Australian Government
Department of Foreign Affairs and Trade

AUSTRALIAN INFRASTRUCTURE FINANCING FACILITY FOR THE PACIFIC (AIFFP)

Investment Design Title: Australian Infrastructure Financing Facility for the Pacific
Start date: Facility commenced 1 July 2019
End date: Enduring facility
Total proposed DFAT funding: AUD4.55 billion – AUD1.55 billion in grants, AUD3 billion in loans
Total proposed funding from all donor/s: AUD4.55 billion
Current program fund annual allocation: Varies per year (currently ranges from 65 to 140 million per annum)
AidWorks investment number: AIF Program Fund
Risk: Medium
Value: High
Concept approved by: N/A – Design Update ADAPt Pathway utilised
Concept endorsed by DPC: N/A – Design Update ADAPt Pathway utilised
Quality Assurance completed: Peer review meeting held 21 January 2026; DPC meeting 19 March 2026
Approval: Delegate at Post: Not applicable
Delegate in Canberra: Elizabeth Peak, Deputy Secretary, Head of the Office of the Pacific

ACRONYMS AND ABBREVIATIONS

Acronym	Description
ADB	Asian Development Bank
AIB	AIFFP Investment Branch
AIFFP	Australian Infrastructure Financing Facility for the Pacific
AOB	AIFFP Operations Branch
AQB	AIFFP Quality Branch
CP	Child Protection
CSOs	Civil society organisations
DAC	Development Assistance Committee (OECD)
EFA	Export Finance Australia
EFO	Enduring Facility Outcome
ERC	Expenditure Review Committee of Cabinet
E&S	Environmental and Social
ESIA	Environmental and Social Impact Assessment
ESIP	Economic and Social Infrastructure Program
ESMP	Environmental and Social Management Plan
ESSP	DFAT's Environmental and Social Safeguard Policy
FTE	Full-time Equivalent
GAP	GEDSI Action Plan
GDP	Gross Domestic Product
GEDSI	Gender Equality, Disability Equity, and Social Inclusion
GRM	Grievance Redress Mechanism
IDPG	International Development Programming Guide
IFC	International Finance Corporation
IMF	International Monetary Fund
IMR	Investment Monitoring Reporting
IO	Intermediate Outcome
JPMO	Joint Program Management Office
KEQs	Key evaluation questions
LCIP	Local Content and Industry Participation
LCIPP	Local Content and Industry Participation Plan
MDB	Multilateral Development Bank
MEL	Monitoring, Evaluation and Learning
MIS	Management Information System
NAP	National Adaptation Plan
NDC	Nationally Determined Contributions
NIIP	National Infrastructure Investment Plans
NSC	National Security Committee
OECD	Organisation for Economic Co-operation and Development
ODA	Official Development Assistance
O&M	Operations and Maintenance
OPD	Organisations of People with Disability
OTP	Office of the Pacific

Acronym	Description
PAF	Performance Assessment Framework
PASP	Pacific Australia Skills Program
PCIFP	Pacific Climate Infrastructure Financing Partnership
PDF	Pacific Disability Forum
PMSC	Project Management and Supervision Consultant
PMU	Project Management Unit
PNGPCL	PNG Ports Corporation Ltd
PQIP	Pacific Quality Infrastructure Principles
PRIF	Pacific Regional Infrastructure Facility
PSEAH	Protection from Sexual Exploitation Abuse and Harassment
PTL	Pacific and Timor-Leste
RAS	AIFFP Risk Appetite and Tolerances Statement
SEAH	Sexual Exploitation, Abuse, and Harassment
SOE	State-Owned Enterprise
SOPs	Standard Operating Procedures
SPREP	The Secretariat of the Pacific Regional Environment Programme
TA	Technical Assistance
TSSP	PNG Transport Sector Support Program

TABLE OF CONTENTS

Acronyms and Abbreviations 2

A. Executive Summary 5

B. Development Context and Situational Analysis (What problem are we addressing?) 6

C. Strategic Intent and Rationale (Why?) 9

D. Proposed Outcomes and Investment Options (What?) 11

E. Governance, Implementation Arrangements and Delivery Approach (How will DFAT engage?) 19

F. Monitoring, Evaluation and Learning (MEL) (How will DFAT measure performance?) 24

G. Climate and Disaster Resilience, Local Participation, Gender Equality, Disability Equity and Inclusion, Sustainability, Incentivising the Private Sector, and Other Cross-Cutting Issues 31

H. Budget and Resources (What will it cost?) 39

I. Procurement and Partnering 39

J. Risk Management and Safeguards (What might go wrong?) 41

A. Executive Summary

Supporting quality, strategic, and climate-resilient infrastructure advances Australia's support of a peaceful, stable and prosperous Pacific and Timor-Leste and is a priority for the Australian Government. Infrastructure is the backbone of economic and social development. Infrastructure needs across the Pacific and Timor-Leste are, proportionately, among the highest in the world, reflecting the challenging topography, vulnerability of many countries in the region to extreme weather, seismological events and climate change, and diseconomies of scale across small and remote communities.

The AIFFP was established on 1 July 2019 to directly finance quality economic infrastructure projects in the Pacific and Timor-Leste through loans, official development assistance (ODA) grants, or a combination of the two. Originally established as a AUD2 billion facility (with loans up to AUD1.5 billion and AUD500 million of ODA), demand for infrastructure financing in the region led to a doubling of the facility's limit in 2022 to AUD4 billion (AUD3 billion lending capacity and AUD1 billion in ODA). As announced in January 2026, the Government agreed to further increase the AIFFP's financing authority to AUD4.55 billion (AUD3 billion lending capacity and AUD1.55 billion in ODA) with a further $550 million in grant funding from 2026-27. Within these parameters, and in light of contextual, operational and programmatic changes since 2019, this design review and update focuses on ensuring the AIFFP's facility logic and approach remains appropriate.

As of 2025, the AIFFP has committed AUD2 billion in project financing across the region, including for project feasibility studies, design, implementation support, oversight, and management of the facility. The AIFFP is one of the largest financiers in the region and the largest bilateral infrastructure lender. The AIFFP has become the largest single financier for maritime and telecommunications investments, and provides significant financing for airports, land transport and renewable energy. It also finances climate adaptation and mitigation, including through the AUD350 million Pacific Climate Infrastructure Financing Partnership (PCIFP).

There continues to be strong demand across the region for infrastructure lending, with new borrowing for infrastructure by Pacific Governments averaging over USD600 million[1] annually over the past 5 years, slightly higher than when the AIFFP was established. At the same time, debt dynamics, exacerbated by COVID-19 economic impacts, mean some Pacific countries have little or no capacity to borrow. Even those countries which continue to borrow are increasingly doing so only when they can access highly concessional terms. Australian Government agreement in 2022 to allow the AIFFP to offer highly concessional loans on a case-by-case basis is an important new capability; and will be critical for the AIFFP in an environment where Pacific countries have multiple options for borrowing.

AIFFP Facility Logic

As the AIFFP evolves, this design update proposes that:

(i) The AIFFP's goal is 'Stronger Pacific and Timor-Leste relationships with Australia that advance shared national interests and respond to Pacific and Timor-Leste priorities'.

(ii) The AIFFP's objective is 'to partner with the Pacific and Timor-Leste to finance and deliver strategic infrastructure that drives economic and social development in their communities'.

(iii) Two high-level Enduring Facility Outcomes (EFOs) contribute to deliver this objective:
   a. Pacific and Timor-Leste (PTL) partners and people increasingly have access to sustainable quality infrastructure assets financed by the AIFFP in priority sectors; and
   b. The AIFFP and PTL partners optimise local content and equity benefits, and mitigate the risks from infrastructure development for local communities.

The proposed AIFFP Logic reflects overall priorities set out by Pacific Leaders in the 2050 Strategy for the Blue Pacific Continent as well as Australia's 2023 International Development Policy. Intermediate outcome

[1] Lending figures from the multilateral development banks at www.adb.org and www.worldbank.org. The Lowy Institute Pacific Aid Map provides an overview of lending from bilateral financiers including Australia.

indicators similarly reflect the AIFFP's commitment to support the Pacific Quality Infrastructure Principles (PQIP) to ensure there is: responsible and transparent financing; optimised local content; value for money; stronger resilience to climate change; high social and environment safeguards; inclusivity; and incentives for private sector investment.

Governance and enabling capabilities

The Australian Government retains decision-making authority for all AIFFP investments. AIFFP lending will continue to be reviewed at Cabinet level, with Ministerial oversight of all project investment decisions. An AIFFP Board, consisting of members from across Government as well as independent external members, will continue to provide advice to Ministers on all projects.

Export Finance Australia (EFA), as lender of record for the AIFFP, will continue to conduct credit assessments; establish and conduct loan, guarantee and debt transactions and monitor ongoing compliance for AIFFP loans including repayments. EFA will also review all loan proposals following consideration by AIFFP's Board and refer such loan proposals to the Minister for Trade and Tourism in accordance with the direction issued by the Minister to EFA (pursuant to section 26 of the *Export Finance and Insurance Corporation Act 1991* (Cth) (EFIC Act)).

AIFFP 'front office' functions will continue to be managed by a division within DFAT's Office of the Pacific (OTP) ensuring integration with bilateral and regional programs. This includes managing relationships with project stakeholders, identifying and assessing projects, structuring loan and grant packages, overseeing implementation of projects, managing both proponent-led procurement and Commonwealth procurements, strategic communications and leading on safeguards, climate and disaster resilience, GEDSI, local content, and monitoring and evaluation functions. In addition to its Canberra presence, the AIFFP funds positions in some Pacific countries and also consults closely with Pacific and Timor-Leste posts and like-minded donors.

A key element of the AIFFP's ability to rapidly build a portfolio over the past 6 years has been technical specialists who provide engineering, financial, procurement, local content, climate, environmental, gender and disability expertise and other capabilities. In terms of contracted support, the AIFFP will operate:

- a Support Unit to assist the AIFFP with implementation support on projects and provide the AIFFP division with access to highly specialised outsourced expertise for specific tasks and surge support;
- technical embedded contractors, separate from the Support Unit, who are fully integrated alongside DFAT staff. These contractors will have experience in areas such as development finance and engineering and assist with project implementation; and
- specialist monitoring, evaluation, and learning (MEL) capabilities through a third contract separate from the Support Unit.

An increase in resourcing for enabling functions is included in the design to ensure the AIFFP has capacity to respond effectively to growing demand and complex implementation challenges. As the facility matures, the AIFFP will need to be able to continue pipeline development and project origination, provide strong implementation support – especially on procurement – for investments, and clearly demonstrate value for money and development impact. An appropriate proportion of the increased funding will be used to strengthen AIFFP's safeguards, climate and disaster resilience, GEDSI and local content agenda and MEL functions.

B. Development Context and Situational Analysis (What problem are we addressing?)

As recognised in Australia's 2023 *International Development Policy*, infrastructure provides a backbone for economic and social development. Pacific countries have similarly highlighted in the 2050 *Strategy for the Blue Pacific Continent* the importance they place on infrastructure to allow Pacific peoples to access key services and markets as well as to participate in and benefit from nationally led development outcomes.

Australia's neighbours in the Pacific and Timor-Leste face particular challenges accessing critical infrastructure. Although each country is different, there are common issues across the region. Geographic isolation and small, dispersed populations require significant infrastructure investments to allow communities to access basic services. As well as limited economies of scale, remoteness and isolation often results in very high construction costs. For example, roads in remote Pacific countries cost as much as 4 times as those elsewhere.[2] The Pacific is highly vulnerable to natural disasters, climate change and extreme weather events, ranging from sudden onset events such as cyclones, earthquakes and flooding, to slow onset impacts resulting from sea-level rise, saltwater incursion into freshwater systems and drought. Climate change is impacting Pacific infrastructure; for example, flood-induced erosion, roads and bridges are in need of constant repair, water systems face harm from landslides and saltwater incursion, and airport runways are being degraded by excessive rainfall. In many countries, there are significant rural-urban disparities, with most of the rural population in PNG, Solomon Islands, and Vanuatu having limited grid-connected electricity. Growing urban migration is putting pressure on services and social cohesion, especially in peri-urban areas.

Despite challenges, well planned and executed infrastructure investments across the Pacific have delivered significant benefits. The telecommunications revolution over the past 15 years has seen millions more people gain access to affordable mobile phones, with all Pacific countries to be connected to global information networks through subsea cables by 2026. The South Tarawa road in Kiribati, supported by Australia, the Asian Development Bank (ADB) and the World Bank has been transformative for the 50,000 people on Kiribati's main atoll, with development impacts increased by ensuring appropriate public transport collection points, safety features to reduce risks to pedestrians, and street lighting to ensure safety at night, including for women and girls.[3] Outer island boat harbour investments in Tuvalu have been crucial for remote communities to be able to safely travel and access services. The Queen Salote Wharf upgrade increased port capacity, ensured the port is more resilient to climate change and better connects Tonga's main trade gateway to the rest of the world. Greater access to electricity in rural areas in PNG, has improved livelihoods and reduced the burden on families, especially women, from time intensive tasks such as collecting fuel.

The *2050 Strategy for the Blue Pacific Continent* recognises the potential for infrastructure to support narrowing of persistent equity gaps in the Pacific. Women, girls, persons with disabilities and those living in remote areas or outer islands are frequently excluded from development benefits due to persistent discrimination, marginalisation and underinvestment. When designed with diverse inputs from communities and with development benefits in mind, infrastructure investments can result in significant economic opportunities, improved accessibility, increased safety, and reduced time burden for women, girls and persons with disabilities.

Locally led development is one of the key approaches in Australia's 2023 International Development Policy. Extensive consultation across the Pacific identified local content as a key priority for the AIFFP, with local content being one of the Pacific Quality Infrastructure Principles. To maximise development impact, the AIFFP prioritises local content in its projects by prioritising local workers and consultants, giving fair opportunities to local suppliers and businesses, building skills and capabilities that outlast the project and involving underrepresented groups who are typically excluded from industry such as women, people with disabilities and unemployed youth.

Infrastructure Financing Needs

Pacific countries and Timor-Leste confront enormous unmet financing needs to meet infrastructure priorities. In 2017, the ADB estimated that Pacific countries need USD3.1 billion of infrastructure investments each year to 2030 (cumulatively USD46 billion) including incremental costs for climate adaptation.[4] At over 9 per cent of these countries' annual gross domestic product (GDP), this is proportionately the highest need

2 Asian Development Bank, *Meeting Asia's Infrastructure Needs*, 2017, p. 53.
3 World Bank, *Implementation Completion and Results Report: Kiribati Road Rehabilitation Project*, 2019.
4 Asian Development Bank, *Meeting Asia's Infrastructure Needs*, 2017, p. 4.

of any region globally. With substantial increases in global construction costs, the financing gap is likely to have increased since 2017. Pacific Regional Infrastructure Facility (PRIF) supported National Infrastructure Investment Plans (NIIPs) prepared by most Pacific countries (except PNG and Timor-Leste which are not members) identify unfunded priority infrastructure investments of over USD13 billion; if fully financed over the next decade this would require about 12 per cent of these countries' GDP annually.[5] The priority PNG and Timor-Leste place on infrastructure is evident in growing budgeted capital investment allocations, which are expected to reach over 36 per cent of PNG's total public spending in 2025 and almost 24 per cent of Timor-Leste's 2025 budget.[6] [7] In both countries, the largest single infrastructure allocation is for transport sector investments, especially roads.

Debt Sustainability

The AIFFP is designed to provide both loan and grant funding up to the relevant allocation limits set by the Australian Government, and must ensure that debt is sustainable. Although circumstances vary widely across the region, debt sustainability is a challenge facing several Pacific countries. This has been exacerbated by COVID-19 economic impacts, with many small islands suffering some of the worst economic contractions globally and most of those able to borrow taking on significant additional debt to finance Government service delivery. Based on a combination of International Monetary Fund (IMF) debt sustainability analyses and country size and income, the multilateral development banks (MDBs) offer differing terms to Pacific countries ranging from all grants to a combination of highly concessional and non-concessional lending.[8] In order to ensure responsible lending practices, the AIFFP generally lends based on lending conventions of the MDBs, subject to AIFFP Board approval. Terms offered to each Pacific country by the MDBs are outlined in Table 1.

Table 1: Standard MDB Financing Terms for Pacific Countries as at December 2025

'Blend' Non-Concessional and Concessional Lending	IMF Low Risk of External Debt Distress 100% Concessional Loans	IMF Moderate Risk of External Debt Distress 50% Grant, 50% Concessional Loans	High Risk of External Debt Distress Grant Only
Cook Islands +	Solomon Islands	FSM	Kiribati
Niue +		RMI	Tonga
Fiji *		Naoero #	Tuvalu
Palau		Samoa	
Papua New Guinea		Vanuatu	
Timor-Leste			

Notes: These debt sustainability ratings are reviewed regularly, and categories are subject to change in future.
+ Cook Islands and Niue are members of ADB but not the World Bank
* Fiji is technically a blend, although currently only borrowing on concessional terms
# Naoero accesses concessional funds and grants from ADB but does not access financing from the World Bank

External grant financing for infrastructure will be important for the smaller Pacific countries which have limited scope to borrow. Where countries have capacity to absorb debt, responsible borrowing is an appropriate tool to meet infrastructure needs.

5 PRIF supported NIIPs are available at: https://www.theprif.org/national-infrastructure-investment-plans.
6 PNG Public Investment Program for National Government Departments 2025-2029, Budget Papers Vol 3B.
7 Government of Timor-Leste, General State Budget for 2025, 'Investment in strategic infrastructure, strengthening the economy, and improving citizens' welfare.
8 MDB concessional loan terms for Pacific countries have a fixed interest rate/ service charge of between 0.75 per cent and 1.4 per cent depending on currency, a 40 year maturity and a 10 year grace period. MDB non-concessional loans terms depend on currency, term and loan structure, although are generally equivalent to MDB borrowing costs using their AAA rating plus a margin of approximately 0.5 per cent; as such, even non-concessional terms are well below what Pacific countries could access on international financial markets. China EXIM Bank, which has been the main bilateral lender to the Pacific beside Australia, mostly offers 2 per cent interest rates fixed for 20 years and a 5 year grace period, although has offered more concessional terms in some cases.

