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

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



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# Fiji Transport Infrastructure Restoration Project, Fiji

Business Case

Considered by the AIFFP Board on 16 August 2022

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## Key Issues and Recommendations

The Government of Fiji (GoF) has requested financing of up to **USD50.2 million (AUD71.7 million)\***, to support quality and resilient transport infrastructure in Fiji through the financing of civil works contracts of the Fiji Roads Authority (FRA), including the upgrade of nine critical bridges and renewal or reseal of at least 1,500,000 square metres of road surface.

\* Assumed AUD1.00 = USD0.70

### Key Issues

Fiji's economy was severely impacted by COVID-19 and it is now the most indebted country in the Pacific. Debt increased from 38 per cent of GDP pre-pandemic to an estimated 89.4 per cent of GDP at the end of July 2022. With its reliance on tourism (an estimated 40 per cent of GDP), Fiji's economy was one of the worst affected by COVID-19, with real GDP contracting by around 21.3 per cent between 2019 and 2021. Government revenues fell 15 per cent in 2019-20 and 33 per cent in 2020-21, compared to 2018-19. A significant increase in grants from donors helped fill some of the gap between revenues and expenditures during the pandemic, but the net deficit grew to 11.1 per cent of GDP in FY20-21 and is projected to be 13.8 per cent in FY21-22— the highest deficit on record. In its July 2022 budget the Government of Fiji (GoF) projected economic growth of 12.4 per cent in 2022, which is promising. When borders were closed due to the pandemic, remittances were an important stabiliser, growing by 14.6 per cent in 2021, 21.2 per cent in 2022 and are projected at 11 per cent in 2022. Projected 2022 remittances represent around 9.5 per cent of total GDP. Since borders reopened in December 2021, Australians have comprised over 60 per cent of Fiji's total visitor arrivals. Fiji is aiming for 85 per cent of pre-pandemic visitor arrivals by 2023.

Over the past two years Australia provided targeted fiscal support to help bolster Fiji's economy from the impacts of COVID-19, including substantial budget support grants in addition to our Official Development Assistant programs. These grants helped Australia ensure continued work on important long-term fiscal reforms and budget consolidation, and helped fund social protection programs for the most vulnerable. The IMF Debt Sustainability Assessment (DSA) of Fiji's public debt in November 2021 found it to be sustainable, but subject to significant risks.

Given the economic situation, GoF paused borrowings for greenfield infrastructure investments during the pandemic. Instead, Fiji is seeking financing from the AIFFP for existing contracts of the Fiji Roads Authority (FRA) for the upgrade and renewal of bridges and roads. If the road network is not rehabilitated and maintained, the road conditions will deteriorate which leads to increased travel time and costs, reduced safety and potential disconnection of communities due to bridge failures. Climate resilient transport infrastructure is important for economic and social development and the bridges that the AIFFP is proposing to finance have been designed for a 1 in 100-year rainfall event.

Road transport (including bridges and jetties) is the largest single domestically financed infrastructure item in Fiji's budget. GoF currently requires cashflow and the AIFFP financing will be utilised to finance critical infrastructure maintenance and repair works so that scarce GoF funds may be directed to other required spending, such as health and social protection programs. An additional finance source for GoF in a time of severe economic downturn positions Australia as a potential partner, where previously Australia could not offer this financing. This demonstrates Australia's responsiveness to Fiji's needs in a time of stress and builds on Australia's long-term relationship with Fiji.

The contracts to upgrade the bridges and renew the road surface that the AIFFP is proposing to finance are already in progress and currently being financed through GoF funds. The AIFFP financing would reimburse GoF for the funds it has expended. This would be similar to other refinancings that the AIFFP has completed; the only difference being that the works have been self-funded by GoF instead of externally financed.



Disbursements for the AIFFP package will be linked to a set of agreed outcomes (including construction and institutional strengthening activities) and reimbursed based on achievement of those outcomes. This is broadly consistent with the “results-based” or “program for results” lending instruments offered by the multilateral development banks (MDBs). As with results-based lending instruments, financing will also be available for outcomes that are achieved prior to signing of the AIFFP transaction documents. This will enable funds to be disbursed as soon as all conditions precedent are satisfied and provide GoF with early access to funds, which is a priority for GoF. Financing for achievement of prior outcomes (that is, outcomes achieved before loan signing) will be capped at 50 per cent of the total AIFFP package and achievement of outcomes within the 12-month period prior to the AIFFP Board’s approval of the financing.

The GoF have selected to borrow in United States Dollars (USD). Due to the cessation of the publication of the London Interbank Offered Rate (LIBOR), the loan to Fiji will likely be the first AIFFP loan that utilises an alternate reference rate, which is likely to be the Secured Overnight Financing Rate (SOFR).

