.

Australia and other donors have been engaged in substantial infrastructure programs in the Pacific. The key lessons from DFAT's Pacific infrastructure experience include:

- Take a realistic view of project timeframes. Construction projects take time to plan, bid, contract and implement. Expectations for early successes should be modest and sustained commitment is required to achieve end of program goals. Loan agreements should allow adequate time and include an allowance for foreseeable delays.
- Design to retain flexibility. Design changes are often required as the project progresses, particularly in infrastructure programs where field engineering is likely to reveal more information about site conditions as the project is being implemented.
- Set realistic objectives and targets. Targets should be based on reasonable assumptions, careful analysis and ultimately viable plans.
- Ensure robust analysis informs the selection process. Detailed project criteria must guide selection of infrastructure projects. Criteria must include the financial and non-financial parameters of a proposed transaction, and consider partner expectations around financing.
- Ensure tailored procurement processes that consider strong development and environmental impacts. Care must be taken to ensure that procurement procedures deliver high quality and cost effective outcomes.
- Consider gender, disability, environmental and social safeguards at design and throughout implementation. The potential for infrastructure to impact certain groups differently (for example men and women; rural, urban and peri-urban communities; people with disability) must be understood and addressed throughout the project cycle. Regular monitoring of safeguard processes is also key to ensuring that potential negative project impacts are mitigated during implementation.
- Good asset maintenance must be factored into project design, along with consideration of the post-construction phase. Where possible, ongoing infrastructure maintenance should be considered for all projects, and where appropriate, be central to transaction design. Care must be taken to ensure infrastructure investments reflect local capacity to support ongoing operation, bolstered by limited technical assistance from offshore where necessary.

- Local labour. A number of positive impacts can be achieved by engaging local labour in both the construction and maintenance phases. These include jobs, skills creation and stimulus to local economies. These considerations should also be incorporated in the instance of a divestment from an infrastructure investment.
- Resolve land issues. Accessing land for Pacific projects can be complex, and careful consideration is required in the pre-feasibility stage. Securing access to land can cause major time delays and cost blowouts as well as reputational damage to project proponents.
- Communicate success clearly and regularly. A clear ongoing strategy is needed to highlight benefits associated with a project and to ensure results are communicated regularly to key stakeholders in Australia and the region.
- National level infrastructure planning and prioritisation generates political buy-in and better decision-making.
- Capacity development and institutional strengthening takes time and close engagement. Taking a longer term approach to providing technical assistance and leveraging funds from other sources (domestic, international and private sector financing) has been shown to have a wider impact than using funds directly for specific capital works projects.
- Up-front support for project delivery is important. Governments in developing countries need support to undertake the technical analysis required in different sectors, and manage the design, procurement and contracting processes for major projects.
- Address 'rent seeking'. Increased infrastructure investment in the Pacific has generated an increase in disputes with, and between, landowners that recipient governments needed to manage.
- Maintain Kastom and community engagement. Disturbance of the traditional 'community basket' model where the village chief held authority over how community participation and consequent rewards were distributed.
- Natural Materials Royalty Policy. Lack of national royalty policy for quarried material and a national inventory of natural material resources suitable for road making.
- Include experienced construction engineers in design and scoping studies is critical to ensure that realistic assessments are made at the outset and to avoid overly ambitious targets being established.
- Adopt familiar contract forms suitable for immature local contractor markets.

Investing in roads: lessons from the Eastern Indonesia National Roads Improvement Program (2017)

The Eastern Indonesia National Roads Improvement Project (EINRIP) was a major component of Australia's AUD1 billion assistance package to Indonesia following the 2004 Indian Ocean tsunami. EINRIP constitutes the largest loan project (up to AUD300 million) in the history of the Australian aid program, and with a grant of a further AUD36 million, at inception it was also the single biggest infrastructure investment provided by Australia. The evaluation (<https://dfat.gov.au/aid/how-we-measure-performance/ode/other-work/Pages/investing-in-roads-lessons-from-eastern-indonesia-national-roads-improvement-program.aspx>) found that "loans combined with grants can be highly effective" delivering superior results to those which could be expected through the use of only one of these funding mechanisms. Key additional lessons learned from EINRIP which have been informed the design of the AIFFP include:

- Ensure "announceables" reflect realistic implementation targets which are based on reasonable assumptions.

- Establish effective communication mechanisms with all project partners, sharing project reporting on a regular basis and communicating challenges and successes.
- Consider other factors alongside economic factors in project selection – cost-benefit analysis alone is not sufficient and does not adequately capture factors that cannot be monetised.
- Recognise that infrastructure investments impact men and women differently and build gender expertise into project design, implementation, monitoring and evaluation.