Pacific countries able to borrow from the AIFFP, MDBs or other sources give very high priority to infrastructure financing. From 2020-21 to 2024-25, Pacific countries borrowed an average of over USD600 million annually for infrastructure, compared to about USD570 million from 2015-16 to 2019-20.[9] A spike in borrowing for fast-disbursing budget support to respond to COVID-19 economic shocks has seen infrastructure financing fall to about 30 per cent of total borrowing in the past 5 years compared to 70 per cent in the preceding 5 years. Given their size and relative borrowing capacity, PNG and Fiji make up approximately 90 per cent of both total sovereign borrowing as well as new infrastructure borrowing by Pacific countries over the past 5 years.

Pacific countries are increasingly seeking highly concessional financing for infrastructure. About two-thirds of new sovereign infrastructure borrowing in the past 5 years has been on highly concessional terms, as countries use the fiscal space they have for non-concessional loans primarily for budget support. Only PNG is currently borrowing substantial amounts on non-concessional terms for infrastructure, primarily road investments for national highways.

Encouraging greater private sector investment in infrastructure remains important, especially given the fiscal constraints facing many Pacific governments. Pacific countries have a history of public provision of services, while remoteness and limited economies of scale mean there is not necessarily the same scope for private investment as in fast-growing Southeast Asian economies. Still, the telecommunications revolution highlights the benefits of opening markets to allow new private sector entrants to invest. Fiji and Timor-Leste have successfully encouraged private investment in ports, with Fiji having partially privatised its energy utility. Countries across the region have similarly attracted new private investment in renewable energy generation with long-term offtake agreements. Although greater private investment carries risks that need careful management, especially to ensure concessions are awarded competitively and to quality investors, it can result in significant benefits when managed well and where governments have capacity to ensure competition.

C. Strategic Intent and Rationale (Why?)

Strategic Intent and Consistency with Australia’s Policy Objectives

Australia’s support for the Pacific and Timor-Leste contributes to a peaceful, stable and prosperous region and demonstrates Australia’s commitment to being a reliable partner that responds to Pacific and Timor-Leste priorities.

Increased infrastructure financing for the wider Pacific region reinforces both Australia’s foreign policy and development program objectives. Increased support for the Pacific and Timor-Leste’s significant and wide-ranging infrastructure needs is a key element in promoting economic and social development in the region and to respond to demand from partner countries. Australia also has direct interests to ensure that Pacific countries and Timor-Leste have greater financing options for infrastructure.

With all Pacific Island Forum nations on track to be connected by high-speed subsea telecommunications cables by 2026, demand for data storage and cloud applications is surging across the Pacific. Cable connectivity is a start, but access to downstream digital infrastructure will be necessary for Pacific countries and Timor-Leste to maximise the economic opportunities of e-commerce, improve tourism offerings and help bring government and other essential services online. Pacific countries and Timor-Leste are at a pivotal point in their digital development and are seeking partnerships to support their ambitions to accelerate their digital transition. The AIFFP will continue supporting safe and effective digital infrastructure solutions to the region.

9 Lending data from multilateral development bank websites and Lowy Institute Pacific aid map for bilateral lenders beside Australia.

Lessons Learned

The AIFFP was established to supplement Australia's role as the largest grant financier to the Pacific with a capacity to provide loans to Pacific and Timor-Leste governments, as well as loans and guarantees to encourage private investment in the region. The AIFFP was initially allocated AUD2 billion (AUD500 million in grant commitment authority and AUD1.5 billion in lending headroom). This subsequently expanded to AUD4 billion (AUD1 billion in grants and AUD3 billion in lending capacity) in 2022 and to AUD4.55 billion (AUD1.55 billion in grants and AUD3 billion in lending capacity) as announced in January 2026.

Pacific countries have responded positively to Australia's offer of greater infrastructure financing through the AIFFP. Being able to deliver high-quality climate resilient infrastructure makes the AIFFP especially appealing to Pacific governments. By giving Pacific governments a wider range of financing options, the AIFFP is already changing the infrastructure lending landscape in the region.

The AIFFP has evolved over the 6 years it has been in operation and key lessons learned are outlined below.

(i) The AIFFP's initial focus was to engage Pacific partners to build an investment pipeline. Almost 80 per cent of the AIFFP's current portfolio by volume was approved and signed in the AIFFP's initial 4 years, leading to the AIFFP's facility limit doubling in 2022, and then further increased as announced in 2026. Despite the challenges posed by COVID-19, the AIFFP has emerged as the major sovereign financier for ports and telecommunications cables during this period.

(ii) Program implementation has been the AIFFP's central focus since 2023. By the end of 2025, the AIFFP completed construction and commissioned a range of major investments, including airport upgrades in Fiji, a solar plant in Palau, wharf upgrades in Tonga and enhanced boat harbours across Tuvalu. Works are underway on major wharf upgrades in PNG and the resealing of Naoero's international airport. The transition to implementation has highlighted the need for strong technical support for borrowers, especially to manage procurement.

(iii) As the AIFFP matures into its next phase, the facility will need to have the capacity to sustain pipeline development and origination functions, continue to provide significant implementation support, as well as scale up its focus on optimising and measuring the development impact of investments.

Pacific Quality Infrastructure Principles (PQIP)

Through the AIFFP, Australia works closely with Pacific partners to agree on infrastructure investments that advance national priorities and contribute to economic and social development. Pipeline development and programming is guided by Pacific countries' own infrastructure priorities, including those identified through NIIPs. Priorities are discussed between leaders and ministers and through regular senior officials talks between Australia and Pacific partners and must be consistent with Development Partnership Plans agreed between Australia and Pacific partners. For any proposed private sector lending, the AIFFP will seek evidence of the partner government support for the project.

Countries seeking Australian support for infrastructure do so because of Australia's reputation for high standards, transparency, and long-term commitment to prosperity and stability in the region. The Pacific Quality Infrastructure Principles (PQIP), agreed by Forum Leaders in 2023, provide a framework for AIFFP investments, including opportunities to optimise the development impact of investments. Consistent with this framework, Australian support to Pacific countries and Timor-Leste through the AIFFP is guided by the following principles:

(i) Based on and responsive to partner priorities.

(ii) Financing that is transparent, responsible and competitive.

(iii) Strengthens Pacific resilience to climate change.

(iv) Prioritises local leadership, jobs, skills development and procurement.

(v) Optimises development impact in safeguards, climate and disaster resilience, GEDSI, local content and monitoring and evaluation.

(vi) Promotes high-quality outcomes, using evidence and learning.

(vii) Incentivises private sector investment.

Cooperating with Partners and an Integrated Australian Government Approach

Encouraging greater investment in the region by like-minded partners remains a priority, building on the AIFFP's successful efforts to secure financing from Japan and the United States for the East Micronesia Cable System and New Zealand financing to support telecommunications cable redundancy in Tonga after the primary cable was affected by a volcanic eruption. Since establishment, the AIFFP has catalysed approximately AUD470 million worth of parallel or co-financing on AIFFP projects from like-minded partners including the United States, Japan, Korea, and New Zealand. The AIFFP's engagement with the MDBs – such as co-financing of the Nuku'alofa port with ADB – has also supported transformative investments of very high priority for Pacific countries, especially in countries unable to borrow.

While AIFFP project selection will be guided primarily by the shared national interest of Australia and partner governments in the region, the AIFFP will explore opportunities to engage with civil society organisations (CSOs) to optimise local development, equity and sustainability outcomes from infrastructure investments. CSOs can play an important role to inform communities and in delivering positive outcomes and legacies. The AIFFP is, for instance, working with CSOs to design and implement nature-based solutions for coastal protection in Kiribati, as well as with a CSO with safeguard and GEDSI expertise to support safeguards compliance and achievement of GEDSI outcomes on small scale off-grid renewable energy projects across the region. Close coordination between the AIFFP and DFAT's bilateral and regional teams remains critical to meet Australian strategic objectives and to optimise development outcomes. The AIFFP has expanded Australia's ability to support Pacific countries to meet infrastructure priorities at scale, although this remains a relatively small proportion of total Australian financing to the region.

D. Proposed Outcomes and Investment Options (What?)

The AIFFP contributes to the goal of 'Stronger Pacific and Timor-Leste relationships with Australia that advance shared national interests and respond to Pacific and Timor-Leste priorities'. This goal is consistent with goals of the Pacific Islands Forum 2050 Strategy for the Blue Pacific Continent and the Partners of the Blue Pacific.

The AIFFP's objective is to 'partner with the Pacific and Timor-Leste to finance and deliver strategic infrastructure that drives economic and social development in their communities'. This objective has a line of sight to Australia's International Development Policy vision and recognises that financing infrastructure makes a strategic contribution to development when it responds to Pacific priorities, and this in turn leads to stronger relationships and progress towards shared interests.

The AIFFP provides demand-driven access to infrastructure finance for Pacific countries and Timor-Leste. The AIFFP has the capacity to directly provide grant finance for infrastructure, and in partnership with EFA it has the mandate to provide partners with access to financial instruments including loans, guarantees and equity for sovereign entities and private sector partners. The AIFFP will commonly use a combination of grants and lending instruments and collaboration with like-minded development partners to augment the scale and reach of its financial assistance. The AIFFP is not actively seeking equity investment opportunities, but the instrument is available if required.

Contributing to the AIFFP objective are 2 Enduring Facility Outcomes and 9 Intermediate Outcomes as shown in Figure 1. The role of this AIFFP Logic is to define what outcomes the investment will achieve and the means for achieving those outcomes. It is the cornerstone of the investment design, management and accountability. The AIFFP Logic provides the basis for design of the Performance Assessment Framework (PAF) against which results are measured. The AIFFP Logic therefore plays a crucial role as the guiding framework for planning, decision-making, resource allocation, and related policies and policy dialogue for achieving the Enduring Facility Outcomes and serves as the platform for performance assessment. This section summarises the theory of change.

Risks are discussed in Section J. The key risks to the AIFFP EFOs are.

- Reduced affordability of AIFFP finance due to cost of borrowing and interest rates.
- Insufficient grant finance to concessionalise lending and meet needs of partners unable to borrow.
- Failure of AIFFP and investment-level safeguards to protect environment and people.
- Failure of partners to maintain infrastructure consistent with PQIP value for money principles.

EFO1 – Pacific and Timor-Leste (PTL) partners and people increasingly have access to sustainable quality infrastructure assets financed by AIFFP in priority sectors.

EFO1 has 5 contributing Intermediate Outcomes (IOs), which are discussed in this section.

The EFO1 design recognises the AIFFP is a long-term infrastructure facility, and its sector priorities are expected to evolve over time, adapting to the changing strategic context and responding to Pacific and Timor-Leste priorities. Priority sectors are currently digital and information and communications technology, transport, energy, and climate change. Other priority sectors may emerge over time, and the design intent is to enable this flexibility, adaptability and responsiveness for future decision-makers.

Quality infrastructure in EFO1 is defined in terms of the PQIP, aligned with the G20 Quality Infrastructure Principles, and includes local employment and local industry participation; value for money across the asset life cycle; building climate and disaster resilience; responsible borrowing and governance; applying social and environmental safeguards; inclusivity of women and persons with disabilities, and, incentivising private sector investment.

IO1.1 PTL partners, like-minded partners and target populations value and choose AIFFP's infrastructure offering and trust Australian investment.

The AIFFP's offering is essentially affordable finance for quality infrastructure developed through locally led partnerships that value and respect partner sovereignty and agency and put the PQIP into practice. The AIFFP ensures regional partners have a clear understanding of the value of its unique service offering and financing options through policy dialogue, regional forum engagement and strategic communication activities. Likewise, the AIFFP engages with private sector partners through regional private sector forums, chambers of commerce, and the DFAT Infrastructure Panel to align private sector investment partnerships and ways of working with its strategic priorities.

The theory of change for IO1.1 is – **if** the AIFFP deploys policy dialogue, strategic communications tools and modalities calibrated to the range of partners who need to understand and buy-in to the AIFFP's offering – **then** Pacific and Timor-Leste partners and like-minded partners will increasingly value and choose the AIFFP's infrastructure offering – **because** they trust the way the AIFFP works and value the economic and social benefits of the infrastructure that Australia finances.

Figure 1: AIFFP Facility Logic

Vision: **A peaceful, stable and prosperous Pacific**

Enduring Facility Goal: **Stronger Pacific and Timor-Leste relationships with Australia that advance shared national interests and respond to Pacific and Timor-Leste priorities**

Enduring Facility Objective: **AIFFP partners with the Pacific and Timor-Leste to finance and deliver strategic infrastructure that drives economic and social development in their communities**

Enduring Facility Outcomes:

- **EFO 1** – **PTL partners and people increasingly have access to sustainable quality infrastructure assets financed by AIFFP in priority sectors**
- **EFO 2** – **AIFFP and PTL partners optimise local content and equity benefits and mitigate the risks from infrastructure development for local communities**

Intermediate Outcomes:

- 1.1 PTL partners, like-minded partners and target populations value and choose AIFFP's infrastructure offering and trust Australian investment.
- 1.2 PTL government partners access AIFFP financing for priority infrastructure that meets their needs.
- 1.3 Private sector partners have increased access to financing for infrastructure in PTL countries.
- 1.4 PTL partners are enabled to design, build and maintain infrastructure by AIFFP, like-minded partners and DFAT bilateral and regional programs.
- 1.5 PTL partners and target populations access infrastructure that enables climate adaptation, mitigation, renewable energy access and resilience.
- 2.1 AIFFP and PTL partners integrate environmental and social safeguards in all stages of the project cycle to mitigate harm to the environment and people.
- 2.2 PTL citizens and businesses have more opportunities to supply goods and services, obtain employment and grow their skills on AIFFP-financed projects.
- 2.3 Infrastructure projects are designed and implemented to help overcome barriers and deliver equitable benefits for women, girls and boys, persons with disability and others vulnerable to exclusion.

Enabling IO: Enhanced AIFFP capacity to deliver efficient, effective, timely, high-quality advice and services that facilitate project delivery [*by contracting critical strategic, operational and advisory services and adopting agile in-country project management models].

Indicative Outputs:

AIFFP Country and Sector Infrastructure Investment Portfolio and Pipeline of finance and projects are regularly updated, risks assessed and delivered
AIFFP, bilateral and regional programs and like-minded partners undertake capacity assessments and deliver on advisory support and capacity development plans in line with project design
AIFFP partners deliver on LCIPP/GEDSI plans and comply with ESMPs

Influencing Activities:

- AIFFP uses strategic communications to position itself as a trusted partner, amplify its brand and demonstrate the quality and impact of its delivery
- AIFFP & Posts respond to PTL partner requests & highlight the strategic benefits of a trusted partner
- AIFFP and EFA broker competitive packages of financing and wrap-around support to PTL partner priorities
- AIFFP collaborates with like-minded partners to expand financing for PTL infrastructure
- AIFFP fosters private sector financing activities in the PTL countries
- AIFFP supports PTL partners to procure high quality firms to supervise and build infrastructure assets
- AIFFP uses localised climate and disaster risk analysis, and appraises climate infrastructure priorities with PTL partners, CSOs and NGOs
- AIFFP infrastructure design & delivery promotes environment and social safeguards and mainstreams GEDSI, Climate and Local Content with partners, CSOs and NGOs
- AIFFP provides infrastructure design, engineering, project management and supervision, procurement TA and maintenance support to partners as agreed
- AIFFP leverages MDBs, bilateral and regional investments to support capacity development and institutional strengthening
- AIFFP engages in policy dialogue with partners on VfM through O&M and sector reform and other development issues
- AIFFP uses MEL to 'prove and improve' by comparing actual results against targets, analysing lessons and applying insights to strengthen decision-making, program delivery and stakeholder confidence
- AIFFP uses local market analysis to inform local content planning, commitments and initiatives at all stages of the infrastructure project cycle
- AIFFP works with partner and CSO GEDSI machinery and provides wrap-around GEDSI support to partners & contractors for targeted initiatives

Foundational Enablers:

- AIFFP "One Team" APS, Specialists, Support Unit
- AIFFP Board and governance
- EFA legislation and loan enabling instruments
- Strategic communications
- AIFFP business processes, policies, SOPs, project guidelines and standards
- AIFFP Procurement Suite; AIFFP Infrastructure Panel
- AIFFP risk management system
- AIFFP MEL/MIS System
- Safeguard policies and standards
- Climate modelling and DRR assessments
- LC and GEDSI integrated in AIFFP systems, tools and templates

AIFFP Sphere of Concern – *Why we support the Pacific*

AIFFP Sphere of Influence – *What change we want to see in the Pacific*

AIFFP Sphere of Control – *How we deliver our support to the Pacific*

IO1.2 PTL government partners access AIFFP financing for priority infrastructure that meets their needs.

The AIFFP works closely with DFAT Posts to consult PTL partners and identify their infrastructure finance priorities. This process includes identifying infrastructure priorities, assisting with masterplans, developing project concepts, and evaluating debt sustainability and feasibility. It also requires initial environmental and social assessments, climate and disaster risk analysis using local models and nature-based solutions, and review of the proponent's capacity and sector regulations to ensure value throughout the infrastructure life cycle. This deep technical collaboration with partners ensures they have fully considered all elements of the potential infrastructure investment prior to accessing financing and enables the AIFFP to build appropriate environmental and social safeguards, climate and disaster resilience, MEL and long-term sustainability requirements into its finance offerings.