Additionally, LIBOR is a rate agreed for the accrual of interest over a forward term (i.e. ex-ante), whereas SOFR reflects a daily rate, compounded over a prescribed term (i.e. ex-post). This may pose some challenges for repayment of an AIFFP SOFR-based loan as the interest amount payable by our borrower can only be determined at the end of any given interest period.

During due diligence of the implementation of the project, it was noted that several quarries in Fiji, both private and contractors, are using river pebble for seal aggregates. Softer rock in the seal could cause premature failure in the road surface, as poor shape and rock quality will cause early failure of the seal reducing designed seal life, causing potholes. As the river pebble is coming from several sources, the due diligence process was unable to confirm which roads it was being used on. Further assessments will be undertaken to determine whether use of the river pebble has led to road failures and if roads sealed with river pebble are identifiable so that such works can be excluded from financing if required. While FRA could instruct contractors to not use river pebble for the production of seal aggregates for future works, a **High** risk for premature road failure remains in relation to the works already completed. With insufficient aggregate supply available in Fiji, if river pebble is excluded from use in road seals, seal aggregate would need to be imported, significantly increasing the upfront cost of future road renewals and the works for this project. On a constrained budget, such a cost increase could lead to abandonment of the program and further deterioration of the road surface.

## Key Risks

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

RISK	MITIGATION
<b>Debt sustainability</b> – Fiji’s debt is sustainable, but subject to significant risks (IMF, November 2021)	The loan provided to Fiji does not significantly increase Fiji’s debt stock and the AIFFP financing package, which includes a grant of approximately 20 per cent of the package, is concessional. Fiji’s debt sustainability will be consistently monitored to ensure serviceability of the loan. Fiji’s economic growth projections are a positive sign for decreasing Fiji’s debt to GDP ratio.
<b>Reputational</b> – potential criticism for providing additional lending to a highly-indebted country	Correct perception through communications around the nature of the package (inclusion of grant funds for concessionality) and the social economic benefits of road transport investments and the focus of the AIFFP financing for local contractors.
<b>Premature road failure</b> – use of river pebble for seal aggregate.	Additional testing of aggregate and enhanced monitoring of road surface to promptly identify any premature road failures so that they

RISK	MITIGATION
<i>Potential reputational risk if associated with AIFFP financing</i>	can be immediately rectified by FRA to prevent premature deterioration of the road pavement.

Endorsement of the AIFFP financing package will demonstrate Australia's continued commitment to supporting Fiji's economic recovery, building on Australia's extensive engagement with the GoF to support and help manage the health and economic impacts of COVID-19 over the past two years. The loan will also demonstrate to the GoF the value in ensuring quality contractor outcomes with high levels of local contractor participation, which is part of the AIFFP's mandate.

**We recommend that the Board endorses:**

A financing package of **USD50.2 million (AUD71.7 million)** comprising **USD40 million** of loan and **USD10.2 million** of grant (exclusive of GST) for the Republic of Fiji to finance quality and resilient transport infrastructure in Fiji.