Development for All: Evaluation of progress made in strengthening disability inclusion in Australian aid (2018)

The ODE evaluations of Australia’s disability-inclusive development efforts (see <https://dfat.gov.au/aid/how-we-measure-performance/ode/strategic-evaluations/Pages/development-for-all-evaluation.aspx>) made the following recommendation relevant to this investment:

- DFAT should improve disability inclusion in areas found to be relatively weak, including in sectors such as infrastructure and agriculture, water and livelihoods.

DFAT agreed with this recommendation in the management response and committed to addressing it.

Banking our aid: Australia’s non-core funding to the Asian Development Bank and the World Bank (2015)

A previous ODE evaluation “Banking our aid: Australia’s non-core funding to the Asian Development Bank and the World Bank” (see <http://dfat.gov.au/aid/how-we-measure-performance/ode/other-work/Pages/evaluation-australias-non-core-contributions-adb-wb.aspx>) considered what DFAT could do to improve the effectiveness of non-core funding to the ADB and World Bank. Findings relevant to AIFFP include:

- Other factors constraining effectiveness have included a low level of recipient government capability, ownership and leadership; poor bank performance in preparing, supporting and implementing projects; and a lack of information provided by MDBs about results and value for money.
- Work was needed to improve the performance in promoting gender equality.
- There was a need for improved support and guidance for DFAT staff working on partnerships with MDBs.

Investing in the future: evaluation of Australia’s climate change assistance (2018)

This evaluation (<https://dfat.gov.au/aid/how-we-measure-performance/ode/strategic-evaluations/Pages/climate-change-evaluation.aspx>) included four infrastructure programs in the Pacific:

- Solomon Islands Transport Sector Based Approach;
- Solomon Islands Tina River Hydro;
- Solomon Islands Urban Water Supply; and
- Kiribati Infrastructure programs.

Findings relevant to AIFFP include the evaluation’s findings of the key characteristics of stronger performing investments as:

- longer investment timeframes (five years or longer);
- climate change risks are framed within the broader development goals of partner countries; and
- there is a balance of technical and development expertise in design and implementation.

Lessons Learned from Development Finance Institutions (DFIs)

Key (interdependent) lessons learned from the success and failure of a range of DFIs include:²⁸

- Operating within an enabling environment - stability is crucial for development banks, particularly if they are exposed to currency risk. Development banks are less likely to raise sufficient funds on the capital market or leverage co-finance from the private sector during periods of macroeconomic instability. Critical elements of macroeconomic stability include: sound fiscal discipline; balanced economic growth; balance of payments stability; price stability and limited external and internal price distortions.
- Delivering from a clear mandate - a development bank needs an appropriate mandate to ensure that it is correctly positioned within the environment. They must be integrated into the financial system and operate along commercial lines, with a flexible mandate. They must not compete with the private sector, but rather aim to develop it. Several principles can be identified for setting a mandate: mandate clarity, local relevance, institutional fit, complementarity of funding, flexibility and an appropriate scope.
- Working within a clearly articulated governance and management structure - issues such as the role and independence of the Board, the accountability and capacity of management, the availability and retention of skilled staff, and sound operational, risk and financial management.
- Recruiting and maintaining a balanced skill set - the right mix of staff - including development finance experts with deal-making expertise, development practitioners and people with relevant field experience. A 2017 review of the UK's CDC Group recommended integrating development impact capability within the investment team.²⁹ This would allow commercial assessments with equal consideration of development impact so investment decisions are based upon both. Staff numbers should also be adequate and flexibility (and resources) need to be built in to recruit additional staff as required including those with niche expertise (e.g. technical experts to assess the merits of a telecommunications proposal). An appropriate salary structure is required to attract and retain staff. Adequate financial resources for on-going training and capacity building of staff is key to ensuring that they have up-to-date skills that can meet the changing needs of clients.
- Having a business model framed around financial sustainability - ensuring long-term financial sustainability protecting the government against losses and forces a bank to make better use of scarce financial resources. Offering a full suite of products, services and tools in one place is a preferred model – and would include: (1) direct loans; (2) loan guarantees; (3) risk insurance; (4) seed financing for independently managed investment funds; (5) direct investments including equity; (6) advisory services; (7) feasibility studies; and (8) technical assistance. Learning from experience, the US is looking to consolidate all of these authorities and programs within a single, efficient and market-based institution.
- Ensuring regular performance assessment against the stated mandate - regular assessments against an agreed set of objectives, both financial and social or developmental. Government must also be convinced that it could not have achieved these socially desirable outcomes in another (less