The AIFFP and EFA and other government agencies play an important role to put together competitive, affordable packages of investment financing for partners. This role and the types of packages that are offered are unique to each partner country, sector and type of infrastructure. AIFFP loans and other finance instruments used under IO1.2 may be to sovereign governments, sub-national governments or state-owned enterprises (SOEs). EFA is the AIFFP’s lender of record and all loans are executed through EFA. AIFFP grants are executed by DFAT and are used to complement loans by reducing the amount the project proponent needs to borrow, and to fund grant-only activities for partners assessed as at-risk of debt distress.

The theory of change for IO1.2 is – **if** the AIFFP works closely with Posts and PTL partners to identify and originate projects, helping them to appraise all of their financing and infrastructure development options, undertaking planning, feasibility and other essential assessments and brokers affordable loan and/or grant packages – **then** PTL and like-minded partners will enter into financing agreements with the AIFFP that enable them to access affordable finance – **because** they trust the way the AIFFP works and value the quality and economic and social benefits of the infrastructure that Australia finances.

IO1.3 Private sector partners have increased access to financing for infrastructure in PTL countries.

Greater private investment in infrastructure across the Pacific can improve services for citizens beyond activities that can be financed publicly given limited ODA resources and increasing central government debt. The AIFFP has scope to directly finance private sector firms investing in infrastructure in the Pacific, as well as an ability to lend to SOEs without a sovereign guarantee where those enterprises are sufficiently creditworthy. As well as lending, the AIFFP now has scope to offer a wider range of financing modalities, including guarantees and equity. Guarantees provide scope for the AIFFP, with commercial financiers, to offer local currency lending, illustrated by the AIFFP guaranteeing Fiji Airports (FJD) borrowing from ANZ. The AIFFP is not actively seeking equity investment opportunities, but the instrument is available if required. Consultations suggest there are opportunities for the AIFFP to work with Pacific utilities to increase private investment by using ODA funds to assist utilities to design projects and competitively tender concessions for new private investment with long-term offtake agreements. This approach is discussed in more detail in Section G. Fully staffing the AIFFP’s approved private sector staffing complement will be important to strengthen the AIFFP’s capacity to build a pipeline of potential investments.

The theory of change for IO1.3 is – **if** the AIFFP works closely with Posts and PTL partners to identify opportunities for private infrastructure investment, helping them to broker affordable financing packages– **then** partners and like-minded financiers will enter into financing agreements with the AIFFP that enable them to access affordable finance – **because** they trust the way the AIFFP works, the AIFFP finance augments their own investment, and they value the quality and economic and social benefits of the infrastructure that Australia finances.

IO1.4 PTL partners are enabled to design, build and maintain infrastructure supported by AIFFP, like-minded partners and DFAT bilateral and regional programs.

The focus of IO1.4 is on procurement and implementation support to partners accessing AIFFP finance (as described in IO1.2) for construction design, building works, project management and supervision, and maintenance planning. The AIFFP provides different types of support, subject to the partnering arrangements, where procurement and implementation is either AIFFP-led, partner/borrower-led or co-partner led. The intent is to enable partners to procure high-quality firms to supervise and build infrastructure assets using high-quality, sustainably sourced materials and ensure that appropriate safeguards and industry standards are adhered to at each stage in the project implementation cycle. Likewise, most AIFFP and DFAT Development Partnership Plan infrastructure designs require an asset maintenance plan to be developed, and training provided to the proponent during implementation. Subject to the nature of the investment, the AIFFP provides direct technical assistance (TA) or funds the engagement of these services when needed for infrastructure design, engineering, procurement, project management and supervision. There is a mutually reinforcing intersection between activities contributing to IO1.4 and the activities in IO2.1, IO2.2 and IO2.3. Additional AIFFP resources are required for these functions, with the need to prioritise best practice technical expertise, procurement, safeguards, project management and implementation monitoring and oversight; and additional resources to strengthen advisory support, local content (especially skills linked to project opportunities) and GEDSI capacity, which are crucial to the AIFFP's value proposition.

The design recognises that long term asset sustainability (PQIP value for money principle) presents significant challenges for partner countries and proponents, identified as the 'build - neglect – rebuild' cycle in DFAT's 2015 strategy for investment in economic infrastructure. Addressing asset life cycle challenges such as assuring routine asset maintenance, improving operational efficiencies in asset management, undertaking sector or regulatory reforms to enable the financing of asset O&M (for example reform of pricing structures), and end-of-life disposal planning is a significant undertaking and is subject to partner priorities and commitment, local political economy dynamics, and institutional capacity constraints. Ignoring long term sustainability challenges associated with AIFFP-financed infrastructure also presents potential strategic and reputational risks for Australia. This type of institutional strengthening and capacity development support is currently considered at an individual project level within the AIFFP, rather than at portfolio level, and the AIFFP currently relies on DFAT bilateral and/or regional programs or other development partners to harness these opportunities. However, DFAT bilateral and regional programs also have competing priorities and resource constraints, and some Pacific countries do not currently have a bilateral infrastructure program that can bridge the initial AIFFP infrastructure investment to support long term asset life cycle sustainability.

There are opportunities for AIFFP to actively collaborate with existing bilateral and regional DFAT programs to leverage policy, planning and institutional and capacity development support – notably through PRIF, the Secretariat of the Pacific Regional Environment Programme (SPREP), Pacific Australia Skills Program (PASP) and Pacific bilateral and regional infrastructure programs. It is intended that the AIFFP dedicate resources through its investment, partnerships and impact teams to drive closer collaboration with these programs to coherently join-up AIFFP investments with country and regional Development Partnership Plans to support long term infrastructure sustainability. This joined-up approach will require closer collaboration with significant infrastructure programs such as those in Fiji, PNG ESIP/TSSP, Solomon Islands and Vanuatu, on delivery models, TA and wrap around policy or regulatory support. This approach has already been tested in the transport sector in PNG and provides experience that can inform future approaches. The AIFFP may also consider options to provide strategic TA in Pacific government ministries to support implementation where there is limited bilateral infrastructure footprint, and often no AIFFP posted staff.

The design also intends that the AIFFP:

- Be responsive to partner requests for targeted operations and maintenance support where these are directly linked to the invested asset sustainment, and ensure these are built into AIFFP documentation at project origination/Board approval stage.
- Leverage support offered by development partners and through regional and bilateral programs, particularly DFAT infrastructure programs in Fiji, PNG ESIP/TSSP, Solomon Islands, Vanuatu, and regional programs such as the PASP, PRIF and SPREP.
- Fund broader O&M/sustainability support through loan components of AIFFP (additional to the initial grant-funded capacity assessment currently conducted as part of project preparation, and maintenance planning/training currently conducted as part of project implementation).

- In collaboration with broader OTP and Posts, undertake a policy review, cost benefit and risk analysis of options for DFAT's approach to long term asset sustainability for different types of infrastructure projects in Pacific countries, which could inform the development of a portfolio strategy for institutional strengthening and capacity development to guide and inform individual project level design and resourcing for long term sustainability. This review should be completed within 12 months, to inform a decision and updating of AIFFP's standard operating procedures and project guide.

The theory of change for IO1.4 is – **if** the AIFFP works closely with Posts and PTL partners to provide appropriate and proportional interdisciplinary TA, project management and supervision and O&M services – **then** partners will be supported to develop skills and improve practices in the design, construction and maintenance of quality infrastructure aligned to PQIP – **because** partners want quality, climate resilient infrastructure that maximises the life cycle of the asset, generates local employment and local supply chain services during its construction, and contributes to long term economic and social benefits.

IO1.5 PTL partners and target populations access infrastructure that enables climate adaptation, mitigation, renewable energy access and resilience.

The AIFFP's climate change investment has been spearheaded through the 3 components of the Pacific Climate Infrastructure Financing Partnership:

- Component 1: financing for major new climate focused projects.
- Component 2: financing for 'greening' existing or future AIFFP investments.
- Component 3: financing for small scale off-grid renewable energy including through the REnew Pacific investment.

It is a program priority that the AIFFP work with PTL partners to originate additional major projects with climate as a primary objective (Component 1), and that sufficient resources be allocated to enable this, to ensure that the AIFFP makes a substantive contribution to climate and disaster resilience in Pacific countries that are most vulnerable to climate change. The AIFFP has successfully established projects and the REnew Pacific initiative under Component 3 and will need to strengthen its capacity to integrate climate change ('greening') enhancements into existing and future infrastructure projects (Component 2). The approach to climate change and disaster resilience is further discussed in Section G.

AIFFP recognises women and girls, people with disabilities and remote communities are disproportionately impacted by the effects of climate change and natural disasters. To address these nexus risks in the design and implementation of infrastructure, all AIFFP's investments will be informed by analysis of GEDSI and climate and disaster risk and vulnerability.

The theory of change for IO1.5 is – **if** the AIFFP works closely with PTL Posts and partners to prioritise and integrate climate adaptation, mitigation and resilience in all of its investments– **then** partners will have more infrastructure that meets their needs and priorities– **because** their expressed priority is for quality, climate resilient infrastructure that contributes to long term climate resilience and economic and social benefits.

To ensure that AIFFP investments are aligned with partner government priorities, the AIFFP will seek to link projects to national climate priorities such as the National Adaptation Plan (NAP) and Nationally Determined Contributions (NDCs), where appropriate.

EFO2 – AIFFP and PTL partners optimise local content and equity benefits and mitigate the risks from infrastructure development for local communities.

EFO2 has 3 contributing IOs discussed in this section. EFO2 focuses on local content, gender equality, disability equity, and environmental and social safeguards in AIFFP-financed investments. The AIFFP's approach to achieving EFO2 is guided by the:

- PQIP principle on environmental and social safeguards and DFAT's safeguard policies.
- PQIP principle on climate and disaster resilience and DFAT's policy guidance on climate change.

- PQIP principle on local content and DFAT's policy guidance on locally led development.
- PQIP principle on inclusivity, particularly increasing women's participation and adopting Universal Design principles, and Australia's International Gender Equality Strategy and International Disability Equity and Rights Strategy.

IO2.1 AIFFP and PTL partners integrate environmental and social safeguards in all stages of the project cycle to mitigate harm to the environment and people.

All AIFFP financed projects must comply with DFAT safeguards policies, namely the Environmental and Social Safeguard Policy (2019) (ESSP); Child Protection (CP) Policy (2025); and Protection from Sexual Exploitation Abuse and Harassment (PSEAH) Policy (2025). Loans and financing instruments that involve EFA must also comply with EFA's environmental and social policy, the Equator Principles and the International Finance Corporation (IFC) Performance Standards. Where investments involve grants and loans, the AIFFP and EFA work to harmonise requirements to reduce the burden on project proponents. There is potential for duplication of safeguards assessments and policy dialogue to address this is proposed.

AIFFP has in place systems, processes, tools and specialist environmental and safeguard resourcing to ensure that investments and activities comply with relevant safeguard requirements throughout the investment life cycle from early planning, design, procurement through to implementation. Screening of environmental and social risks and impacts is undertaken early in the management screening and origination process to ensure environmental and social risks and impacts are understood and provisions included in the project to ensure compliance with AIFFP and EFA safeguard standards. All AIFFP projects undergo rigorous environmental and social impact assessments (ESIA) and require the development of environmental and social management plans (ESMPs) proportionate to the likelihood and significance of risks and impacts.

Once AIFFP-financed projects move into implementation, continuous monitoring through partner and supervision contractor reporting is essential to assess implementation of ESMPs. Regular on-site visits by safeguard specialists (twice yearly is good practice for projects rated medium to high risk) are also required to continually monitor safeguard compliance and actively manage risks. The design intends that additional staffing and environmental and social, GEDSI, local content and monitoring and evaluation specialists are allocated within AIFFP as more large-scale high-risk projects are moving into implementation.

Further details of AIFFP's approach to managing environmental and social risks and impacts is detailed in Section J: Risk Management and Safeguards. **The theory of change for IO2.1** is – **if** the AIFFP supports project proponents to effectively screen and assess investments for environmental and social safeguard risks and impacts, develop effective mitigation measures and management plans, monitor safeguard compliance throughout implementation – **then** environmental and social risks and impacts from infrastructure development will be effectively mitigated at all stages of the project cycle by the AIFFP and implementing partners – **because** the AIFFP and EFA are committed to ensuring environmental and social protection and grant and loan agreements require compliance with relevant environmental and social safeguards including those specified within partner legislation, and because partners are committed to abiding by the PQIP principle on social and environmental safeguards.

IO2.2 PTL citizens and businesses have more opportunities to supply goods and services, obtain employment and grow their skills on AIFFP-financed projects.

Local content and industry participation is an important part of the AIFFP's value proposition. Local market analysis and local content benefits assessments are used as a basis for project level Local Content and Industry Participation (LCIP) Action Plans in conjunction with ESMPs and GEDSI Action Plans, to maximise potential synergies between these opportunities. LCIP Action Plans are referred to in grant or loan agreements and inform the development of the Contractor's Local Content and Industry Participation Plan (LCIPP) at the procurement stage. Contractors are required to report their performance against their LCIPP. The approach is discussed in more detail in Section G.

The design provides for additional local content staffing resources and a central allocation of funds for safeguards, climate and disaster resilience, GEDSI and local content for use by the local content and GEDSI teams (separate to individual project allocations). It is envisaged the funds will be utilised to design and deliver targeted and strategic initiatives aimed to improve the enabling environment for local content outcomes in AIFFP-financed projects. Efforts will aim at helping address barriers to local participation and improve the availability and quality of infrastructure-related skills and industry capabilities in the Pacific.

The theory of change for IO2.2 is – **if** the AIFFP adapts its project delivery approach for each project to optimise local content and industry participation – **then** more economic and social benefits will accrue to the partner country in the form of real household income, real GDP and local employment created – **because** optimising local content is incentivised through deliberate strategies and partners. Both political elites and general populations want development partner financed investments to have a demonstrable contribution to local employment, skills development and income, and support local economic activity.

IO2.3 Infrastructure projects are designed and implemented to help overcome barriers and deliver equitable benefits for women, girls and boys, persons with disability and others vulnerable to exclusion.

Gender equality, disability equity and social inclusion analyses are considered in all stages of the project cycle in AIFFP projects. GEDSI analysis is used during project origination and design (feasibility studies, ESIAs and due diligence assessments) to identify barriers and assess GEDSI opportunities that can be addressed through specific investments contained in GEDSI Action Plans. The approach is discussed in more detail in Section G.

To further strengthen AIFFP's GEDSI strategy, the design intends that the AIFFP develop and test models of GEDSI wrap-around support to partners, borrowers and proponents and these be funded through a central allocation of funds for safeguards, GEDSI and local content (separate to individual project allocations), shared by Local Content and GEDSI teams as noted in IO2.2 above. Examples of wrap-around support models may include:

› Training packages for proponent organisations on core GEDSI concepts and GEDSI analysis.

› Brokering relationships and partnerships between partner governments, borrowers or proponents with local women's equality organisations and/or Organisations of People with Disability (OPDs) to localise ongoing partnering for GEDSI mainstreaming and strengthen local accountability structures.

› Providing tailored support to local supply chain contractors to adopt internal human resources policies and GEDSI safeguard measures that promote and enable increased participation of women and/or persons with disability.

The theory of change for IO2.3 is – **if** the AIFFP adapts its project delivery approach to include mainstreamed GEDSI analysis and planning, as well as building in targeted GEDSI initiatives and modelling – **then** the AIFFP investments will generate economic and social benefits that accrue to women, boys and girls, persons with disability and others vulnerable to exclusion in the form of real household income, local employment, safety, accessibility, and skills development – **because** optimising equity benefits is incentivised through deliberate strategies and partners are willing to make accommodations when they understand that it will return social and political value to them and their organisation.

Enabling Intermediate Outcome: Enhanced AIFFP capacity to deliver efficient, effective, timely, high-quality advice and services that facilitate project delivery [*by contracting critical strategic, operational and advisory services and adopting agile in-country project management models].

The intent of the enabling intermediate outcome is that the AIFFP has the capacity, composed of APS capability and contracted expertise and services, to deliver high-quality advice, agile in-country project management models, and finance, legal, engineering, procurement, contract and project management, supervision, risk and safeguards, local content, GEDSI, MEL and communications services for all AIFFP investments. Various foundational enablers contribute to this outcome including:

- Operationalising a 'one team' way of working in AIFFP involving APS staff, technical embedded contractors and the Support Unit.
- AIFFP Board and governance arrangements.
- EFA legislation and loan enabling instruments.
- AIFFP strategic communications function.
- AIFFP business processes including policies, standards and guidelines, including safeguard standards.
- Environmental and social safeguard processes, documents and on-demand specialist expertise.
- Access to sub-sectoral skills sets like digital and IT, maritime, roads, energy, submarine cables, as well as cross-cutting skill sets.
- AIFFP procurement suite.
- AIFFP risk management system.
- AIFFP MEL system and Management Information System (MIS).
- Climate and disaster risk assessment for use in project design.
- Local content and GEDSI and climate and disaster resilience nexus considerations integrated in AIFFP systems, tools and templates.

The theory of change for the Enabling IO is – **if** the AIFFP pairs APS staffing and resources with contracted technical services and Support Unit support services – **then** the AIFFP will have the capabilities and delivery capacity needed to span project origination, design, implementation, MEL, communications and oversight – **because** without this combination of enabling services DFAT cannot resource the AIFFP's operations.

The AIFFP delivery approach is outlined in Section E.

E. Governance, Implementation Arrangements and Delivery Approach (How will DFAT engage?)

Governance Arrangements and Structure

The Australian Government retains decision making authority for all AIFFP investments. AIFFP loans require the approval of Cabinet's Expenditure Review Committee (ERC) and National Security Committee (NSC), with EFA as the lender of record. The Minister for Foreign Affairs has responsibility for the AIFFP as the senior portfolio minister and Minister responsible for administering DFAT's ODA program. Responsibility for the AIFFP program, including approval of grant projects, sits with the Minister for Pacific Island Affairs.[10] The Minister for Trade and Tourism is responsible for aspects of the AIFFP's governance through the Minister's oversight of EFA.