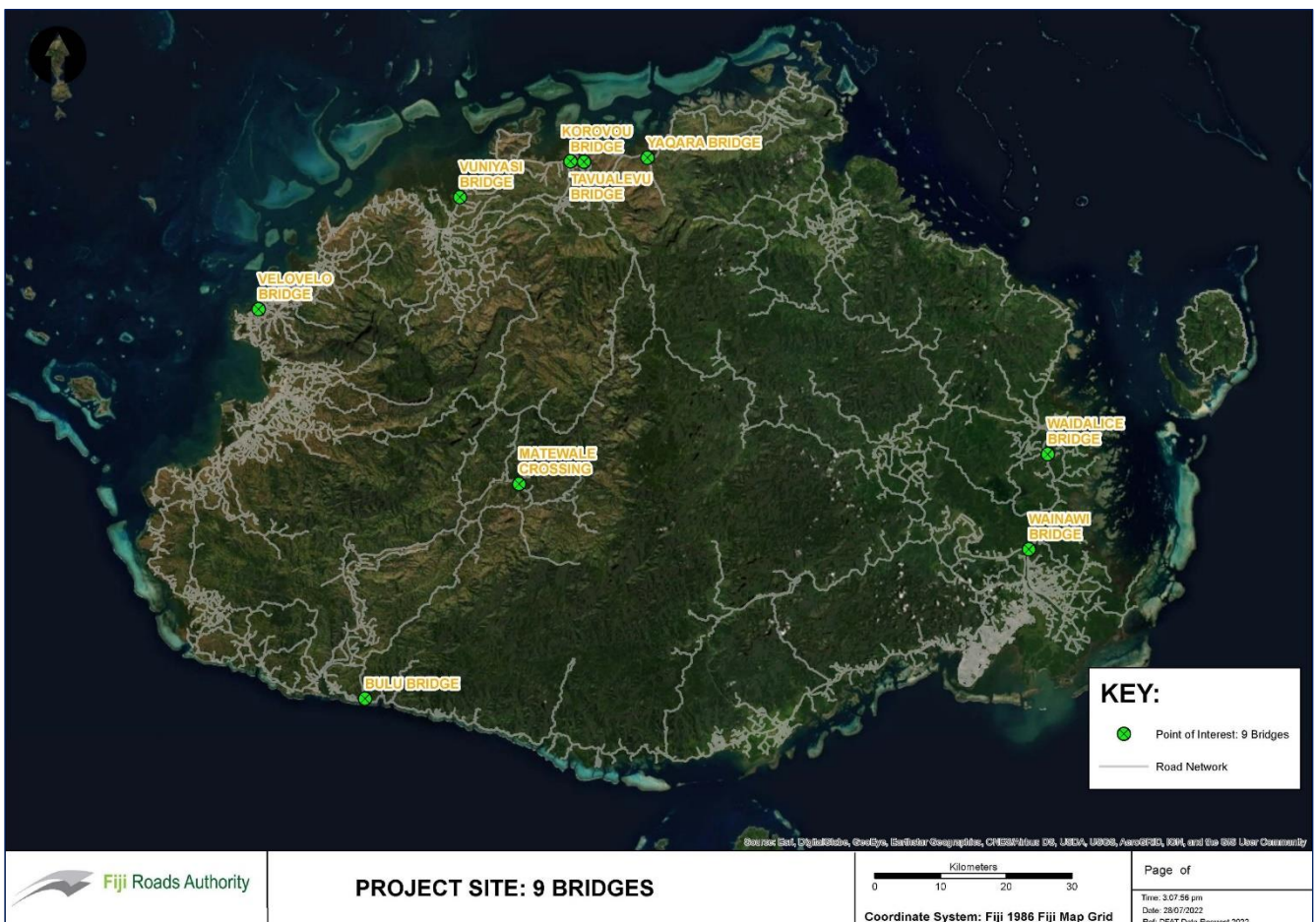
# Project Overview

INVESTMENT DETAILS					
<b>Investment Objective</b>	To support quality and resilient transport infrastructure in Fiji through the financing of civil works contracts of the Fiji Roads Authority (FRA) to upgrade nine critical bridges and renew or reseal 1,500,000 square metres of road surface.				
<b>Investment Benefits</b>	Investment benefits include: <ul style="list-style-type: none"> <li>Improved road conditions in project localities</li> <li>Improved local contractor capacity to perform sustainable, long term maintenance</li> <li>FRA further strengthened to support sound road renewals and upgrade practices</li> <li>Bridge repair and maintenance contracts support gender equality, disability and social inclusion (GEDSI), quality and local labour principles</li> <li>Key safeguards and transparency policies in place</li> </ul>				
<b>Geographic Location</b>	Fiji				
<b>Borrower</b>	Republic of Fiji				
<b>Proponent</b>	Fiji Roads Authority (FRA)				
<b>Debt Sustainability</b>	Sustainable, but subject to significant risks				
FINANCIAL OVERVIEW					
<b>Finance Arrangement /Eligibility</b>	Concessional loan and grant package				
<b>Total Project Value</b>	USD50.18 million				
<b>Proposed AIFFP Investment</b>	<b>Total Amount</b>	USD50.18 million (AUD71.68 million)			
	<b>Loan</b>	USD40.00 million (AUD57.14 million)			
	<b>Grant</b>	USD10.18 million (AUD14.54 million)			
<b>Proposed Execution Date</b>	Q3/Q4 2022				
RISK ASSESSMENT*					
<b>Risk Category</b>	<b>Reputational</b>	<b>Country</b>	<b>Financial</b>	<b>Compliance</b>	<b>Implementation</b>
<b>DFAT Category Risks</b>	Moderate	High	High	Low	Moderate
<b>DFAT Risk Weighting</b>	20%	15%	15%	30%	20%
<b>Overall DFAT Risk Rating</b>	Moderate				

## Project Description and Background

1. The Fiji Roads Authority (FRA) is a statutory authority established under the Fiji Roads Authority Act 2012. It is responsible for Fiji's most valuable built asset – its network of roads, bridges and jetties, with latest estimates of a collective value at FJD11 billion. FRA manages a total of 6,438 kms of roads, 1,389 bridges and 28 jetties and 8 landings. FRA emphasises the need to pro-actively maintain and preserve the life of all assets under its management, thereby delaying the depreciation of its asset base. The upgrade, renewal and maintenance of FRA's asset base represents the largest component of Fiji's annual budget, with the allocation for FY22-23 being FJD376.7 million. FRA does not generate a revenue stream from its asset base.
2. The Fiji Transport Infrastructure Restoration Project and budget for the AIFFP financing includes six key proposed scope items, as summarised in **Error! Reference source not found.**, which were priorities through FRA's budgeting process from FY21-22 and FY22-23. The project finances contracts for the upgrade and renewal of existing bridges and roads in Fiji, the majority of which have already been entered into by FRA, with works already in progress.
3. The AIFFP financing will be provided to GoF, which appropriates funds to the FRA for project implementation. All of FRA's funding is sourced through GoF or in-kind contributions from donors.
4. A map of the location of the bridges covered by the AIFFP financing is shown in **Figure 1**.