²⁸ Development Bank of South Africa, *A Framework for Successful Development Banks*, Development Planning Division Working paper series no 25, pp. 7-9;

Leo, B. and Moss T., 'Bringing US Development Finance into the 21st Century: Proposal for a Self-Sustaining, Full-Service USDFC', Centre for Global Development (CGD), 2015;

Savoy, C., Carter, P., and Lemma Alberto, 'Development Finance Institutions Come of Age', Centre for Strategic and International Studies (CSIS), 2016;

Siraj, K., 'Development finance institutions (DFIs): Types, role and lessons', presentation to the Finance Forum, Washington, DC, 22–24 September, 2004;

Thorne, J. and du Toit, C., 'A Macro-Framework for Successful Development Banks', *Development Southern Africa* Vol. 26, No. 5, December 2009.

Vervynckt, M., 'Assessing the performance of Development Finance Institutions', Eurodad, 2015,

<https://eurodad.org/Entries/view/1546443/2015/07/01/Assessing-the-performance-of-Development-Finance-Institutions>.

²⁹ CDC Group is the United Kingdom's development finance institution, established in 1948.

expensive) way. M&E systems should serve as accountability tools that enable DFIs to improve their performance and take on board lessons learnt.

Other relevant reports

Adam Smith International, *Gender Equality Advisory Services for Infrastructure Programs Gender Review*, 2016 (<http://dfat.gov.au/about-us/publications/Pages/infrastructure-programs-gender-review.aspx>)

Asian Development Bank, *Meeting Asia's Infrastructure Needs*, 2017.

Asian Development Bank, *Mapping Fragile and Conflict-Affected Situations in Asia and the Pacific*, 2017.

New Zealand Foreign Affairs & Trade, *Infrastructure in the Pacific: Learnings from Completed Investments 2004–2013*, November 2015.

Pacific Region Infrastructure Facility, *Infrastructure Maintenance in the Pacific: Challenging the Build-Neglect-Rebuild Paradigm*, 2013 (<https://www.theprif.org/documents/regional/infrastructure-planning-and-management/infrastructure-maintenance-pacific>).

Other reports on the Pacific Region Infrastructure Facility website (<https://www.theprif.org/documents>)

ANNEX 3: GENDER EQUALITY, DISABILITY, AND SOCIAL INCLUSION

Australia is seen as a global leader on gender equality and disability inclusion. The 2018 OECD DAC Peer Review specifically commended Australia on its strong approach to gender equality. Two Office of Development Effectiveness evaluations into Australia's international advocacy and development assistance on disability rights and inclusion found that Australia's leadership remains credible and effective. Our international advocacy and assistance on gender and disability has earned respect, and given us influence in shaping international discussion of women's and persons with disabilities' rights, and human rights more broadly. Through the Foreign Policy White Paper, DFAT's Gender Equality and Women's Empowerment Strategy (2016), and the Development for All Strategy 2015-2020, Australia pursues gender equality and disability inclusion as core Australian values and top priority across Australia's foreign policy, economic diplomacy and development investments.

The design of the AIFFP provides an important opportunity to do infrastructure differently: with a view to including gender considerations and accessibility for people with disabilities in design, implementation, governance and monitoring, as an explicit component of the facility's intended development impact. We know that water, energy, telecommunications, transport and other areas of economic infrastructure have a differential impact on women and men, especially those with disability.

Women and people with disability are disproportionately affected by inadequate infrastructure, and their different needs are frequently overlooked thus exacerbating exclusion and marginalisation. Operationalising inclusiveness in project preparation can ensure everyone shares in the benefits of infrastructure. Inclusiveness and accessibility are therefore important determinants of quality in infrastructure.

Mainstreaming gender equality, disability and social inclusion (GESI) in infrastructure incorporates interventions that challenge existing gender and social inequities and promote positive changes not only in policies and organisations, but also in gender roles, norms, and power dynamics. This includes consideration of the factors underlying women's relative lack of skills and training, taking women's own viewpoints into direct account, and engaging with processes of change to attitudinal and structural barriers to enable women and people with disabilities to realise their full potential. There is rich experience to date on which DFAT can draw to address GESI concerns in infrastructure, from within the Australian Aid Program, other bilateral donors, multilateral development and financing agencies, and the private sector.