To advise Government on proposed AIFFP projects, an AIFFP Board was established in 2019. There are currently 11 AIFFP board member positions: 9 ex-officio senior whole-of-government officials (one each from the Department of Prime Minister and Cabinet, Department of Treasury, Department of Finance, Department of Defence and Department of Infrastructure, Transport, Regional Development Communications, Sport and the Arts, and 4 from DFAT) alongside 2 independent external members appointed by the Minister for Foreign Affairs. The AIFFP Board provides advice to Ministers, and its operations are governed by a charter, which sets out the Board's roles and responsibilities, composition, structure, and membership requirements.

Project Approval

The process for approving AIFFP projects depends on whether the project involves grant only financing, or includes a loan, guarantee or equity component. Following review by the AIFFP Board:

[10] Ministers have delegated responsibility for approving small grant activities under the Pacific Climate Infrastructure Financing Partnership as well as project design and implementation support functions to senior DFAT officials.

(i) Grant only projects will be considered by the Minister for Foreign Affairs and the Minister for Pacific Island Affairs. Subject to Ministerial approval, the AIFFP will seek approval from the relevant DFAT delegate to commit relevant money in accordance with DFAT financial delegations.
(ii) Projects with a loan, guarantee, or equity component are considered by the EFA Board for referral to the Minister for Trade and Tourism, as per the section 26 Ministerial direction regarding the AIFFP. Subject to endorsement, packages are submitted to ERC/NSC. Once approved by the ERC/NSC or by the Prime Minister, the AIFFP seeks formal agreement from the Minister for Trade and Tourism to direct EFA to provide the loan on the National Interest Account under section 27 of the EFIC Act.

Project Selection Criteria

The selection of AIFFP projects will be guided primarily by the shared national interest of Australia and Pacific and Timor-Leste partners and reflect country priorities. An indicative set of assessment criteria to guide the AIFFP Board and DFAT management consideration on how best to identify individual investments is set out in Table 2 below.

Table 2: Project Assessment Criteria

Criterion	Assessment
Strategic Relevance: The extent to which the proposed activity or partnership aligns with joint national interest of Australia and Pacific partners.	› Does the activity or project support Australia's foreign policy, development policy, Australia's and its partner government's climate change policy goals? › Is the project a priority for the partner government? › Is the activity or project clearly linked to the country engagement plan or regional priorities?
Debt Sustainability and ODA Eligibility: The AIFFP is committed to responsible lending and compliance with the OECD DAC rules. AIFFP financing terms need to be competitive with other potential financiers.	› Are partners willing to borrow? › What is a country's capacity to take on debt, as reflected in the IMF debt sustainability assessment? › What financing terms are being offered by the multilateral development banks? › Are grant financed activities ODA eligible, or will AIFFP need to seek approval for non-ODA administered grants offset against AIFFP's grant cap?
Optimising development impact: The potential of the activity or partnership to deliver measurable improvements in infrastructure quality, access, and inclusion.	› Will the activity or partnership help deliver an outcome that would not otherwise occur (additionality)? › How will the project optimise development outcomes, reflecting the unique circumstances of each investment? › How will climate and disaster resilience goals be incorporated? › How will the activity or partnership support GEDSI and locally led development?

Criterion	Assessment
Quality and value for money: The optimal use of resources to achieve the desired development outcomes, balancing economy, efficiency, effectiveness, and equity.	› Will delivery models: o Ensure high-quality procurement outcomes, especially in cases where the AIFFP is not directly managing procurement? o Provide equitable opportunities to affected persons? o Optimise local content and build local capacity? o Leverage (or have potential to leverage) other funding or financing? o Bring added value and complementarity – for example coordination with other programs? o Strengthen Australia's profile and relationships in the region? › Are costs proportionate to expected results?
Implementation feasibility and risk: The practicality of delivering the activity or project given the local context, available resources, timelines, and identified risks.	› Is there a clear and realistic delivery plan? › Are political economy, fiduciary, safeguards, and climate change and disaster risks well understood and managed? › Is the project financially viable? o Is the partner government contributing to the project funding? o Is there any opportunity to parallel or co-finance with other development partners? o How will ongoing operations and maintenance be financed?

Program Enabling and Oversight Functions

Responsibility for overall oversight and management of the AIFFP program – AIFFP 'front office' functions – will continue to be managed by a division within OTP, comprising DFAT APS staff and specialist contracted expertise. The AIFFP division will: (i) manage relationships with project stakeholders; (ii) identify and assess projects, (iii) structure loan and grant packages, (iv) provide secretariat services to the AIFFP Board and Ministers; (v) administer grants; (vi) oversee implementation and delivery issues; (vii) direct strategic communications; (viii) lead on safeguard, climate and disaster resilience, GEDSI and local content, and MEL issues; and (ix) support programs that help to deliver the policy commitments underpinning the AIFFP (such as Australia's engagement in PRIF). MEL outputs reporting performance evidence such as qualitative performance stories, project, sector and portfolio performance data analytics, and portfolio financial performance against lender-style indicators will be used by the AIFFP to inform governance oversight, decision-making and resource allocation. These indicators are set out in the PAF. Very strong DFAT oversight reflects the profile, strategic importance, value, risk and complexity of the AIFFP.

EFA, as the lender of record, will continue to: (i) conduct credit assessments; (ii) establish and conduct loan, guarantee and debt transactions; and (iii) monitor ongoing compliance for AIFFP loans including repayments. EFA's services are governed by a services agreement with DFAT.

The AIFFP division within OTP has 3 branches – the AIFFP Investment Branch (AIB), the AIFFP Operations Branch (AOB) and the AIFFP Quality Branch (AQB). The AIFFP has in-country staff (currently 8 A-based and 6 locally engaged staff (LES)) to facilitate project origination and delivery and engage closely with stakeholders. Leadership of individual AIFFP projects is currently split across 4 sector teams – telecommunications; transport; energy, climate change and water; and private sector projects.

The AIFFP takes a project team approach to ensure the integration of technical expertise, cross-cutting issues, and country knowledge in all projects. Project teams include a project lead and as required, safeguards, climate and disaster resilience, GEDSI, legal, local content, MEL, policy, procurement and communications expertise, as well as relevant posted officers. Project teams are responsible for ensuring AIFFP projects are delivered and meet compliance requirements of both DFAT and EFA consistent with the AIFFP's Standard Operating Procedures (SOPs), its due diligence, risk management, safeguards and MEL systems, climate and disaster resilience, GEDSI and local content policy commitments. DFAT policy and management expertise oversees the strategic direction of the AIFFP and works with posts to manage relationships with Pacific partners. Consistent with the APS Strategic Commissioning Framework, DFAT will further build internal technical capacity to support the delivery of the AIFFP, which is already managed more closely 'in house' than most ODA programs.

Specialist expertise to supplement DFAT capabilities has also been a key element of the AIFFP's success. Financing experience has been important as the AIFFP represents a new capability for the Australian Government to provide loans, guarantees and (potentially) equity to support Pacific infrastructure. Overseeing the design and delivery of large, high-quality, infrastructure investments in complex policy environments has required a range of engineering and technical capabilities. Specialist knowhow has been important to support Australia's commitment to maximising local participation, a key element in the AIFFP's value proposition, as well as to ensure compliance with safeguard requirements, develop climate and disaster resilience infrastructure and optimise benefits for local communities.

The AIFFP currently accesses specialist skills through a combination of:

(i) A core team of APS officers who are Australia based or based in a Post in the Pacific and Timor-Leste, with development, safeguards, procurement and infrastructure expertise.
(ii) Technical embedded contractors with development, financing and infrastructure expertise that are fully integrated into the core AIFFP team and engaged through labour-hire arrangements.
(iii) A Support Unit which provides scope to access outsourced technical expertise to undertake specific tasks as well as provide surge support to respond to demand.

Proposed Implementation Arrangements

The contracting model outlined below was chosen to balance the intent of the APS Strategic Commissioning Framework with the need for ongoing access to specialist expertise to ensure appropriate management of project risks. While consolidation of contracts was considered, the embedded structure and the need to manage conflicts of interest outweighed any potential efficiencies from further consolidation.

For the next phase, the AIFFP will approach the market for 3 separate contracts, with each providing distinct capability for the AIFFP.

(i) Labour hire for embedded technical contractors to provide in-house support and continuity of project management, working closely with APS staff to build capability.
(ii) A contractor to provide specific expertise and surge support currently managed through the AIFFP Support Unit.
(iii) A specialist MEL firm to provide specialist support for monitoring, evaluation, and learning functions.

Governance of the Support Unit is anticipated at several levels:

(i) A Steering Committee will be chaired by the Assistant Secretary AOB and meet at least twice a year. Members will include the AIFFP SES Band 1s and selected AIFFP directors, with the designated DFAT contract manager and contractor representatives as observers. Other AIFFP staff may be invited as required to discuss specific issues. The Steering Committee is expected to provide strategic oversight and direction for the Support Unit, including overall performance and the AIFFP's anticipated priorities for inputs that may be required from the Support Unit, including management of the central allocation for safeguards, climate and disaster resilience, GEDSI and local content. To guide Steering Committee discussions, the Support Unit prime contractor will prepare an annual plan as well as 6-monthly reports on progress for other meetings.

(ii) A Support Unit secretariat will include the DFAT contract manager, the AIFFP Support Unit contractor representative, and other DFAT or Support Unit personnel as agreed. The secretariat will monitor overall progress on the range of activities for which the Support Unit has been tasked and provide general budget oversight.

(iii) Individual AIFFP core team members will be responsible for preparing specific activity requests (for assignments under a threshold where existing contractor resources are available) or tasking notes (where the value of the work is over the threshold) and for overseeing the delivery of inputs required. Requests must be approved by SES B1 to ensure effective budget rigour.

Strategic Communication and Policy Dialogue

As outlined in the AIFFP's Logic, strategically communicating the AIFFP's value proposition to Pacific partners is essential to meet Australian objectives to ensure that partners understand and choose to take up the opportunity to access Australian financing for strategic infrastructure investments.

Supporting Pacific Countries' Own Sector Policy Reforms

Lessons learned from infrastructure investments show capital works are most successful when undertaken in a policy environment that optimises benefits from investments.[11] The AIFFP is already working closely with DFAT's Pacific Economic and Infrastructure Division to support Pacific partners to undertake policy reform in the ICT sector that will optimise the development benefits of AIFFP investments in telecommunications cables, as well as further the joint national interests of Australia and Pacific partners. Direct AIFFP financing of TA, such as project implementation units, for agencies implementing AIFFP investments not only directly assists implementation of AIFFP investments but can also build long-term institutional capacity to undertake reforms. Section D, IO1.4 also refers.

Close coordination between the AIFFP and DFAT bilateral and regional programs provides synergies to improve outcomes from all programs. AIFFP expertise is being drawn on by DFAT bilateral programs to support policy dialogue with partners around bilaterally financed activities. The long-term impact of AIFFP financed investments can be strengthened by complementary support for infrastructure policy reform through DFAT's bilateral programs in areas such as regulatory development and operations and maintenance.

The AIFFP will continue to engage with partner governments, Pacific regional organisations, like-minded donors, MDBs, private sector and other key stakeholders to contribute to policy reform and infrastructure planning across AIFFP countries and sectors. For example, the AIFFP participates in and chairs relevant working groups coordinated by PRIF and regularly contributes to Pacific bilateral and sectoral infrastructure conferences organised by regional organisations, business councils and the private sector.

Encouraging Like-minded Partners to Increase Engagement in the Pacific

The AIFFP team has strong relationships with bilateral partners from co-financing a range of activities including the East Micronesia Cable with Japan and the United States, as well as a new telecommunications cable connection for Tonga undertaken with New Zealand. These relationships can potentially be leveraged to support wider DFAT efforts to 'crowd in' partners.

Encouraging Procurement Reform in the MDBs to Give Greater Weight to Quality in Procurement

The AIFFP's technical expertise has supported DFAT's wider policy engagement with the MDBs. Australia's ability, through the AIFFP, to offer additional financing to Pacific countries when they do prioritise quality procurement outcomes on MDB financed projects, even when that carries an immediate cost, is an important incentive. The offer of AIFFP co-financing, for instance, encouraged Tonga to select high-quality contractors for the Nuku'alofa port project led by ADB. It also enabled Tuvalu to do the same for outer island boat harbours financed primarily by the MDBs. The AIFFP similarly works closely with the MDBs and like-minded

[11] AIFFP Investment Design Document (2019), Annex 2.

partners to promote robust environmental and social safeguards and GEDSI approaches for infrastructure and to standardise requirements.

Visibility and Transparency

The AIFFP is committed to increasing visibility and transparency. The AIFFP has a dedicated website to showcase AIFFP projects and milestones and releases an Annual Update to highlight the AIFFP's commitment to contributing to a peaceful, stable and prosperous region, delivering high-quality, transformative infrastructure, including taking meaningful action on climate change, optimising job creation and economic opportunities for local workers and firms, and ensuring social and environmental safeguards. Specific consideration is given opportunities to showcase each AIFFP project and its milestones including signing ceremonies, groundbreaking and project site visits.

The AIFFP coordinates closely with Posts to ensure high-level representation at project events, ministerial press releases and appropriate social media content. The AIFFP has increased the allocated APS staff dedicated to strategic communications given the growing AIFFP portfolio and increased expectations to promote Australia's engagement in the region. Additional specialist support can be provided through the Support Unit.

F. Monitoring, Evaluation and Learning (MEL) (How will DFAT measure performance?)

Objectives of AIFFP MEL

Program MEL is designed to enable evidence-based decision-making. It will:

(i) Generate evidence of progress towards intermediate enduring facility outcomes, including differential benefits.

(ii) Generate evidence of the effectiveness, efficiency and sustainability of the approach and modality.

(iii) Monitor changes in the implementation context, including risks and opportunities.

(iv) Support program management, value for money assessment, and monitor risk and safeguards management.

(v) Inform stakeholder engagement, policy dialogue, and strategic decision-making.

(vi) Routinely track inputs, activities, coverage, reach, inclusion, participation, and data disaggregation.

(vii) Inform DFAT aggregated development performance reporting.

(viii) Be compliant with DFAT Design and MEL Standards.

Program MEL will also generate knowledge and learning. It will:

(i) Systematically gather evidence (both tacit and explicit) to test the AIFFP Logic/theory of change.

(ii) Monitor how DFAT policy priorities such as gender equality, disability equity, and locally led development and the Pacific Quality Infrastructure Principles are integrated into practice.

(iii) Develop structured processes for critical reflection and continuous quality improvement.

(iv) Develop knowledge products and learning platforms/processes that increase exposure to and uptake of program outputs.

Program MEL will also bolster strategic communication and public diplomacy, by aligning AIFFP MEL and strategic communications activities to generate relevant social media and other public content, case studies and other communications resources, and to contribute to DFAT public diplomacy initiatives.

Key Evaluation Questions

The following indicative key evaluation questions (KEQs) are guided by the MEL objectives outlined above, which reflect the DFAT Design and MEL Standards for MEL system performance information. The KEQs help to structure the PAF, and the MEL Plan (to be prepared by the AIFFP). The KEQs should help guide the strengthening and implementation of the MEL System, indicator selection, designing and conducting data collection, analysis and performance reporting. The selection of indicative KEQs was guided by DFAT's Investment Monitoring Reporting (IMR) criteria to ensure MEL system capability is aligned with DFAT's overarching International Development Policy performance framework and aggregated development performance reporting requirements. KEQs and their related outcome indicators and targets will be reported in the annual IMR. The final set of KEQs, to be agreed by the AIFFP with DFAT, will be included in the updated PAF and MEL Plan to be prepared by the AIFFP, indicatively within 6 months of approval of the IDD. Indicative KEQs, structured by DFAT quality criteria, include:

Effectiveness:

1. To what extent has the AIFFP increased access to strategic infrastructure for Pacific countries and Timor-Leste that adheres to G20/PQIP quality principles? (EFO1)
    a. To what extent has the AIFFP established itself as a valued and trusted partner of PTL governments? (IO1.1)
    b. To what extent has the AIFFP increased access to financing for quality infrastructure that meets partner government's needs? (IO1.2)
    c. To what extent has the AIFFP increased access to financing for quality infrastructure that meets private sector needs? (IO1.3)
    d. To what extent has the AIFFP and its collaboration with DFAT bilateral/regional programs and like-minded partners, enabled partners' capacity to design, build and maintain infrastructure? (IO1.4)
    e. To what extent has the AIFFP increased access to infrastructure that enables climate adaptation, mitigation and renewable energy access and resilience? (IO1.5)
2. To what extent has AIFFP and PTL partners optimised local content and equity benefits and mitigated risks from infrastructure development? (EFO2)
    a. To what extent have AIFFP projects increased opportunities for local contractors/suppliers, local employment and skills development for local capacity? (IO2.2)
    b. To what extent have AIFFP projects helped overcome barriers to inclusion and delivered benefits for women, girls and boys, persons with disability and others vulnerable to exclusion? (IO2.3)

Efficiency:

3. To what extent has the AIFFP made appropriate and efficient use of Australia's and partners' time and resources to achieve the EFOs?
4. To what extent has the AIFFP made efficient use of contracted TA and services (time and resources) to enable the facility and achieve the EFOs?

Relevance:

5. To what extent is the AIFFP approach and modality relevant to achieving Australian Government and partner government priorities and beneficiary needs/interests?

MEL:

6. To what extent does the AIFFP MEL System generate credible information for strategic management decision-making, learning, accountability and strategic communications?