**Figure 1: Map of bridges financed by the AIFFP**





## Key Considerations

5. This is the AIFFP's first fast-disbursing and outcomes based financing package, which is similar to the MDBs' "results-based" lending instruments. Disbursements will be linked to an agreed set of Disbursement-Linked Indicators (DLIs), including a portion of disbursements (not more than 50 per cent of the total AIFFP package) for prior actions.
6. As the contracts that will be financed by the AIFFP are already in place, the AIFFP engaged the AIFFP Support Unit to conduct independent due diligence on the procurement process for the contracts, FRA, the contractors and the current implementation of the contracts (to date) to assess the adequacy of FRA's systems and the project's implementation for the AIFFP financing. FRA's systems were found to be materially compliant and any identified moderate or high risks are highlighted in this paper.

## Strategic Assessment and Rationale for AIFFP Involvement

7. The project meets the AIFFP's investment mandate and strategic goals in the region.

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

8. Fiji is within the AIFFP's geographic mandate and Australia's relationship with Fiji is strong, rebuilt by successive governments since the 2006 coup. The 2019 Fiji-Australia *Vuvale* Partnership is popular in Fiji and provides a pathway to deeper security, economic and people-to-people links. We have a strong foundation from which to build and expand our partnership with Fiji.

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

9. Fijians are emerging from a tough couple of years. COVID-19 was the worst crisis Fiji has faced since Independence. Fiji has also had to deal with three cyclones in the last two years, causing hundreds of millions of dollars in damage to infrastructure and livelihoods. GoF's COVID-19 response, with extensive support from Australia, has positively positioned Fiji for economic recovery.
10. Road maintenance investments have been proven to generate strong economic rates of return. Road maintenance is also labour intensive and can be especially effective in encouraging employment, which will be a critical element of a post-COVID economic stimulus. Additionally, a high proportion of bridge assets in Fiji are at the end of their service life and in urgent need of refurbishment and replacement. Supporting FRA's bridge program will ensure the road network remains connected, and continues to provide critical access to socioeconomic opportunities for Fijians.

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

11. The upgraded bridges have been designed to a 100-year design life, with the impacts of climate change factored into the designs. An enhanced approach to climate change resonates strongly in Fiji, and reflects new Australian Government priorities to support enhanced climate action in our region.
12. The AIFFP financing will only be utilised to fund quality or local contractors. This could demonstrate the importance of ensuring quality procurement outcomes, including for future domestically funded transport infrastructure investments in Fiji.

## Debt Sustainability Assessment

13. Fiji's economy has been one of the world's most affected by the COVID-19 pandemic, in terms of both the extent of infections experienced in the outbreak as well as the economic impact arising from the policy responses to the pandemic, in particular the closure of borders. Between 2019 and 2021, real GDP contracted by around 21.3 per cent, driven by the collapse in international tourism. The fiscal impacts have been profound: the resulting decline in revenues, the introduction – and expansion – of a significant recovery package, and the GoF's determination to sustain key social expenditures, have combined to create an unprecedented fiscal deficit and associated government borrowing.
14. While the tools built into both debt sustainability frameworks are useful, assessments of risk of debt distress have to be nuanced around Fiji's particular circumstances, as the recent IMF DSA demonstrates.