Formulation of objectives and Theory of Change

To maximise the likelihood of good GESI impact, the overarching AIFFP objectives explicitly refer to both quality infrastructure design and delivery, and to the expectation that infrastructure will have defined development impact.

Previous experience in the Australian Aid Program shows that it is important for the Theory of Change to include specific language that translates high-level goals around 'inclusive economic growth' into concrete approaches and objectives. AIFFP's Theory of Change refers to inclusive development potential. When the monitoring and evaluation plans are developed, these will define and count the social benefits from infrastructure, as well as specifying 'infrastructure that meets the needs of women, men, people with disabilities, and vulnerable population groups'.

Design principle 1: Gender Equality, Disability and Social Inclusion acknowledged within the Safeguards Approach

At a minimum Australian aid investments in the infrastructure sector will ensure that women and girls are not disadvantaged and avoid exacerbating gender inequalities. This means designing infrastructure programs to address and measure intended as well as unintended outcomes, especially for vulnerable women and girls in affected communities.

The Do No Harm approach is intended to manage risks to environment, communities, social structures, human rights and reputations, financial, and legal liabilities to the donor and implementing partners. At its core is the principle or threshold that development should have no negative impacts that cannot be mitigated. The approach incorporates consideration of potential negative impacts that are gender-specific or have gender dimensions. One key potential impact is women's and girls' heightened vulnerability to gender-based violence, including sexual harassment, as a result of increased mobility and influx of labourers. Preventing and addressing all forms of violence against women and girls – in line with the Department's commitment to strengthen its approach to Preventing Sexual Exploitation and Abuse and Sexual Harassment – is therefore a key element of the Do No Harm approach.

The **World Bank** has strengthened its efforts to prevent and respond to risks of Gender Based Violence—and particularly sexual exploitation and abuse—that may arise in World Bank-supported projects, particularly those involving major civil works. In line with its commitments under IDA 18, the World Bank has developed an action plan for implementation of the recommendations of its Global Gender Based Violence Task Force, consolidating key actions across institutional priorities linked to enhancing social risk management, strengthening operational systems to enhance accountability, and building staff and client capacity to address risks of GBV through training and guidance materials.
(<http://www.worldbank.org/en/topic/socialdevelopment/brief/violence-against-women-and-girls>)

Design principle 2: A strong GESI focus through community engagement

Beyond a compliance approach to ensure that women, girls, people with disability, and the poorest are not disadvantaged or experience harm, AIFFP will aim to meet both women's and men's distinct infrastructure needs and design infrastructure projects so that they help narrow gender, disability and social inclusion gaps. Wherever possible, the facility will be explicit about development impact from a GESI perspective and mainstream GESI across the project lifecycle.

The AIFFP will seek opportunities to take specific action to identify and address constraints for women and people with disabilities to participate and benefit equally with men and those without disabilities, as leaders, entrepreneurs, workers, and users of infrastructure. The AIFFP will achieve this by consulting with women in affected communities and their organisations, and with Disabled People's Organisations early on during the design, and by engaging closely with them throughout the life of each project. This engagement will go beyond academia, professional associations and (male) community leaders who are the usual interlocutors when governments opt to engage with civil society.

Consulting broadly with specific GESI groups will maximise the likelihood that infrastructure has the support of communities and delivers benefits for all. This will require strengthening women's leadership and participation in infrastructure decision-making (including facility governance processes), in affected communities, in partner organisations, and in managing contractor teams.

Design principle 3: A focus on transformative results for GESI

AIFFP will promote women's economic empowerment, in particular equal access to procurement opportunities, entrepreneurship and decent employment.

Well designed and managed infrastructure development facilitates women's equal roles for example, in benefit sharing arrangements, community engagement, or project management) and empowers women through decent jobs and improved safety. Doing this will improve the impact, sustainability, services and management of projects, and simultaneously contribute to gender equality. It will also minimise and help prevent sexual exploitation, abuse and harassment risks by avoiding the import of workers from overseas to fill labour shortages.

Impacts from infrastructure projects – whether positive or negative – are linked across the sub-sectors. When done in a contextually appropriate way, the introduction of infrastructure such as electricity or

internet can trigger a cycle of benefits, for women's economic participation, reductions in women's unpaid work burden and children's health, etc. The opposite is also true: neglecting gendered needs is likely to reinforce gender gaps, and trigger a cycle of negatives.