Sustainability:

7. To what extent has the AIFFP's investment in infrastructure delivered lasting economic and social development benefits in PTL?
8. To what extent have AIFFP projects generated value for money across the asset life cycles?

Risk Management and Safeguards:

9. To what extent have AIFFP and PTL partners' environmental and social safeguards mitigated harm to the environment and people throughout the project cycle? (IO2.1)

AIFFP Logic

The AIFFP Logic (Figure 1) is the cornerstone of the AIFFP MEL approach, with the KEQs (above) anchored on the program's objective and intended outcomes. The EFOs and IOs have a direct line of sight to the DFAT International Development Policy 2023; the DFAT Pacific Regional Development Partnership Plan (2024-2029) Objective 2 regional action on climate and disasters, Objective 3 sustainable and resilient economic development (transformative infrastructure) and Objective 4 wellbeing, inclusion and equity; as well as the Timor-Leste Development Partnership Plan (2025-2030) Objective 2, focus area infrastructure and connectivity.

The AIFFP infrastructure investments contributing to EFO1, including the PCIFP and REnew climate resilience investments, have logic models that nest with the AIFFP Logic IO1.5 and will contribute to the achievement of those outcomes. Indicative Outputs and Influencing Activities have been defined in the AIFFP Logic. The theory of change is set out in the narrative in Section D using IF – THEN – BECAUSE logic that can be tested using MEL processes. A periodic strategy review may recommend updates and changes to the AIFFP Logic in response to changing priorities or context.

Performance Assessment Framework (PAF) and MEL Plan

PAF overview. A draft AIFFP PAF has been prepared in compliance with DFAT's Monitoring, Evaluation and Learning Framework (MELF) requirements at design. The PAF reflects the entire AIFFP Logic outlined in Section D and Figure 1 and includes facility-level, sector-level and portfolio-level performance indicators. Individual investments under EFO1 and EFO2 are mutually reinforcing with relevant indicators included in investment level MELFs, ESMPs, Local Content and Industry Participation Action Plans and GEDSI Action Plans that are aligned to the AIFFP PAF. An updated AIFFP MEL Plan including the finalised PAF will be produced within 6 months of IDD approval, and a baseline for the PAF and formal MEL System aligned to the final MEL Plan should be operational within 12 months in line with DFAT MEL Standard 5.

Indicators. The PAF incorporates indicators for impact, EFOs and IOs, including a mix of DFAT Tier 2 and DFAT core efficiency indicators. The PAF also sets out indicative thinking on the approach to the facility's baseline and targets. Where outcome statements deploy complex concepts, the terms are defined in the PAF, and an effort has been made to include indicators that measure multi-faceted dimensions of the intended outcomes.

Data sources and information systems. Depending on the type of investment financing arrangement (loan, grant or combination of loan and grant, guarantee, or equity), for investment level performance data, the AIFFP makes use of a combination of data sources. These include Australian Government information systems (AidWorks, Mastt and EFA), partner government PMU or proponent government data systems, implementing works contractor or project management supervision consultant (PMSC) data collection systems and/or co-partner data collection systems (for example ADB and IFC). This approach presents potential capacity constraints and challenges with timeliness, reliability, and standardisation of data sets for aggregation at sector-level and facility-level. Data integration and standardisation will be part of the future work required in conjunction with the preparation of the MEL Plan. The current AIFFP Investment Management System (Mastt) complemented by Power BI is intended for use by the AIFFP to produce data analytics, dashboards and track investment risks, project and portfolio financing and forecasts, and schedules and has the potential for cloud-based use by PMUs/PMSCs for investment, sector and facility level data management and dashboard reporting. While the risk module is fully utilised, other modules are currently under-developed and/or under-utilised. The AIFFP is currently working with DFAT's Information Management and Technology Division (IMD) to undergo a holistic assessment of AIFFP's information management requirements and options (including alternatives to Mastt) and planning has commenced to design a unified information system. The AIFFP will work with IMD and contracted solution partners to assess existing AIFFP information systems and databases (housed in Excel spreadsheets), undertake preliminary user requirements gathering and data journey mapping, and propose options for consideration by the AIFFP SES. AOB will lead the development of the Management Investment System (MIS), and a reference group comprising stakeholder representatives from all branches will be convened to inform this process.

Data collection methods. For most AIFFP outcome indicators in the PAF, a mix of quantitative and qualitative methods is proposed. The PAF sets out initial thinking on data collection methods and frequencies, for which data collection methodologies, tools and MIS will need to be designed as part of the MEL Plan and System. Investment level MEL Plans require that all data be sex disaggregated. There are well-understood challenges to gathering disability disaggregated data in Pacific states. In line with the AIFFP's GEDSI approach outlined in Section D (EFO2) and Section G, the AIFFP focuses its data collection on the integration of universal design principles in public use infrastructure and engagement of OPDs in investment scoping, design and consultations.

Evaluative studies. All AIFFP projects are required to conduct baseline studies. Several types of studies are proposed to be conducted periodically to help measure the changes created by the investment. The scope of the evaluative studies will be designed by the AIFFP and are expected to cover the scope of all EFOs (their contributing IOs and intersections), generating information that can be used in performance reporting at periodic intervals. Indicatively these include:

(i) Investment-level completion evaluations or studies identified and designed as part of investment level MEL Plans and resourced from the approved investment finance package (grant and/or loan).

(ii) Economic impacts modelling studies to estimate the cumulative impact of AIFFP infrastructure investments (by sector or country, or another sample) on real household income, real GDP and local employment (FTE jobs). This modelling could be developed in a way that allows for regular analysis. The scope of this model could be expanded to consider social and environmental benefits/disbenefits.

(iii) Ex-post assessments of the survival/sustainability of infrastructure assets, for selected country and sector investments conducted post-completion of the asset.

(iv) Evaluations of sector portfolio investments (for example telecommunications, energy, transport and climate) and thematic/cross-cutting investments in gender equality and disability equity to generate portfolio learning, understand broader impact of sector investments and to inform facility-level policy dialogue.

Investment-level baseline studies and completion evaluation teams may be resourced from the AIFFP in-house MEL team or its contracted MEL firm. Facility and sector portfolio evaluations, facility mid-term reviews and/or other impact evaluations will be independent and contracted separately from the providers of in-house MEL functions.

Strategy review, reflection and learning. The AIFFP will establish a periodic AIFFP strategy review. The strategy review process will consider performance and progress in relation to the AIFFP Logic and theory of change (for example contextual changes and political economy assumptions, results, unintended consequences, partnerships, principles, and theory of change sub-strategies including ESIA, capacity development, GEDSI, MEL, Sustainability, etc). The strategy review process will be used to generate lessons learnt, adapt strategy, and to inform annual IMRs and other departmental reporting processes. Some strategy reviews will be internal only, involving AIFFP staff. Others may involve key counterparts in EFA, the Support Unit, and potentially, partner representatives. Each strategy review methodology can be adapted to include inwards facing reflection and learning and/or outward facing reflection and learning involving key stakeholders and would be designed and facilitated by a MEL service provider. The AIFFP should use evidence and learning from MEL and strategy reviews to develop and implement a continuous improvement process. The AIFFP may also convene partners' forums or use other platforms/processes such as conferences and knowledge brokering platforms (to be developed in the MEL Plan) to share knowledge, showcase achievements, disseminate learning, and reflect on micro – macro level impact in the infrastructure sector in the Pacific and Timor-Leste.

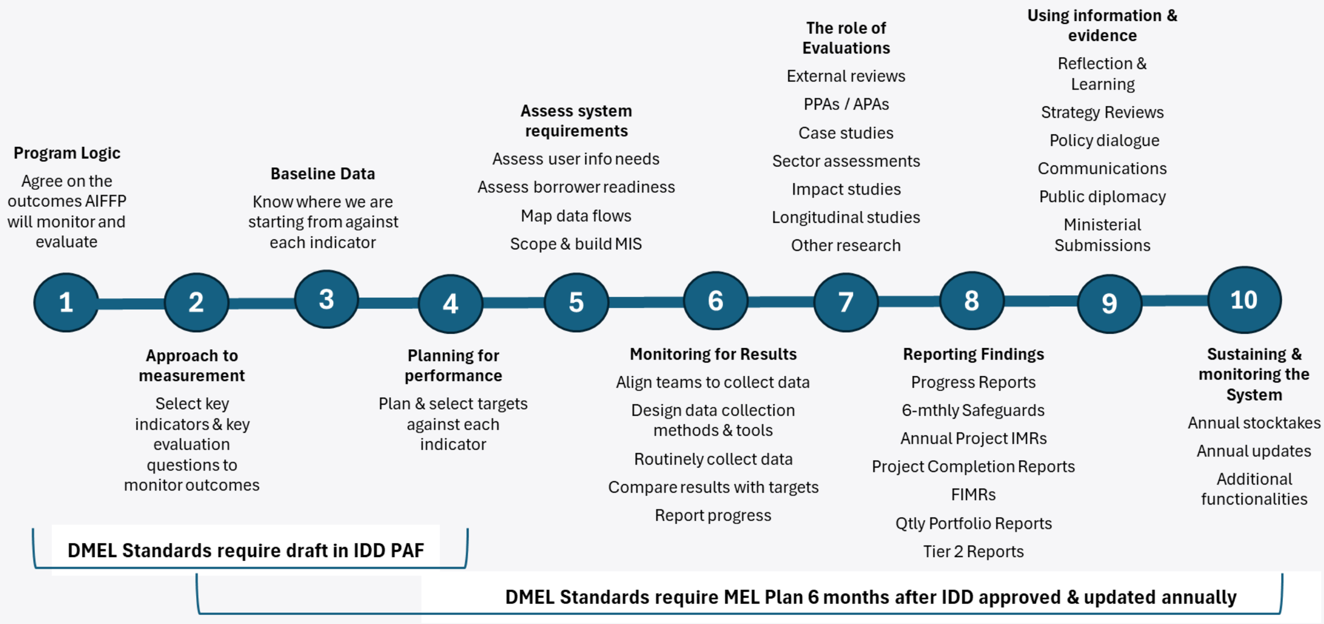
Reporting and communication. The AIFFP will prepare an Annual IMR that is outcome focused and reports progress and performance against the PAF key evaluation questions, indicators and targets using data and evidence generated from the MEL system. The AIFFP will provide guidance and templates to ensure that wherever possible, partner and sub-contractor reporting will be aligned to AIFFP MEL Plan reporting requirements (guidelines, templates, timelines). The AIFFP and partner/contractor monitoring will generate data, case studies and stories of change that will be used in Tier 2 indicator reporting, DFAT investment monitoring reports, and to generate strategic communications and public diplomacy content for DFAT. The AIFFP will also continue to prepare the Annual AIFFP Update which is published on its website and made available as part of its communications strategy. Other reports to which the AIFFP contributes include the Pacific Regional Development Partnership Plan annual reporting, Performance of Australian Development Cooperation annual reporting, AIFFP Board portfolio execution performance reports, AIFFP quarterly risk management reporting, and communications and public diplomacy content for DFAT.

Primary users of information. The primary users of MEL outputs and information will be the AIFFP Board, AIFFP, DFAT, and partners. The AIFFP, through its Board, SES and governance mechanisms, will use portfolio performance information (execution, risk and results) to complement project-level MEL to inform strategic direction setting/course correction, and for policy dialogue, planning, resource allocation, and reporting, including for international reporting for Sustainable Development Goals. Information will be used by DFAT for performance monitoring, to inform new program designs, policy dialogue engagement, and International Development Policy reporting.

Indicative Approach to Strengthening the AIFFP MEL System

An indicative approach to strengthening the AIFFP MEL System, illustrating the dependencies between system elements is shown in Figure 2. Each of these elements needs to be designed and documented in the AIFFP MEL Plan and properly resourced.

Figure 2: 10 Steps to a MEL System



MEL Budget and Resourcing

AIFFP MEL Enabling Support Allocations

The AIFFP currently has approved in-house full-time MEL staffing with additional support through the Support Unit, overseen by the AIFFP Chief Quality Officer and the Director Evaluation and Strategic Communication. Together these roles have a combined responsibility for designing, implementing and overseeing the AIFFP MEL Plan and partnering with AIFFP investment teams to support investment-level MEL for the entire AIFFP project portfolio. It was initially assumed that investment-level project MEL costs (those in addition to staffing) would be funded from investment-level MEL allocations included in loan and grant packages, however this has not consistently been the case. To provide surety of funding allocations for centrally led MEL activities, a MEL budget has been allocated and is intended to be utilised for:

- Services of a specialist MEL firm to support facility MEL system strengthening and to supplement investment-level MEL staffing.
- Routine facility MEL activities facilitated/undertaken by the AIFFP MEL team, including partner MEL capacity strengthening.
- Commissioning independent studies and portfolio, sector, country or thematic evaluations.
- Commissioning of independent facility reviews (at least once every 3 years).
- Addressing MEL funding gaps in early projects where MEL was insufficiently resourced in loan/grant packages (approximately 75 per cent of approved projects).

The combined in-house staff costs and the central MEL budget amounts to 4.05 per cent of the enabling budget, in compliance with DFAT MEL Standards. Subject to progress with growing investment level MEL activity allocations (discussed below) and how those are programmed, this central budget is likely to require substantial increases in the coming years to ensure sufficient funds are available to implement the AIFFP MEL Plan.

Investment-level MEL Allocations

While DFAT Design and MEL Standard 4.22 requires that 4-7 per cent of the budget be allocated to MEL, the AIFFP will need flexibility to vary its percentage investment-level MEL allocation due to the varied nature of its infrastructure investments (some require less or more MEL inputs) and the relatively high capital costs of some types of infrastructure (meaning that MEL allocations as a proportion of capital cost may be lower than the DFAT Standard). For the AIFFP and its projects, a cost estimation approach may be more appropriate than a percentage estimation approach for MEL budgeting.

In accordance with the AIFFP Project Guide, investment/project level MEL budgets are to be included in each project loan and grant package, to be utilised for project baseline studies, routine MEL activities including monitoring visits, project completion evaluations, impact studies, and any other MEL activities included in project MEL plans.

Based on the design team's consultations, the current magnitude of AIFFP investment level MEL allocation is insufficient for AIFFP to approximate the DFAT MEL Standard, even allowing for flexibility in proportional allocations within different types of infrastructure loan and grant packages. To address this shortfall the design intends that AIFFP incorporate MEL cost estimation guidelines into the AIFFP Project Guide, with assumptions and unit costs (with escalators to account for long infrastructure lead times) for different types of sector infrastructure and each project phase (project origination, preparation, baseline, routine monitoring during construction, completion and ex-post impact evaluation). AIFFP project guidelines should also be amended to prevent the re-allocation of earmarked MEL funds to non-MEL related activities such as unforeseen project related costs, TA and travel. These approaches will ensure that future AIFFP investments have adequate MEL allocations. Those approved projects that currently do not have MEL in package allocations will need to be resourced from the central MEL budget, hence the likely need for this to be increased within the coming years.

Risks to the MEL System

MEL risks are identified in the PAF and the AIFFP Risk Register and will be further discussed in the MEL Plan. The key risk to operationalising the MEL system is whether adequate MEL resourcing and expertise are available and whether an integrated AIFFP MIS is designed and operationalised within 12 months. Mitigating these risks will require dedicated DFAT MEL resources within AIFFP, augmented by a specialist MEL service provider, as well as ensuring AIFFP MEL responsibilities for data collection, analysis and reporting are distributed within AIFFP interdisciplinary teams (AIB, AQB, AOB). The AIFFP's dependence on partner/proponent, PMU and contractor data systems is also a MEL system risk, and partners are likely to require MEL capacity development support to mitigate this risk (which could be delivered by the MEL service provider). Investment level MEL is to be resourced separately to facility MEL.

Independent Performance Assessment

DFAT will commission independent reviews of the AIFFP at key points of implementation. This will include an independent review of AIFFP performance and progress towards EFOs approximately every 3 years, commencing in 2026. The AIFFP may also commission other independent evaluations periodically as noted above for individual projects, cross-cutting issues, or sectors. It will also commission periodic independent reviews of the Support Unit and MEL Contractor to assess whether the enabling functions provided by the Support Unit and MEL Contractor are fit for purpose and delivering value for money. Terms of reference for independent evaluations and reviews will be prepared with reference to DFAT MEL Standard 8.

The AIFFP is a multi-billion-dollar enduring facility. As it matures, the AIFFP may consider establishing an independent technical group in consultation with DFAT's Development Programming Division as a contestability mechanism (as recommended in the DFAT MEL Standard 5.15). The group would not duplicate the AIFFP MEL team which is involved in day-to-day MEL activities nor the role of the AIFFP Board. It would potentially help the MEL team and senior management to engage in critical reflection and to identify strategic priorities, opportunities and improvements to be incorporated into future AIFFP programming.

Compliance

The AIFFP MEL approach is guided by DFAT's Design and MEL Standards. All MEL products, including those produced by the Support Unit and the MEL service provider, must meet the DFAT Design and MEL Standards.

G. Climate and Disaster Resilience, Local Participation, Gender Equality, Disability Equity and Inclusion, Sustainability, Incentivising the Private Sector, and Other Cross-Cutting Issues

AIFFP is committed to optimising the development impact of infrastructure investments, consistent with the Pacific Quality Infrastructure Principles and AIFFP's Logic.

Climate and Disaster Resilience

The Pacific and Timor-Leste are among the world's most vulnerable countries to climate change, extreme weather and seismological events, particularly sea level rise, tsunamis, tropical cyclones, earthquakes and volcanoes. The average annual investment needs for climate proofing infrastructure in the region are estimated to be 6.5-9 per cent of GDP (IMF 2021).