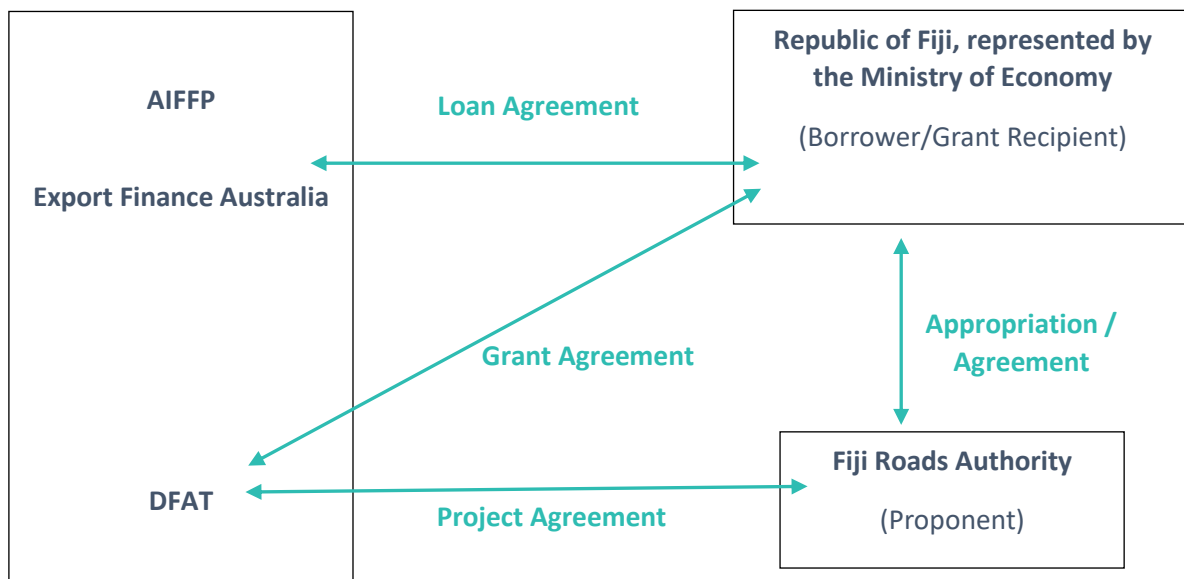
## Financial Overview

### Investment Capital Structure

15. The overall approved financing package (including the proposed blend of grant and loan funds) will be provided to the Ministry of Economy, representing the Republic of Fiji as the borrower and grant recipient. Funds will be provided from GoF to FRA through a separate mechanism and the AIFFP will enter into a project agreement with the FRA as the project proponent and implementing entity. The proposed project structure is shown in Figure 2 and the anticipated sources of funds and breakdown of estimated costs for the project are shown in

16. Table 1 and **Error! Reference source not found.** respectively.

**Figure 2: Proposed project structure**



**Table 1: Anticipated sources of funds**

SOURCES	USD (m) <sup>1</sup>	AUD (m)	%
AIFFP Loan	40.0	57.1	46.2%
AIFFP Grant	10.2	14.5	11.8%
AIFFP in-kind grant	0.8	1.1	0.9%
Government of Fiji <sup>2</sup>	35.6	50.9	41.2%
<b>TOTAL</b>	<b>86.6</b>	<b>123.7</b>	<b>100.0%</b>

<sup>1</sup> Assumed AUD1.00 = USD0.70

<sup>2</sup> The Government of Fiji's contribution includes land acquisition costs, applicable taxes and the cost of works completed outside of the period covered by the AIFFP financing.

## AIFFP Financing Package

17. In the past, the AIFFP has used LIBOR as the reference rate for floating rate USD sovereign loans. The United Kingdom's Financial Conduct Authority announced in March 2021 the dates on which LIBOR rates would either cease to be published or deemed non-representative, effectively ending LIBOR's usefulness as a reference rate. SOFR has been selected as the replacement reference rate for USD denominated loans. LIBOR and SOFR are not equivalent benchmarks: LIBOR reflects pricing on credit-based debt instruments; SOFR reflects pricing on secured debt instruments and therefore does not include a credit component.
18. As noted earlier, despite the move from LIBOR to SOFR, the AIFFP's comparability to the loans of the MDBs remains the same – roughly the same as IBRD and more expensive than ADB OCR. The all-in rates are dependent on the current 6month LIBOR and daily SOFR, noting that LIBOR is a forward looking rate and includes a credit margin. In some periods the SOFR-based loan will be above the LIBOR-based loans, and vice-versa. In practice, over the loan term, the difference in cost between a SOFR-based loan and a LIBOR-based loan should be minimal.

## AIFFP Financing Terms

The terms requested by GoF for the AIFFP financing package are set out in

19. **Table 2.** The exact loan terms may vary during formal negotiations. Loan terms will be consistent with the endorsed pricing structure for the AIFFP's sovereign loans. The margin will be determined by the WATM of the loan and the prevailing floating margin applied by the IBRD at the time of signing of the loan agreement. GoF has requested loan funds in USD, therefore a floating interest rate based on a margin to SOFR will be utilised given the transition away from LIBOR.

### **AIFFP Financing Package**

20. Funding will be disbursed based on achievement of the Disbursement-Linked Indicators (DLIs) using the reimbursement method. Contractors will be paid by FRA for works completed. Once completion of DLIs have been verified, the AIFFP financing package will be disbursed to GoF.



Table 2: Indicative terms for the AIFFP financing package

KEY FINANCIAL TERMS	
Loan Amount (Principal)	USD40,000,000 or equivalent in AUD
Grant Amount	USD10,150,000 or equivalent in AUD
Currency Denomination	USD or AUD
Term (including Grace Period)	15
Grace Period	3 years
Availability Period	3 years
Facility	Direct Loan
Interest Rate	Reference rate + 1.09% <sup>1</sup>
Reference Rate	SOFR

<sup>1</sup> Margin may vary in line with changes to margins of IBRD and is subject to the cost of funds of EFA as the AIFFP's lender of record.