Key steps to advancing GESI outcomes under the AIFFP

- ✓ Make GESI an explicit aspect of loan agreements, to avoid it being ignored or under-resourced.
- ✓ Select and prioritise partners with the appropriate mandate and expertise as well as the experience to cover GESI in infrastructure.
- ✓ Help partner governments advance their own gender equality priorities, hold MDBs to account for implementing their gender policies, and encourage private sector partners to adopt and implement gender policies and practices that align with the GESI objectives of the AIFFP.
- ✓ Consider accessibility and universal design in all projects.



ANNEX 4: LIST OF EXTERNAL PARTNERS CONSULTED/BRIEFED DURING THE DESIGN PROCESS

Aid and Development	Foreign Governments
<ul style="list-style-type: none"> • Australia Pacific Training Coalition • Australian Council for International Development • Australian Red Cross • Australian Volunteers International • CARE Australia • CBM Australia • ChildFund Australia • Oxfam Australia • Plan International Australia • Save the Children Australia • TEAR Australia • The Fred Hollows Foundation • World Vision Australia 	<p>Official representatives (including provident funds and public enterprises) from:</p> <ul style="list-style-type: none"> • Cook Islands • Federated States of Micronesia • Fiji • Kiribati • Nauru • Niue • Palau • Papua New Guinea • Republic of the Marshall Islands • Samoa • Solomon Islands • Timor-Leste • Tonga • Tuvalu • Vanuatu <p>And donor consultations with:</p> <ul style="list-style-type: none"> • Canada • European Union • France • Japan • New Zealand • The United States
Representative Organisations	Multilateral Development Institutions
<ul style="list-style-type: none"> • Australia Pacific Business Connections (Australian Business Councils in PNG, Fiji and the Pacific) • Australian Constructors Association • Australian Water Association • Business Council of Australia • Civil Contractors Federation • Clean Energy Council • Engineers Without Borders • Institute of Professional Engineers Tonga • International Development Contractors Community • Pacific Business Council • Pacific Engineering Consultant Group • Pacific Islands Forum • Solomon Islands Chamber of Commerce and Industry • Vanuatu Chamber of Commerce and Industry 	<ul style="list-style-type: none"> • Asian Development Bank • European Investment Bank • Global Infrastructure Facility • Global Green Growth Institute • International Finance Corporation • Pacific Regional Infrastructure Facility • Private Infrastructure Development Group (including GuarantCo) • World Bank
Universities	Think-Tanks
<ul style="list-style-type: none"> • Australian National University • Griffith University 	<ul style="list-style-type: none"> • Australian Institute of International Affairs • Australian Strategic Policy Institute

<ul style="list-style-type: none"> • Royal Melbourne Institute of Technology • University of Adelaide 	<ul style="list-style-type: none"> • Lowy Institute
Commercial entities	
<ul style="list-style-type: none"> • AECOM • ANZ Bank • Ashurst • ATH (Fiji) • Aspen Medical • Azure Water • Balau Submarine Cable Corporation • Bank of South Pacific • BMD Group • Boskalis • Brightlight Group • Bunnings • Canstruct • Cardno • Castalia Strategic Advisors • Coffey • CBP Contractors • CBS Power Solutions • Cerberus • CIMIC Group • Consult Australia • Curtain Brothers • Da Silva Teixeira & Associados - Lawyers • Dentons • Digicel • Downer EDI • DLA Piper • Empower • Entura • Ernst & Young • e-Tech Vanuatu • Fine Foods • FKG Group • Fletcher Royco • Fulton Hogan • GE • GHD • Hall Contracting • Hansen Yuncken • Harmony Gold Mining (Waifi-Golpu JV) • Hawaiki • Hunter H2O • Hydro Fiji • IFM Investors 	<ul style="list-style-type: none"> • International Contractors Association of Korea • Jacobs • KACIFIC • Kina Bank • Kramer Ausenco • Kumul Telikom • Laing O'Rourke Australia • Lend Lease • Macquarie Group • Macquarie Infrastructure • Mayur Resources • McConnell Dowell • Mitsubishi UFJ Financial Group • Mitsui and Co • NAB • NEC Corporation • Nem Australia • New Energy Solar • Nous Group • Nambawan Super & Kina Funds Management • Oil Search • Orion Solar • Pacific Fishing Co • Palladium • Papua New Guinea Power Limited (SOE) • PBD Private Advisory • Pensar • Pernix Group • Power Wells • RPS Group • Silent World • SIMIC • SolTuna • South Sea Shipping • Subcom • Sunergise • Synthesis Global • Telecom Fiji Limited • Telstra • Territory Generation • Timor Resources • Villa World • Vocus • Wagner