Australia recognises Pacific Leaders' clear statements – outlined in the 2018 Boe Declaration and the 2050 Strategy for the Blue Pacific Continent – that climate change remains the single greatest threat to the livelihoods, security, and wellbeing of Pacific peoples. Through the AIFFP, Australia is committed to assisting Pacific governments to ensure that infrastructure investments can contribute to strengthening Pacific communities' resilience to climate change and extreme weather events, allowing people to lead safe, secure and prosperous lives by integrating climate and disaster resilience through the planning, design and construction of all projects.

Australia is contributing at least AUD350 million in climate infrastructure to help the region transition away from fossil fuels and build a climate-resilient future through PCIFP, which is managed by the AIFFP and reflected in the AIFFP Logic at IO1.5. PCIFP includes 3 components:

(i) *Component 1 – Delivering major climate-focused projects*. PCIFP will increase support for medium and large-scale, climate-related infrastructure that mitigate, adapt and build resilience to the impacts of climate change. Through the Palau Independent Power Producer - Solar Generation and Battery Energy Storage System (BESS) project, for instance, AIFFP financed new private sector investment to build the largest solar PV generation plant in an independent Pacific country. Similarly, the AIFFP's Solomon Island Tina River Hydropower Transmission System will connect the capital Honiara to a major hydropower generation facility being supported by the World Bank, ADB, Australia, Korea and other partners. PCIFP has a target of 4 additional Component 1 projects with climate response as a primary objective that will demonstrate the Australian Government's commitment to climate infrastructure in the region.

(ii) *Component 2 – Climate strengthening of existing or future AIFFP investments*. PCIFP will strengthen existing or future AIFFP projects by drawing on up to AUD50 million of AIFFP's grant funding envelope to fund climate change mitigation, adaptation and resilience add-ons to AIFFP projects.

(iii) *Component 3 – Supporting small-scale and off-grid renewable energy*. The AIFFP has a separate pool of grant funding (additional to the AIFFP's existing budget) to deliver a competitive grant program for small-scale, community-based and off-grid renewable energy projects across the Pacific, in close partnership with Pacific governments and other partners in the REnew Pacific Program.

AIFFP is committed to ensuring that all infrastructure that it finances is resilient to rising temperatures, increased rainfall and flooding, drought, sea level rise and extreme weather events. An initial climate hazard exposure assessment (ICHEA) is undertaken for all projects to identify whether a project may be vulnerable. If this initial screening identifies medium or high exposure to climate hazards, a more comprehensive climate change disaster risk and vulnerability assessment (CCDRVA) is undertaken by design engineers to consider climate and disaster risks in planning and design stages. These tools have been developed by the AIFFP and use the latest global, regional and local climate data and modelling. The data is complemented by engagement with project stakeholders to develop climate and disaster resilience objectives, which are articulated in project Monitoring, Evaluation and Learning (MEL) plans.

The AIFFP aims to ensure that its projects integrate relevant climate change considerations and thus contribute to the climate adaptation and mitigation efforts of governments in the Pacific and Timor-Leste.

Opportunities to align AIFFP investments with national climate priorities, including NAPs and NDCs, are assessed where appropriate.

The AIFFP's Project Guide currently includes guidance for integrating climate and disaster resilience, GEDSI and other cross-cutting considerations into its investments. Where needed, the AIFFP will draw on expert TA to support the integration of climate and disaster resilience into its overarching strategies and into investments.

Where relevant, project-level MEL frameworks include climate resilience indicators to measure progress against relevant climate change impacts. Renewable energy projects include metrics to measure reduced carbon emissions from electricity generation and the socio-economic and resilience benefits of access to energy.

Climate Change and GEDSI Nexus in Infrastructure

Climate change, GEDSI, and rights outcomes are interconnected. Infrastructure is integral to ensuring equal access to basic services and opportunities for all. However, climate change, extreme weather events, and climate-induced migration and disasters place immense pressure on infrastructure and services. The effects of climate change and disruption of infrastructure services result in a disparity of vulnerability and exposure across genders. This stems from the intersections between gender, power dynamics, socioeconomic structures, and societal expectations. Failure to account for gendered differences and climate and disaster risks when designing infrastructure can result in asset failure, community displacement, loss of essential services, reduced productivity, and decrease the lifespan or return on investment.[12]

Across projects where climate is either a primary or secondary objective, and gender is also a significant objective, the AIFFP will incorporate analysis of the differential impacts of climate change on women and girls, people with disabilities and remote communities. The AIFFP may also employ nature-based solutions or green-grey infrastructure to mitigate climate and disaster risks on AIFFP projects where appropriate.

Local Participation

Prioritising local participation is a central element of the value proposition that the AIFFP can offer Pacific and Timor- Leste partners, especially when compared to other bilateral infrastructure lenders where all aspects of planning, design, procurement, and construction will often be tied to inputs from the financier's country. It is consistently raised as a key priority in Pacific leaders' expectations of the AIFFP.

Infrastructure built and maintained by local workers and enterprises generates important opportunities for local communities and contributes to lasting economic growth and development. Across its portfolio, the AIFFP promotes opportunities for local workers (women and men) and suppliers (including women-led and women-owned enterprises) to ensure that its projects are locally informed, locally led and benefit the people of the Pacific.

The AIFFP has strengthened its local content approach, and all projects should have a project Local Content and Industry Participation (LCIP) Action Plan which sets out the commitments and actions to optimising local participation. Design consultants are required to consider the use of materials, construction methods and maintenance approaches that are suited to the local context. Detailed assessments of local labour markets and supply chains are also undertaken to ensure contracting packages and delivery models encourage local industry involvement.

All tenders for AIFFP projects continue to be evaluated on their commitment to local content, and AIFFP works contractors are required to develop a Local Content and Industry Participation Plan (LCIPP). The LCIPP forms a contract document which holds contractors to account for meeting their own nominated targets for local employment, training of local workers and the subcontracting opportunities for local firms.

[12] ADB. 2023. Enhancing gender equality in infrastructure development theories of change, indicators, and sector strategies. https://www.adb.org/sites/default/files/publication/934986/gender-equality-infrastructure development.pdf.

AIFFP's Social Procurement Policy (2022) sets out the principles guiding AIFFP's approach to procurement and provides guidance to suppliers seeking to incorporate these principles into their proposals when competing for AIFFP procurement opportunities to ensure greater inclusivity and sustainability. The policy objectives related to localisation include job creation, creating contracting opportunities for Pacific businesses and building local skills and capacity in the Pacific.

Local content outcomes on AIFFP projects are constrained by the undersupply of suitably qualified Pacific skills. The AIFFP's ambition is to go beyond baseline limits of local content by increasing the supply of Pacific skills through a two pronged approach: (i) requiring consultants and contractors to offer graduate placements for young professionals and work experience placements for trades trainees on AIFFP projects; and (ii) partnering with national professional associations in the Pacific and/or programs such as PASP (Australian Pacific Training Coalition successor) to increase the recognition and certification of skills acquired by Pacific workers through on-the-job training. This approach will expedite the achievement and quality of Pacific qualifications through participation on AIFFP project sites.

To further support local skills development, the AIFFP has commenced a pilot in PNG to develop an accessible pool of 'work ready graduates' in relevant technical areas to alleviate some of the supply chain/ sectoral impediments faced by contractors. There is scope for furthering this work and addressing other system constraints to better enable project level local content outcomes. As noted in Section D, the design includes targeted funding for local content, GEDSI and safeguards, subject to criteria and guidelines to be developed by the AIFFP and approved by the Assistant Secretary, AIFFP Quality Branch.

Gender Equality, Disability and Social Inclusion (GEDSI)

The new phase of the AIFFP builds on lessons learned over its 6 years of design and delivery experience as well as from other DFAT infrastructure investment in the Pacific in the following ways:

(i) **Context matters.** Potential to address GEDSI varies within the broad category of economic infrastructure, with wider prospects in public infrastructure (roads, ICT and renewable energy) than in infrastructure without public users (for example an airport runway or a commercial shipping port). Positive outcomes are more likely from grant-funded projects (where Australia exerts greater control and provides resources) than loans (where proponents may not be willing to bear the financial burden for integration of GEDSI considerations). The Pacific context requires recognition of the challenges of an underdeveloped private sector.

(ii) **Dedicated funding for GEDSI support to proponents and contractors**. During competitive procurement, governments can incentivise action by including costed GEDSI approaches in bid evaluation criteria. Once a project has been approved, contractors can be incentivised to initiate progressive employment practices. Quality design and implementation of such approaches will often require wrap-around support, in particular for loans. A dedicated centralised allocation of funding is therefore budgeted as noted above.

(iii) **Allocate resources for disability equity and inclusion.** Stakeholders will often require support to go beyond gender equality and understand and address disability equity and inclusion.

(iv) **Diverse voices matter.** Early engagement with women's rights organisations and OPDs helps ensure that design and technical solutions in infrastructure projects generate better end results for a broad range of users.

(v) **Evidence is still scarce.** Due to data gaps, it is difficult to establish evidence of the benefits from GEDSI-sensitive/responsive critical infrastructure. This limits the ability to persuade policy makers and borrowers and influence funding decisions. Investment in data gathering is essential.

(vi) **Quality analysis.** The quality of GEDSI analysis across the infrastructure sector has been variable. Improvement will require adaptation of DFAT tools to the infrastructure sector context. The AIFFP is committed to using combined GEDSI analysis that is intersectional in nature, meaning that it recognises the compounding nature of exclusion and privilege due to multiple identities (for example, exclusion of women with disabilities due to gender discrimination as well as stigma and lack of accessibility related to disability).

(vii) **Require GEDSI to be central to wider development benefits and safeguards.** Integration of GEDSI into local content requirements can generate meaningful results through sourcing of materials and services from more women-owned companies and increasing the number of women in the workforce. Integration of GEDSI analysis into environmental and social safeguards processes and tools streamlines stakeholder and community consultation processes, minimises duplication and reduces the burden on project stakeholders.

Building on its work to date, the AIFFP will continue to use GEDSI Action Plans (GAPS) as the primary tool at the project-level to operationalise gender equality and other GEDSI commitments. GAPS are incorporated into key implementation documents, including the ESMPs and Project Administration Manuals (PAMs). The AIFFP's project GAPs include:

(i) Identification of GEDSI risks identified through safeguards processes and articulation of actions and/or targets to mitigate these risks.

(ii) Identification of GEDSI impact opportunities and articulation activities and/or targets by which to measure progress.

(iii) Assigning of responsibility for implementation of these activities to relevant project stakeholders (for example borrower, implementing entity, PMU, contractor, subcontractor, etc).

As AIFFP projects progress from preparation to implementation, GAPs will be refined through the Construction ESMP (C-ESMP). This requires contractors and subcontractors to articulate the steps they will take to progress GAP commitments. Implementation is monitored through regular progress reporting on GAPs alongside safeguards and local content monitoring and reporting processes. Projects will collect sex-disaggregated data (mandated across all investments) to improve understanding of (narrowing) gender gaps and the (differential) social and economic benefits accruing to women and men.

At the facility level, the AIFFP GEDSI team will comprise a dedicated APS staff member covering full GEDSI responsibilities, existing embedded contractors (one dedicated GEDSI staff and part of the time of a second staff member), and a dedicated disability resource to be procured in. This GEDSI team will be responsible for implementation and monitoring of the above processes to determine and achieve GEDSI results, supported by safeguards and local content teams/experts in PMUs or contractor teams.

Gender Equality

Gender equality is central to the AIFFP's objectives. Designing and delivering critical infrastructure in ways that deliver equitable development benefits for marginalised and excluded women is a strong value-add of the AIFFP. In line with Australia's International Gender Equality Strategy, AIFFP projects have the potential to contribute to women's economic equality, ending sexual and gender-based violence, locally led approaches to women's leadership, and gender equitable climate action. In doing so, the AIFFP builds on extensive lessons learned from Australian investment in infrastructure in the Pacific, as well as global evidence demonstrating the potential for economic and social benefits for women such as jobs and business opportunities, increased leadership opportunities, improved safety, as well as reduced time burden.

Across the Pacific, women face widespread challenges, including the world's lowest representation in formal politics, very high levels of sexual and gender-based violence, economic inequality, high time poverty and legal discrimination. These inequalities limit women's access to infrastructure and exclude them from decision-making about infrastructure design, thus limiting their potential to benefit equitably from infrastructure investment. The intersection of gender and climate change also means that disruptions of infrastructure services resulting from increasing natural disasters and climate change can disproportionately impact women and girls.

Principle 6 of the PQIP on inclusivity calls for non-discriminatory access to infrastructure services and action to increase women's participation in infrastructure planning, design, management and construction. These features are reflected in the AIFFP's Logic, which includes specific language to support GEDSI outcomes through IO2.3: *'Infrastructure projects are designed and implemented to help overcome barriers and deliver equitable benefits for women, girls and boys, persons with disability and others vulnerable to exclusion'.*

The AIFFP takes a twin-track approach to gender equality. Gender equality considerations are integrated throughout the project cycle and project activities, complemented by targeted approaches to address gaps and barriers. Project teams ensure that all projects contribute to narrowing gender gaps and overcoming gender barriers so that women can benefit equitably from the investment and their needs and priorities are addressed. This requires projects to:

(i) Implement, and require our partners to implement the 'Do No Harm' principle, to ensure that gender inequalities are not exacerbated and women and girls are not disadvantaged (see safeguards and risk management processes).

(ii) Include gender considerations into all analyses (feasibility studies, due diligence, and environmental and social assessments) to identify key gaps and relevant opportunities to address.

(iii) Build on the findings from GEDSI analysis, to understand gender gaps in the sector, identify risk of unintended consequences, and assess how to maximise gender equality impact, including strengthening champions for gender equality and relevant policy commitments.

In line with the IDPG, AIFFP projects must have a gender equality marker assigned at design stage to signal intent to promote gender equality, in accordance with OECD DAC Gender Equality Policy Marker criteria (that is, 'not targeted', 'significant' or 'principal'). All AIFFP projects should be classified as having gender equality as the 'principal objective' or a 'significant objective', unless they are given an exemption ('not targeted'). These policy markers are assigned at design stage (see Table 3 below). The AIFFP expects most projects to be classified as having gender equality as a 'significant objective', in line with DFAT's requirement for projects valued at AUD3 million and over to include a gender equality outcome in their design, although exemptions have been sought in limited circumstances where analysis shows there are minimal opportunities to advance gender equality relative to the scope of the investment.

These policy markers dictate the minimum expectations and gender equality outcomes for projects.

Table 3: Gender Criteria and Minimum Expectations

Policy Marker	Gender Equality Criterion	Minimum Expectations
Not Targeted	Gender (or GEDSI) analysis has been conducted.	› GEDSI analysis is conducted during project origination and design, including feasibility studies, ESIAs and due diligence assessments.
	Findings of analysis have been used to inform management of gender-related risks and ensure the project does no harm.	› Findings of the above analysis and use of safeguards and risk screening tools are used to identify strategies for the mitigation of gender-related risks, typically through ESMPs and GEDSI Action Plans. This includes a particular focus on the management of PSEAH and CP risks.
	Sex disaggregated data is collected and used.	› Sex disaggregated data is mandated in MEL, local content and GEDSI monitoring reports.
Significant / Principal Objective	*In addition to the above criteria.* Findings of analysis have been used to inform the design and implementation of the project.	*In addition to the above criteria.* › GEDSI analysis is used to inform GEDSI Action Plans, including setting targets and commitments for the project.

Policy Marker	Gender Equality Criterion	Minimum Expectations
	MEL system includes qualitative and quantitative indicators.	› GEDSI indicators are included in MEL framework, baseline studies and GEDSI Action Plan monitoring reports.
	Appropriate activities and strategies are being implemented to advance gender equality.	› Activities and strategies to maximise gender equality impact are articulated in GEDSI Action Plans, and/or through targeted partner capacity building activities or wrap around support.

The next phase of the AIFFP will see an increase in resources to achieve gender equality outcomes, through an increase in specialist technical resources (a full-time APS GEDSI position supported by an embedded contractor) and the introduction of a dedicated allocation of funds to support project teams from origination through implementation to achieve equitable development outcomes. The AIFFP will continually monitor GEDSI resourcing as more projects move to implementation. For AIFFP projects, GEDSI considerations, including the requirement for sex disaggregated data, are an explicit aspect of loan and grant agreements and procurement processes, to avoid these being ignored or under-resourced.

Disability Equity and Inclusion

In 2020, the number of people living in Pacific states with some form of disability was estimated to be at least 1.5 million (equal to 10 per cent of the population), with incidence expected to rise (SPC data). Persons with disabilities in the Pacific are among the poorest and most marginalised in their communities. They are overrepresented among those living in poverty and underrepresented in social, economic and public life, including in national decision-making.

Energy, telecommunications, transport and other economic infrastructure can have profound and differential impacts on people living with a disability. If designed and implemented with accessibility considerations in mind, infrastructure improvements can trigger significant benefits for people with disabilities. The AIFFP integrates disability equity within a combined GEDSI approach, which is common practice for infrastructure projects. However, the AIFFP understands the inherent risks of adopting a combined approach with potential for disability considerations to be overshadowed by gender focus and other social safeguards. At the same time, the AIFFP recognises the capacity and resourcing constraints that implementing entities face in the region as they respond to a growing number of cross-cutting development priorities.

AIFFP projects are committed to ensuring no new barriers for people with a disability through AIFFP-financed infrastructure. As part of its GEDSI analysis, the AIFFP identifies potential barriers to inclusion and explores opportunities to promote equity and rights for people with disabilities. The AIFFP is committed to doing so in consultation and engagement with people with disabilities and/or OPDs to understand accessibility needs and identify opportunities to apply the universal design principles early in the planning and design stages. Consultation with the Pacific Disability Forum (PDF) during the design update process surfaced opportunities to link to PDF's advocacy and technical support for establishment and implementation of disability-responsive national building codes. The AIFFP undertakes to hold annual virtual consultations with PDF and its national member organisations, to provide an update on approaches and results, hear about the priorities voiced by persons with disabilities, and exchange lessons learned and good practices in the infrastructure sector. These consultations will be resourced to enable members participation, with reasonable accommodations provided.