## Investment Quality and Impact

21. The project contributes to Sustainable Development Goal 9 (Resilient Infrastructure) by strengthening Fiji's ability to withstand, adapt to changing conditions, and recover positively from shocks and stresses.
22. **COVID-19 recovery:** Road construction and maintenance is labour intensive and can be especially effective in encouraging employment, which will be a critical element of a post-COVID economic stimulus.
23. **Improved economic activity:** Road investments have been shown to generate strong economic rates of return. Better road conditions from road investment activities result in lower costs of transport, reduced travel times, improved access, and better reliability. This in turn leads to lower cost of doing business, increased economic inflows, access to a greater number of markets and potentially increased formal employment opportunities.
24. Under a baseline scenario using a discount rate of 6 per cent, the overall project has an economic net present value (ENPV) of USD 247,515,498. The bridge investment generates an economic internal rate of return (EIRR) of 87.6 per cent and the cost-benefit analysis yields a benefit-cost ratio (BCR) of 5.34, in other words for each USD1.00 invested, benefits of USD5.34 are generated. For the road renewal investment, the EIRR is 11.6 per cent and the BCR is 1.47.
25. The bridge assets that were rehabilitated or replaced as part of the project were at the end of their service life and in urgent need of refurbishment and replacement. Supporting the restoration of these critical bridges will ensure the road network remains connected, and continues to provide critical access to socioeconomic opportunities for Fijians. If left unmaintained, the condition of these key national economic corridors will deteriorate, resulting in increased time and cost to travel, and communities will eventually become disconnected.
26. **Improved local labour and employment:** The road renewal contracts are all locally registered contractors with the majority of workers being local Fijians. In order to deepen the local-contractor pool and also strengthen national skills, the AIFFP is working with the Australia Pacific Training Coalition (APTC) to help FRA develop relevant skills and qualifications. An OH&S white card program is being piloted in Fiji, and discussions are ongoing to include FRA staff in the program.

27. **Climate change and disaster resilience:** The catchment areas for each bridge have been considered at the time of design and historical rain data was provided by the Fiji Metrological Services. Hydraulic modelling was undertaken by Aurecon and was carried out using HEC-RAS, which is widely accepted as being the industry standard for assessing hydraulic performance of bridges. The soffit levels of the bridges have been designed to remain operational with a 100-year rainfall event and in some cases were specified by FRA in the initial brief. Evidence of climate change considerations is also visible in terms of scour protection around bridge foundations, which is generally mitigated by the provision of riprap for which the design has been based around a 100-year rainfall event.
28. **Gender equality, disability and social inclusion (GEDSI):** FRA has been highly responsive to gender mainstreaming requirements as part of donor-funded projects. Analysis of FRA documents and policies indicates that GEDSI considerations have been integrated into FRA's corporate processes, planning and procedures. It is also evident that there is a clear corporate policy commitment towards equality and inclusivity, both within FRA as an organisation as well as more broadly within the sector.
29. Existing work, particularly under the ADB/World Bank Transport Infrastructure Investment Sector Project (TIISP), has assisted FRA in identifying and responding to key gender risks and opportunities in the sector. The Gender Action Plan (GAP) developed as part of the ADB/World Bank's TIISP includes objectives pertaining to FRA's corporate practices and institutional strengthening, as well as at the project level, where FRA commits to road safety design measures, to remove physical barriers to, and constraints on, access by women and children, and measures to enhance women pedestrian safety such as guardrails and footpaths. FRA also aims to ensure a minimum of 20 per cent women's employment in labour-based work during construction. There are challenges with the implementation of the TIISP GAP, including increasing women's participation in labour-based work, provision of gender training to FRA staff and collection of sex disaggregated data.
30. Consultations indicated that there is momentum and appetite within FRA for the development of an internal, organisation-wide, gender mainstreaming strategy. The AIFFP will work with the ADB and the World Bank to coordinate resources to promote gender mainstreaming within FRA with a view to increasing women's employment in the construction sector.
31. **Other impacts:** Other social benefits of roads investments include:
- (i) improved travel for short distance non-motorised traffic;
  - (ii) improved safety of two-lane bridges with footpaths for non-motorised vehicles and pedestrians;
  - (iii) improved reliability of rural bridges, promoting greater agricultural production; and
  - (iv) less damming upstream because of higher level bridges, reducing crop and flood damage.

## Environmental, Social and Governance

32. The AIFFP's loans require compliance with DFAT's and EFA's safeguards policies, and must align with international lender standards including the Equator Principles and International Finance Corporation (IFC) Performance Standards (PS). An Independent Environmental and Social Consultant (IESC) was engaged to review project documents and the environment and social management framework (ESMF) for both the bridge and road renewal investments to determine compliance. The IESC determined that the project is materially compliant with DFAT and EFA's safeguards policies, and categorised both road and bridge projects as Category B (Moderate) under the Equator Principles. This means that potential adverse environment and social risks and impacts are not significant, are time and space limited, site-specific, reversible, and readily addressed through standard mitigation measures.

## Environmental Safeguards & Governance

33. The works planned under the bridge upgrade investment will be taking place within areas subject to past clearing and disturbance. The bridge upgrades are generally within the current footprint, with disturbance limited to the bridge approach, embankment works and some in-stream works such as piling. No significant environmental concerns were identified as part of the Environment Impact Assessment (EIA) process. Environmental and social risks are readily managed through the implementation of industry standard management practices, such as those for hazardous materials management, waste and general construction related impacts.
34. Environmental Impact Statements, and associated permits are in place for each bridge. A Construction Environment and Social Management Plan (C-ESMP) has also been prepared by the head contractor and evidence of the implementation of this and ongoing monitoring by FRA was reviewed. The level of environment and social assessment undertaken and associated management oversight, meets the expectations of Fijian legal requirements and also the expectations of the IFC PS and DFAT environment and social safeguards.
35. The road renewal investment also has limited environment and social risks, given these works will occur along existing road corridors. Environmental and social risks are readily managed through the implementation of industry standard management practices, such as those for hazardous materials management, waste and general construction related impacts.

## Social Safeguards & Governance

36. As noted above, no significant social safeguards risks were identified.
37. Detailed engagement with FRA occurred to understand FRA's corporate approach to safeguards, such as Child Protection and Prevention of Sexual Abuse Exploitation and Harassment (PSEAH). A grievance redress mechanism has been outlined in contract documents and evidence of its implementation was observed. Personnel have been appointed to establish a Grievance Register, document complaints received and facilitate resolution. Unresolved grievances must be forwarded to the project manager and included in the monthly environmental management auditing report.
38. **Child Protection:** Residual risks to children and vulnerable groups under the project are assessed to be **Low-Moderate**. The AIFFP Risk and Safeguards screening process included the completion of the DFAT Guidance for Establishing the Child Protection Risk Context checklist. The review indicated that the road and bridge projects under consideration are not 'directly working with children', and so the mitigation measures in the Child Protection Policy do not apply. The project will follow Fiji's labour laws which prohibit the use of child labour for children under 15 years of age. While not necessary for adherence to the DFAT standards, the AIFFP has begun discussions with FRA to develop a specific policy on child protection and modern slavery that will commit FRA's contractors to ensure that no child labour, forced labour and other types of exploitative labour will be utilised by its contractors when implementing the project.
39. **Prevention of Sexual Exploitation, Abuse and Harassment (PSEAH):** Due to the limited infrastructure construction and ability to mitigate issues through contractor compliance, the PSEAH risk-rating is considered **Low**. To ensure future compliance with DFAT's PSEAH Policy, the project will seek to scale up existing gender mainstreaming within FRA as noted above and the transaction documents will require FRA and contractors to comply with DFAT's PSEAH Policy.
40. **Modern Slavery:** Project due diligence left unclear the ways FRA operationalises Fiji's numerous domestic laws related to the prohibition of modern slavery. Given the relatively robust legal framework in Fiji, the reputable nature of the organisations involved balanced against some evidence of forced labour in the construction industry among migrant workers and the absence of any explicit documentation to monitor and evaluate the practice of modern slavery, the risk of modern slavery taking place is considered **Moderate**. The AIFFP will discuss with FRA further strengthening of its policies with respect to modern slavery.

41. **Displacement and Resettlement:** Residual risks associated with displacement and resettlement are assessed to be **Low**. The project did not require any resettlement or physical displacement as the majority of the project took place within the existing road corridor.
42. A grievance redress mechanism has been outlined in contract documents and evidence of its implementation was observed. Personnel have been appointed to establish a Grievance Register, document complaints received and facilitate resolution. Unresolved grievances must be forwarded to the project manager and included in the monthly environmental management auditing report.

## Procurement Approach

43. Procurement of the project contracts has been conducted through FRA's systems. FRA's procurement system was reviewed during the due diligence process and it was generally found to be a robust and comprehensive procurement system which satisfies the AIFFP's requirements reflecting the AIFFP's core values of value for money, transparency, integrity, openness and fairness. Some information for the procurement capacity assessment is yet to be provided, therefore the risk associated with using FRA's procurement procedure is currently **Low-Moderate**.