In late 2024, the AIFFP undertook a stocktake of the AIFFP's disability equity approaches across the project portfolio, in consultation with DFAT's Development Programming Division. This analysis led to the development of a standardised framework to categorise AIFFP projects, in line with the IDPG and in accordance with the OECD DAC policy markers, identifying disability as either a 'significant objective' or 'not targeted'. These policy markers are assigned at the design stage and dictate the minimum expectations and disability outcomes for projects (see Table 4 below). The classification framework distinguishes between publicly accessible infrastructure and 'plant-style' infrastructure which has no public user component:

(i) publicly accessible infrastructure such as non-commercial ports, boat harbours and roads will be assigned a 'significant' policy marker. In line with the Pacific Quality Infrastructure Principles (specifically, Principle 6 on inclusivity), this type of investment will be expected to promote and where feasible apply universal design principles in project preparation and design processes. These efforts will be undertaken in collaboration with OPDs and based on consultations with persons with disabilities. For these public-use infrastructure projects, the AIFFP will leverage and/or strengthen national standards for the built environment and apply universal design principles to move beyond mobility to address a broader range of impairments.

(ii) 'plant-style' infrastructure investments, such as submarine cables or transmission lines, where there are no inclusive design options due to the inaccessible nature of the infrastructure, hence these investments be 'not targeted' for disability. The AIFFP will remain responsible for ensuring that projects in this category do not exacerbate exclusion of persons with disabilities.

Table 4: Disability Criteria and Minimum Expectations

Policy Marker	Disability Equity Criterion	Minimum Expectations
Not Targeted	Disability (or GEDSI) analysis has been conducted.	› GEDSI analysis is conducted during project origination and design, including feasibility studies, ESIAs and due diligence assessments.
	Findings of analysis have been used to ensure the project does no harm and does not reinforce discrimination.	› Findings of the above analysis and use of safeguards and risk screening tools are used to identify strategies for the mitigation of disability risks, harms and/or discrimination typically through ESMPs and GEDSI Action Plans.
Significant / Principal Objective	*In addition to the above criteria.* Findings of analysis have been used to inform design and implementation of the project.	*In addition to the above criteria.* › Demonstrated link between GEDSI analysis and project design, including evidence of accessibility audits (where applicable) and application of universal design principles and national standards.
	MEL system includes qualitative and quantitative indicators and collects and uses disability-disaggregated data where applicable.	› GEDSI indicators are included in MEL framework, baseline studies and GEDSI Action Plan monitoring reports.
	Project includes meaningful involvement of people with disabilities and/or OPDs, and resourcing of disability related activities and provision of reasonable accommodations.	› Participation of people with disabilities and/or OPDs in the project, including through stakeholder engagement/community consultations, project or project-adjacent roles and the provision of reasonable accommodations to enable participation. › Disability related activities through targeted partner capacity-building or wrap around support.

Project guides and SOPs will be regularly tested against Australia's commitments as articulated in Australia's International Disability Equity and Rights Strategy (2024). The new phase of AIFFP will see an increase in resources to achieve disability equity outcomes, through an increase in specialist technical resources (with AIFFP's dedicated APS GEDSI role supported by disability-specific contractor advice) and the introduction of a centralised fund for wrap-around support to achieve development impact which will be used to fund discrete disability inclusion interventions.

Private Sector Engagement

Providing financing to the private sector, leverages the private sector to deliver critical infrastructure projects and positive development impact without imposing unsustainable debt burdens on partner countries. It builds on DFAT's ongoing efforts to promote economic growth and engage the private sector in achieving development outcomes. AIFFP financing to the private sector is generally at market rates, although there is flexibility for longer tenors to smooth project financing risk, local currency lending (facilitated through EFA's guarantee instrument) to reduce exchange rate risk, and/or deferring interest payments to account for delayed revenue ramp-up periods. The AIFFP has encouraged market driven and private sector led investment in Pacific infrastructure through a range of financing modalities including, for example, AIFFP lending to a private sector proponent that had won a competitively tendered concession to provide power to the Palau electricity utility, which supported the largest solar generation facility in an independent Pacific country. The AIFFP's partnership with ANZ Bank to guarantee an FJD denominated loan from ANZ to finance Airports Fiji Ltd runway upgrades was one of the first local currency financing packages in the Pacific provided by any official lender. Policy and legislative changes in 2021 to the EFIC Act also provide scope for the AIFFP to consider a wider range of financing modalities including equity. While having the capacity to deploy a wide range of instruments is useful, the experience of other official bilateral and multilateral lenders in the Pacific suggests that opportunities may be relatively limited.

There are opportunities for the AIFFP to proactively support Pacific countries and utilities to encourage greater private sector investment. Across the region, countries have been tendering concessions for new private investors to build and operate new renewable energy generation facilities, with a long-term offtake agreement to the public utility. There may also be similar opportunities in other infrastructure sectors. OTP has historically financed MDBs to provide transaction advisory support to Pacific countries to assist them prepare projects and take to them market. Greater direct AIFFP engagement with utilities, including through financing of high-quality Australian or other international firms to provide such transaction advisory services, could help to ensure more direct oversight of these processes and management of risks – emerging in some Pacific countries – that lower quality firms either win concessions or are able to circumvent due process through unsolicited bids. The AIFFP's lending headroom would also allow the AIFFP to offer financing for successful tenderers and build a private sector pipeline of renewable energy investments. Building such a business line will require both ODA-eligible third-party TA resources to support Pacific utilities – in the same way the AIFFP sometimes funds sovereign project preparation – as well as increasing the staffing resource profile of the AIFFP private sector team so it has internal capacity to manage this work.

Sustainability

The AIFFP will continue to promote sustainability by:

(i) Integrating climate and disaster risk considerations through the project life cycle, by ensuring appropriate climate change and disaster risk vulnerability assessments are undertaken during project preparation and using the assessments to inform project design.

(ii) Building the capability of proponents to operate and maintain infrastructure assets through targeted assistance to support the longevity of built infrastructure and enhance the capacity of local actors to lead, manage, and sustain quality infrastructure delivery over time, beyond the life of AIFFP-supported activities.

(iii) Leveraging the bilateral program and strategic partnerships with Australian and regional institutions, MDBs and like-minded partners to promote long-term infrastructure related institutional strengthening including building partner systems and embedding inclusive and resilient infrastructure standards.

Ensuring the long-term sustainability of AIFFP financed infrastructure assets will, however, require an integrated approach. For instance, policy dialogue associated with DFAT budget support financing in many Pacific countries will be an important avenue to encourage appropriate long-term maintenance financing be provided. Bilateral grant funded programs will also be important to directly financing long-term maintenance needs, as with the road maintenance financing provided through the bilateral PNG Transport Sector Support Program (TSSP), especially given many countries' reluctance to borrow for maintenance as well as constraints on AIFFP's overall financing.

H. Budget and Resources (What will it cost?)

The Government announced in 2026 an increase to the AIFFP's financing capacity from AUD4 billion to AUD4.55 billion, including AUD3 billion in lending and AUD1.55 billion in ODA.

Infrastructure Financing Instruments

The AIFFP's grant capacity has been critical to enable Australia to support priority infrastructure in Pacific countries unable to borrow and offer sovereign loans on terms commensurate with the MDBs and other bilateral financiers. Average official sovereign infrastructure lending of over USD600 million annually from all official creditors since the AIFFP was established demonstrates that there is continued demand. Over two-thirds of new sovereign infrastructure lending to the Pacific region from all official creditors over the past few years has been on highly concessional terms – often with fixed rates of about one per cent per annum and very long-term maturities. Very significant grant allocations have been required alongside loans, with the differential between EFA terms and MDB concessional financing growing further as interest rates increased since the AIFFP was established.

ODA Eligibility and Budget Issues

The AIFFP will use both ODA and non-ODA funds for projects. Most AIFFP grant financed activities will promote the economic development and welfare of developing countries and will be ODA eligible. The 2020 graduation of Cook Islands from ODA eligibility, as well as Naoero's potential graduation, mean that any grant financing required for projects in these countries will need to be non-ODA administered grants. Where non-ODA funds are required for specific activities, required appropriations will need to be sought through Government budgetary processes and offset against the AIFFP grant cap.

The potential to offer highly concessional sovereign loans means that the AIFFP's loans may be ODA eligible. Should new loans be ODA eligible, the AIFFP will report in accordance with OECD rules. In such cases, the ODA grant equivalent element of loans would be reported as part of Australia's total ODA estimates.

Enabling Support

The AIFFP's 'front office' functions will continue to be managed by a division in DFAT, drawing from specialist expertise through an integrated AIFFP Support Unit, as outlined in Section E.

I. Procurement and Partnering

Procurement Approaches

Ensuring high-quality procurement outcomes is critical to both the AIFFP's strategic objectives as well as to meet the Pacific Quality Infrastructure Principles. The AIFFP has a flexible approach to project delivery depending on the type of finance provided, proponent capacity and value for money considerations. AIFFP projects may use a variety of financing structures and funding mechanisms, including but not limited to:

(i) Directly contracting or sub-contracting works and advisory services.

(ii) Proponent-led procurement by Pacific partners.

(iii) Other like-minded implementation partners' systems.

Direct Contracting

As is common across DFAT programs, the AIFFP can contract firms directly or can work through lead contractors to sub-contract works (such as through a managing contractor for small-scale projects). This is likely to be the most common approach when activities are fully grant financed. In such cases, especially for larger works contracts, the AIFFP would normally agree the scope of projects through an MOU with partner governments.

Proponent-led Procurement

Proponent-led procurement is likely to be common for both sovereign and private sector loan financing. For sovereign loan financed activities, borrowers are often required to meet national legislative requirements on procurement, as well as having a direct interest in overseeing activities for which they will be required to make repayments. In such cases, roles and responsibilities are generally set out in a project administration manual or similar document. The AIFFP also has scope to use Pacific partners' systems for grant financed activities.

Where the AIFFP is considering proponent-led procurement processes, fiduciary assessments and entity due diligence will be conducted in line with DFAT policies and where applicable by EFA. For partner-led projects, including where partner government systems are used, financial management and procurement capacity assessments (including an Assessment of National Systems for sovereign loans as part of due diligence) will be conducted to identify risks to project delivery and any areas where systems are not compliant with DFAT policies or the AIFFP's delivery requirements. Where gaps are identified, project design will incorporate additional support and risk mitigation strategies, controls and treatments to manage and monitor identified risks.

The AIFFP will normally provide strong fiduciary oversight of proponent-led procurement, with AIFFP 'no objection' required at critical stages of the process, including prior to issuing tender documents, bid evaluations, and contract awards. To support sovereign borrowers, the AIFFP will often finance proponents to access additional capacity to assist with design, contracting, and supervision of works. In some cases, the AIFFP may also contract a project management office (PMO), reporting to the AIFFP, to ensure oversight. PMOs can also assist with delivery support with borrowers delegating functions to the PMO advisers.

To support 'end to end' project implementation, the AIFFP may establish and contract project management teams prior to project detailed design starting where it is appropriate to do so. The AIFFP would normally go to market to contract project management teams, although there have been exceptions:

(i) Reflecting the need to move quickly to establish a PNG energy Joint Program Management Office (JPMO), the AIFFP did so through the AIFFP Support Unit; although this is unusual, ensuring continuity now that the JPMO is in place will be important.

(ii) Where appropriate, the AIFFP will use bilaterally financed structures to ensure coordination across DFAT financed programs. To support PNG Ports Corporation Ltd (PNGPCL), for instance, the AIFFP is financing a PMO through the bilaterally funded Transport Sector Support Program (TSSP) with PMO staff part of a joint implementation team with PNGPCL staff and supporting PNGPCL to directly contract loan financed activities with the AIFFP's no objection.

Private sector financing – whether loans, guarantees, or equity – would normally be undertaken with private proponents leading procurement, and AIFFP financing decisions subject to satisfactory outcomes. The AIFFP is not actively seeking equity investment opportunities, but the instrument is available if required.

Working Through Implementation Partners

The AIFFP may co-finance projects with other development partners through parallel or direct co-financing. Parallel financing may be used where projects and procurements can be sensibly separated, taking into consideration coordination requirements, integration of components, requirements to share site access, increased burden on partner governments, transaction costs and timelines. Alternatively, direct co-financing may be utilised where procurement packages are unable to be separated or there are efficiencies.

For direct co-financed investments such as with New Zealand, the United States or MDBs, the AIFFP will usually rely on arrangements established by the lead co-financier (which may be Australia), including procurement, and safeguard systems. As part of the AIFFP's due diligence process, the AIFFP will review partner safeguard provisions and if needed, identify additional measures that may be required to meet DFAT's policies. The scope for potential co-financing from the AIFFP has proven to be effective in supporting broader Australian efforts to encourage a greater focus on quality in MDB financed procurements. The potential of AIFFP co-financing for ADB financed port upgrades in Tonga and outer-island boat harbours in Tuvalu, for instance, helped give partner governments confidence to prioritise quality in procurement.

Encouraging High-Quality Firms, Local Participation and Appropriate Standards

The AIFFP will need to carefully consider how contracts are structured to balance imperatives to reduce risk against wider objectives of encouraging local participation as well as greater engagement of high-quality firms in the region when activities are beyond the capacity of local firms to deliver.

AIFFP financed contracts can be perceived by firms with strong domestic business pipelines in Australia as relatively small value involving high risk jurisdictions. While the AIFFP is inevitably keen to reduce risks borne by DFAT or borrowers, there are real risks – highlighted by industry interlocutors – that overly strict contract terms and conditions will deter bidders. This includes, *inter alia*, unbalanced risk allocations, unrealistic insurance requirements, lack of clarity on host country taxation requirements, aggregate liabilities exceeding the value of the contract, high levels of liquidated damages, and limited scope for DFAT or proponents to negotiate bid proposals that contain departures or conditions. These issues have for instance, required the AIFFP to go through multiple bidding rounds for several major PNG works contracts to identify successful bidders. Industry has also highlighted that often long procurement timeframes for AIFFP financed projects, both to issue bid documents and then negotiate contracts, have led to significant cost increases.

Strict contracting requirements to mitigate risk, especially for minimum turnover and experience as well as insurance, similarly need to be balanced against the AIFFP's objectives of encouraging generally smaller local firms to bid.

Project procurement will also need to carefully consider the appropriate standards, including safeguards, to be followed in individual projects. In some cases, the use of Australian standards is likely to be appropriate to ensure the highest quality outcomes. There are also likely to be situations where the use of applicable national standards may be appropriate to ensure infrastructure that is fit for purpose while still ensuring the delivery of quality infrastructure.

Infrastructure Panel

A capital infrastructure services panel established by DFAT in 2020, and extended in 2025 for 5 years, now includes 45 suppliers. There are 2 elements to the panel: a client-side project management element, including services such as surveys and studies, design, construction delivery and maintenance; and a head contractor element for construction, including all services required for the physical delivery of capital infrastructure. The AIFFP will continue to assess the use of the panel to ensure it is fit-for-purpose to provide a flexible mechanism to access services.

J. Risk Management and Safeguards (What might go wrong?)

Risk Management

The AIFFP operates in a highly competitive, complex and challenging environment, where it needs to positively engage with risk to achieve its strategic objectives. The AIFFP's risk framework is governed by DFAT's established policies and an AIFFP Risk Appetite and Tolerances Statement (RAS), November 2025, to effectively manage and control the AIFFP's material risks. The AIFFP complies with DFAT's Enterprise Risk Management Policy, Commonwealth policy and the international risk management standard ISO 31000.
The Head of AIFFP division is the senior responsible officer of the AIFFP's risk management program.

The AIFFP's approach to risk management is guided by the following risk management principles:

(i) Continual improvement of the AIFFP's risk culture by embedding risk management activities into its core business-as-usual actions, where risk is everyone's responsibility and is actively managed across all our work.

(ii) Being proportional – by managing risks in a way that is proportionate to the potential impact on project outcomes and objectives and making best use of resources.

(iii) Supporting innovation – by accepting uncertainty where there is evidence that the benefits of doing so outweigh any potential negative impacts.

(iv) Adopting tailored solutions – by tailoring our risk approach to suit different environments and stakeholders, and different stages of the project life cycle.

All AIFFP projects are required to create and maintain a project risk register by the AIFFP Board endorsement stage (equivalent to the development design stage). AIFFP project risk registers are held in Mastt (the AIFFP's risk and investment management tool), which has been endorsed by DFAT's Development Risk Management Section (DRM). Project-level risk registers are required to detail the levels of inherent risk and proposed actions to mitigate risk creating residual risk outcomes. All risk registers are reviewed and updated at least quarterly (with frequency guided by AIFFP's tolerances in relation to specific project risks) or when there are material changes to the risk profile of a project.

The AIFFP Risk Appetite Statement (RAS) guides the AIFFP's risk culture and practice, assisting the AIFFP in assessing facility-wide risk and individual project risk, in place of the standard DFAT development risk assessment. It acts as a guide to the types and levels of risks, based on their likelihood and consequence. It also sets out the AIFFP's tolerance for different categories of risk, with these tolerances approved by the Head of AIFFP division and based on the DFAT Enterprise Risk Management and Development Risk Management Policies. This approach applies to all AIFFP projects, unless otherwise determined by the Head of AIFFP. The RAS is not static and is expected to be reviewed on a regular basis and adjusted as required.