## Project Implementation

44. FRA is implementing the project and contracts are already in place and in progress. For the project contracts, FRA has not set up a standalone project management unit. Instead, the contracts are managed through FRA's standard processes with a responsible engineer allocated to the contract (e.g. bridges contract) or an area (e.g. for the road renewal contracts). As part of the due diligence process, the AIFFP Support Unit assessed the current implementation of the project contracts against the AIFFP's requirements. Implementation to date was found to be materially compliant with the AIFFP's requirements, except for the identified aggregate issue.
45. FRA does not currently have a maintenance intervention levels process and relies upon the experience of its engineers to determine the intervention required for road maintenance. This is a **Moderate** implementation risk as road intervention levels could vary without logical explanation across the network. The AIFFP is working with FRA to develop some standard road maintenance procedures.
46. Disbursements for the project will be linked to outcomes and the DLIs.
47. For the bridge works, disbursements will reimburse GoF on the agreed milestones after payments are made to the contractor. While FRA did not arrange for a comprehensive external peer review of the bridge designs, they were peer reviewed internally by Aurecon and the AIFFP Support Unit has reviewed the bridge designs and found them to be adequate. Importantly, the design is fit for purpose, value for money and incorporates climate change and natural disaster considerations.
48. For the road renewal indicator, completion of works will be verified by reviewing payment claims and completion certificates along with periodic site visits by an engineer engaged by the AIFFP.
49. Grant funds have been allocated for the AIFFP to engage an engineer to assist with verification of the disbursements associated with the capital works and to monitor environmental and social safeguards.
50. Disbursements have also been linked to the development and implementation of policies to strengthen FRA's internal policies and support sound road maintenance practices:
- (i) The project includes the development of standard procedures for road maintenance for FRA. This will document and standardise the process for road maintenance within FRA to ensure consistency across the organisation and the road network. Additional grant funding has been allocated for technical assistance to assist with the drafting of these standard procedures.

- (ii) A disbursement will be linked to the approval by the FRA Board and implementation of a new whistle-blower policy. This includes training for all staff on the new policy and will improve transparency within the organisation.
- (iii) A disbursement will also be linked to gender mainstreaming efforts by the FRA and technical assistance will likely be provided to assist with training of staff.
- (iv) Additionally, the project will link a disbursement to OH&S training for FRA field staff and contractors to improve safety and awareness within FRA in conjunction with APTC.

51. FRA allocates approximately 10 per cent of its budget to ongoing maintenance of its assets.

## Key Risks

52. The AIFFP assessed the project to have an overall risk rating of **Moderate**. A summary of residual risk ratings across each category is provided in **Table 3**.

**Table 3: Residual risk assessment**

RISK CATEGORY	Reputational	Country	Financial	Compliance	Implementation
DFAT Category Risks	Moderate	High	High	Low	Moderate
DFAT Risk Weighting	20%	15%	15%	30%	20%
Overall DFAT Risk Rating	Moderate				

### Reputational Risk

53. There is Moderate residual reputational risk.

### Compliance Risk

54. There is **Moderate** residual risk in relation to child protection and modern slavery.

### Implementation Risk

55. There is **High** residual risk with the use of river pebble in aggregate seals.

## Proponent Due Diligence

56. DFAT due diligence was conducted on the FRA by the AIFFP Support Unit. There is an overall **Low** risk associated with the FRA.

## Monitoring & Evaluation

57. A draft Monitoring and Evaluation Plan (M&E Plan), including an M&E Results Framework, has been developed for the project. The M&E Plan will be reviewed annually by the AIFFP and will be updated as required in consultation with FRA.

58. **Table 4** sets out the program logic from the draft M&E Plan.

59. FRA will be required to provide quarterly progress reports to the AIFFP. The AIFFP will conduct semi-annual field visits to review project progress and support monitoring and evaluation against the M&E Results Framework. The AIFFP is exploring options for staff resources to be based in Fiji, which will strengthen its field presence and support project oversight.

60. Upon completion of the project, FRA will be required to submit an investment completion report. The AIFFP will also commission an independent evaluation of the investment, within three years after project completion. The findings of the M&E activities will feed into the AIFFP's annual reporting and DFAT's performance and quality reporting (including the final investment monitoring report (FIMR)) and may be included in the AIFFP or broader DFAT media and communication products. Quality M&E at this scale will position the AIFFP well for future investments and demonstrates that the AIFFP can deliver sovereign loans in Fiji.



61. Grant funds have been allocated for M&E for the project and include assisting FRA with data collection.

**Table 4: Program logic**

<b>High Level Goal</b>	Quality and resilient transport infrastructure enabling improved access to markets, health and education opportunities and services		
<b>Investment Objective (Direct outcome of the AIFFP investment)</b>	Improved road conditions in project localities	Improved local contractor capacity to perform sustainable, long term maintenance	Fiji Roads Authority further strengthened to support sound road renewals and upgrade practice
<b>Outputs of the AIFFP Investment</b>	Nine critical bridges repaired and 1,500,000 square metres of roads renewed or resealed	Bridge repair and maintenance contracts support GEDSI, quality and local labour principles	Key safeguards, transparency policies and enhanced OH&S training in place
<b>Immediate Activities</b>	Civil works contracts financed and supported by quality management systems, adequately trained staff and good monitoring system for implementing quality control.		
<b>Principles</b>	Investment aligns with the AIFFP cross-cutting principles of local content, quality outputs and climate resilience in addition to those of gender, equality, disability and social inclusion (GEDSI)		

## Key Project Milestones

KEY MILESTONES	
<b>16 August 2022</b>	AIFFP Board date
<b>25 August 2022</b>	EFA Board date
<b>September 2022</b>	Australian Government approval
<b>Q3/Q4 2022</b>	Execution of transaction documents