Both individual AIFFP project risks and whole of AIFFP facility risks at a portfolio level are assessed against the following risk categories which are outlined in the RAS:

(i) *Country Risk*: sovereign risk that can exacerbate the credit risk associated with a sovereign or private borrower developing a project within that jurisdiction. These are linked to political risks, economic risks, governance and geographic risks.
(ii) *Financial Risk*: uncertainty of incurring a financial loss when funding and providing loans, due to borrower default or changes to key financial variables. Credit risks, interest rate risks, revenue risks, foreign exchange risks and market risks are considered as part of this.
(iii) *Compliance Risks*: impacting AIFFP's or DFAT's ability to comply with Australian laws and regulation, government policy, international agreements including but not limited to Australian work health and safety laws, counter-terrorism resourcing legislation, sanctions, DFAT's environmental and social safeguard, CP and PSEAH policies.
(iv) *Implementation Risks*: project-related risks incurred due to AIFFP projects, including but not limited to environmental and social safeguard risks, including harm to children and adults, site selection and land acquisition, delivering equipment, resources and materials for construction and communication with stakeholders and the public.
(v) *Reputational Risk*: impacts on DFAT's reputation with Australian Government, the public, partner governments and multilateral partners.

The AIFFP facility risk register and the risk registers for high-risk projects and other projects identified by the Head of AIFFP division or the AIFFP Chief Investment Officer (CIO) are presented and discussed at a quarterly AIFFP Risk Committee meeting. The Risk Committee comprises the Head of AIFFP division and other senior personnel. It provides a forum for senior management to review and discuss the facility's risks as well as a governance process for ensuring appropriate governance, limits and controls are in place.

Counter Terrorism Resourcing

AIFFP projects will comply with the Australian Criminal Code Act 1995, the Australian implemented United Nation's Security Council sanctions regime set out under the *Charter of the United Nations Act 1945* (UN Act), and the Australian autonomous sanctions regime set out under the *Autonomous Sanctions Act 2011* (AS Act). As part of the financing documents, borrowers and grant recipients will adhere to requirements set out under the Criminal Code, the UN Act and AS Act, and ensure that they, or any of their contractors, subcontractors or parties to their supply chain do not fund persons and/or entities designated under Australian sanctions laws or *any* organisation that is directly or indirectly engaged in preparing, planning or assisting in, or fostering the doing of a terrorist act.

Due diligence processes include measures to prevent, detect and correct any risks associated with terrorism resourcing. The AIFFP has tailored the DFAT Due Diligence Framework to require entity due diligence assessments on relevant entities that are financed through AIFFP financing, including borrowers, guarantors, grant recipients and contractors. Additionally, there are clauses in the financing documents that require borrowers and grant recipients to have proper systems in place to ensure that funds are not used to finance terrorism, and to pass these obligations through their supply chains.

Additionally, projects involving debt and equity must comply with obligations under the EFA's *Anti-Money Laundering and Counter Terrorism Financing Act 2006* and Rules, which require EFA to conduct ongoing customer due diligence, including monitoring EFA's customers' transactions with a view to identifying, mitigating and managing money laundering and terrorism financing risks.

Environmental and Social Safeguards

AIFFP infrastructure projects vary in terms of scale, location, potential environmental and social risks and impacts and benefits. While project-specific impacts vary, examples of potential environmental and social (E&S) impacts from infrastructure projects can include:

- Environmental harm, including loss of biodiversity, pollution, impact on ecosystem services, unsustainable resource use.
- Increased vulnerability to climate change and disasters.
- Disproportionate impacts to children, vulnerable and disadvantaged groups due to their needs not being considered in infrastructure design and construction.
- Impacts rights of Indigenous Persons.
- Loss or damage to cultural heritage.
- Workplace death, injury or accident.
- Harm to children, sexual exploitation, abuse and harassment of workers or community members.
- Modern slavery or human trafficking of project and supply chain workers, community members.
- Land acquisition, physical displacement and/or economic displacement, loss of livelihoods.
- Adverse impacts on community health, safety and wellbeing impacts during construction, including traffic accidents, spread of communicable disease, including sexually transmitted diseases, HIV/AIDS.

The AIFFP recognises that effective management of environmental and social risks and impacts is not only essential for protecting the environment and people but also achieving broader development outcomes from AIFFP investments. The AIFFP's safeguard approach seeks to ensure that AIFFP investments set a high standard for protecting the environment and communities in the Pacific, and applies international environmental and social safeguards standards to its projects. All AIFFP projects are required to comply with DFAT's Environmental and Social Safeguard Policy (ESSP) (2019), Child Protection (CP) Policy (2025) and Protection from Sexual Exploitation, Abuse and Harassment (PSEAH) Policy (2025).

As the lender of record, EFA also requires AIFFP loans to be compliant with the EFA Policy for Environmental and Social Review of Transactions. EFA applies the framework of the Equator Principles and OECD Common Approaches in their environmental and social risk assessment of transactions. Where there is potential for environmental or social impacts, EFA benchmarks the transaction for compliance with the International

Finance Corporation (IFC) Performance Standards. The AIFFP has developed a tailored E&S screening tool that is applied in the planning stages in line with the DFAT ESSP, Equator Principles and IFC Performance Standards.

EFA typically requires an Independent Environmental and Social Consultant to assess the E&S Due Diligence (ESDD) of AIFFP loans. Further, all loan, grant and commercial agreements used for AIFFP projects include covenants dealing with safeguard compliance requirements that are a legally binding condition of receiving AIFFP loan and/or grant financing.

Both AIFFP and EFA safeguards require compliance with partner government legislation on environmental and social protection. Policy and legal frameworks and institutional capacities vary across Pacific countries and Timor-Leste. Where there are differences between AIFFP and partner government safeguard standards, the AIFFP will include additional support to ensure compliance with its safeguard policies.

In line with DFAT's ESSP, the AIFFP's approach sets out specific safeguard requirements for its investments covering environmental protection; children, vulnerable and disadvantaged groups; displacement and resettlement; Indigenous peoples; modern slavery; and, workplace health and safety. AIFFP staff, contractors and partners are also expected to meet the requirements of DFAT's CP and PSEAH policies. The AIFFP's safeguards approach also includes provisions to ensure that during the course of AIFFP's business, staff, contractors and partners meet the requirements of DFAT's CP and PSEAH policies.

AIFFP's safeguard approach is guided by DFAT's E&S Safeguard Operational Procedures and includes a comprehensive suite of processes, guidance and tools to ensure that safeguard risks and impacts are considered across the project life cycle from early planning, design, procurement through to implementation. In line with DFAT's ESSP and E&S Safeguard Operational Procedures, all AIFFP investments are screened for environmental and social risks and impacts early in investment planning stage. This not only helps to avoid or mitigate impacts on communities and the environment, including through alternative siting and design, but can also help enhance environment, social and economic benefits from infrastructure developments. A project guide has also been developed to complement the SOPs and provide guidance to staff for delivery throughout the project life cycle, incorporating key design requirements for AIFFP projects that are based on requirements in the International Development Programming Guide (IDPG).

All investments require a proportionate ESIA and ESMP. The level of assessment required is proportional to the complexity and scale of the project. GEDSI and climate change and disaster risks are also considered as part of the ESIA process and in the development of management plans and design of additional resilience measures, and GEDSI actions.

Proportional Stakeholder Engagement Plans are also developed for AIFFP investments to ensure that stakeholders, including project affected persons, are engaged effectively throughout the investment design and implementation stages. Effective project grievance redress mechanisms (GRMs) are also required to receive stakeholders' feedback and/or concerns and ensure that they are addressed and managed in line with DFAT's safeguard policies.

Once AIFFP-financed projects move into implementation, continuous monitoring through partner and supervision contractor reporting is essential to assess implementation of environmental and social management plans (ESMPs). Regular on-site visits by safeguard specialists (twice yearly is good practice for projects rated medium to high risk) are also required to continually monitor safeguard compliance and actively manage risks. The design intends that additional staffing and resources for safeguards, GEDSI, local content and monitoring and evaluation functions are allocated within the AIFFP considering that more large-scale high-risk projects are moving into implementation.

The AIFFP Safeguards and Impact team works closely with partner governments and project proponents to conduct early-stage screening and analysis to determine the likelihood and significance of impacts and risks. In most cases, the AIFFP will support the development of an ESIA that identifies and evaluates the project's environmental and social impacts. The proponent must then agree to an ESMP that outlines the partners' and contractors' obligations to implement and monitor safeguards. During the planning and design phase, AIFFP safeguards specialists also provide guidance on the design of safeguard capacity building activities and monitoring and oversight functions.

As noted above, the AIFFP's safeguards approach requires compliance with DFAT safeguard policies including policies on CP, PSEAH, WHS and modern slavery. The requirement to comply with relevant safeguard standards is included in procurement contracts, which include provisions for the flow down of requirements to downstream partners. This ensures risk mitigation practices flow through the contractor chain and presents an opportunity to influence not only proponents, but also contractors and subcontractors. During the procurement phase, AIFFP safeguards specialists also contribute to tender briefing, evaluation and contract award processes to ensure that implementing partners have capacity to implement project safeguard measures.

The AIFFP's approach to monitoring recognises that DFAT is not directly responsible for implementing safeguards for partner-led projects, so accountability is carefully divided between the contractor and the project proponents.

Most AIFFP projects include a PMU and/or a PMSC to oversee safeguards implementation, monitoring and reporting. PMUs/PMSCs have a role in ensuring stakeholders, especially project affected persons and groups, are updated on the project progress, aware of project-related safeguards measures, including access to project GRMs. AIFFP partners are also required to comply with DFAT's mandatory reporting requirements for CP, SEAH, WHS and modern slavery. During implementation, the AIFFP's safeguards team provides additional oversight over the effectiveness of project safeguards and compliance with DFAT's policies.

This focus on the implementation of strong social safeguards and labour standards can have flow on benefits for project partners, communities and the local infrastructure sector, including positive changes in social norms that supports women to access employment opportunities, improvements in labour practices and conditions, stronger protection for workers, children and vulnerable adults in the community.

The AIFFP actively monitors projects to ensure that proponents and contractors meet their safeguards responsibilities. This is achieved through regular project reporting and 6-monthly site visits to ensure compliance with the ESMP. The AIFFP will also draw on MEL activities such as project reviews, annual investment monitoring, relevant safeguard policy updates and best practices to inform continuous improvement of its safeguard systems. The AIFFP will also continue to engage in regional safeguard communities of practice, to draw on Pacific safeguard expertise, share best practice and advocate for robust safeguard standards in infrastructure developments.

The AIFFP will also undertake a review of potential safeguards issues for all proposed transactions relevant to current AIFFP and DFAT policy requirements and ensure this information remains current through the life cycle of the transaction through annual review.

Child Protection (CP) and Protection from Sexual Exploitation Abuse and Harassment (PSEAH)

The AIFFP recognises that infrastructure projects can bring positive change and opportunity to communities, including children and their families, young people, women and vulnerable adults. However, without adequate protections, infrastructure developments can pose serious risks of harm to these groups. Children and vulnerable adults in areas undertaking infrastructure projects are at greater risk of sexual and physical violence, risk of abuse and exploitation. Children can be exploited through child labour on projects and in material and product supply chains associated with infrastructure. The temporary or permanent acquisition of land forced eviction, and displacement can directly affect children through the loss of homes, the disruption or loss of livelihoods, and access to schools and hospitals. In-migration resulting from infrastructure developments can also increases the demand for goods and services, resulting in inflation and increased competition in the local work force. In-migration can also cause or escalate the sexual abuse and exploitation of children and vulnerable adults (including prostitution and trafficking), the rate of teenage pregnancy and the spread of communicable diseases.

SEAH is perpetrated in workplaces and communities in all sectors and countries and is rooted in gender discrimination and power inequalities. The infrastructure sector presents heighted risks however for female workers and vulnerable adults. SEAH can be perpetrated by project workers, either within the workplace or, in the context of infrastructure delivery, against service users or members of project affected communities. Social and cultural norms can normalise gender-based-violence, violence against children and can silence victim-survivors, inhibit disclosure, and normalise or excuse harmful behaviours.

Compounding factors that contribute to the challenge of CP and PSEAH in this context include: weak, under-resourced and/or inaccessible CP and PSEAH systems, services for support victim/survivors in Pacific countries; inherent power imbalances that exist between project developments, contractors, their employees and community members that can increases risk of CP and/or SEAH and discourage reporting of incidents; lack of community awareness of CP and SEAH risks. Infrastructure investments are considered high risk for CP and SEAH risk[13]. Accordingly, a comprehensive approach to CP and PSEAH applies to investments and is informed by safeguard and GEDSI analysis.

DFAT's CP and PSEAH policies apply to all AIFFP staff and partners. In line with these policies, the AIFFP's investments will include provisions in project design, ESMPs, contracts and oversight functions to ensure that AIFFP partners including managing contractors, grant recipients and downstream partners adhere to the principles of the policies; comply with DFAT's mandatory reporting requirements and any mandatory reporting requirements to law enforcement as required by legislation; comply with relevant Australian and/or local legislation; apply the CP and PSEAH Comprehensive Standards; put controls in place to manage and monitor the risk of child exploitation, abuse and harm and SEAH. AIFFP partners including partner governments and multilateral organisations are required to act in accordance with the principles of the CP and PSEAH policies, and adhere to their own legislation, regulations and policies.

AIFFP staff are also required to comply with DFAT's CP and PSEAH policies including mandatory reporting requirements; due diligence processes for partners; include mandatory CP and PSEAH clauses in all agreements, grants and contracts; undertake CP and SEAH risk assessments; monitor partner compliance with the policies; comply with relevant Australian and/or local legislation. Where needed, specialist safeguard resources will be engaged to design and monitor CP and PSEAH safeguards and assist in the response to any incidents.

All AIFFP staff and contractors are required to complete DFAT's CP and PSEAH training as part of their engagement.

In addition to treatments in ESS section above, the AIFFP will apply the following treatments to manage CP and PSEAH risks in its investments and activities:

- All AIFFP staff and partners to comply with DFAT's CP Policy (2025) and PSEAH Policy (2025).
- AIFFP agreements with partners include requirements to implement policies and procedures in line with principles of the DFAT's CP and PSEAH Policies, and report incidents immediately.
- All AIFFP investments include a GEDSI Analysis, covering CP and PSEAH risks. GEDSI Analysis to include mapping of service providers.
- AIFFP infrastructure investments to meet Comprehensive CP Standards, reflecting the high inherent CP and PSEAH risks, including CP and PSEAH policy, procedures, codes of conduct; Reporting mechanism and investigation procedures; Risk management processes; CP and PSEAH training; Child-safe recruitment and integrity screening processes of all personnel.
- AIFFP assesses partner capacity to comply with the requirements of the CP and PSEAH Policies, including through due diligence assessments, and where there is a gap in capacity, develop and document an action plan outlining specific steps and clear timeframes to achieve compliance with Comprehensive Standards, provide technical support and mentoring as needed, and implement and monitor progress against the action plan to ensure full implementation of the Comprehensive

13 DFAT's Interim guidance on Protection from Sexual Exploitation, Abuse and Harassment and Child Protection Policies (2025).

Standards within a ‘reasonable’ time frame (Refer Interim Guidance Note on DFAT's PSEAH Policy and CP Policy [August 2025]).

- AIFFP contracts include clauses on CP and PSEAH and include flow-down requirements to subcontractors.
- AIFFP projects have GRM, employee GRM and victim/survivor-centred reporting and investigation processes in place.
- AIFFP projects include provisions for community awareness on CP and PSEAH risks and safeguards in place, including GRM, information about support in case of incident.
- AIFFP engages a PMSC or construction supervision consultant (CSC) to oversee CP and PSEAH safeguards implementation and monitoring of the contractor.
- AIFFP Safeguards and Risk team monitor project compliance with CP and PSEAH Policies, progress of incident responses, and implementation of project-level CP and PSEAH actions and/or corrective action plans.

Fraud Control

The risk of fraud and corruption is assessed as inherently high in the Pacific and Timor-Leste, particularly for proponent-led projects and projects that utilise partner government systems. Where partner government systems are used, the AIFFP coordinates with the bilateral program to address issues raised in the most recent Assessment of National Systems where those issues may have an impact on the project’s implementation and associated fraud, fiduciary or corruption risks.

The AIFFP adheres to DFAT’s strict policies and procedures surrounding fraud risk management to ensure integrity across the Australian development program. In line with DFAT’s requirements, the AIFFP requires all staff and delivery partners to report suspected fraud and corrupt behaviour and encourages proactive reporting and transparency.

For each project, the AIFFP requires systems and processes that guard against fraud, nepotism and corruption including comprehensive due diligence processes for selection of contractors and downstream partners, transparent processes for selection of any local service providers and consultants, clear financial operating procedures that promote and take a zero-tolerance position on fraud and compliance with the DFAT financial management, fraud control and accountability requirements. The AIFFP also supports direct payments to contractors under its financing agreements with proponents ensuring that funds flow by the most direct route to entities delivering the projects. As part of the due diligence process, an entity’s fraud and fiduciary risks may be assessed, as well as the extent to which the entity’s policies, procedures, and systems enable compliance with DFAT’s policy requirements. For proponent-led projects, all sub-contractor procurements are subject to a ‘letter of no objection’ from AIFFP. Furthermore, it is the AIFFP’s preference to provide oversight during the procurement process to ensure fraud and fiduciary risks are properly managed. DFAT-led projects are subject to DFAT’s development due diligence policy and procedures.

Additionally, financing agreements will enable DFAT to conduct independent financial audits of the project’s financials and require access to financial management information. Where fraud or corruption is identified, the AIFFP will not fund associated contracts.

Fraud and fiduciary risks are required to be included in each project risk register. These project risk registers are reviewed quarterly by the AIFFP Risk Committee. Fraud risks are monitored with a high level of intensity reflecting DFAT’s zero tolerance to fraud. Any instances of potential fraud are required to be reported through DFAT’s fraud reporting system. Potential instances of fraud are also discussed at quarterly AIFFP Risk Committee meetings.