



AUSTRALIAN
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DEVELOPMENT

ACFID's Submission to the Department of Foreign Affairs and Trade
on the
Design of the Australian Infrastructure Financing Facility for the Pacific (AIFFP)

March 2019

About this submission

Our submission should be read as the result of a wide-ranging process of consultation with ACFID's members, including:

- ActionAid Australia
- Oxfam Australia
- International Women's Development Agency
- World Vision Australia
- Care Australia
- Caritas Australia
- Save the Children Australia

To inform our sector's thinking, ACFID has also consulted with a range of other stakeholders from Australia's development policy community, including:

- Professor Stephen Howes, Professor of Economics and Director, Development Policy Centre, The Australian National University
- Dr Luke Fletcher, Executive Director of Jubilee Australia and Visiting Fellow, University of New South Wales
- Mr Murray Proctor, independent consultant, formerly AusAID
- Dr Pichamon Yeophantong, Australian Research Council DECRA Fellow and Senior Lecturer in International Relations and Development, University of New South Wales ADFA
- Dr Susan Engel, Senior Lecturer in Politics and International Studies, University of Wollongong
- Dr John Evers, independent consultant, formerly Australian Treasury
- Mr Richard Moore, independent consultant, formerly AusAID
- Mr Stuart Schaefer, Senior Consultant, John Staff International
- Mr Scott Hook, Team Leader, Resilience at Pacific Islands Forum Secretariat

ACFID would be happy to provide additional clarity on any of the recommendations contained within this submission. Follow-up requests should be directed to Marc Purcell, CEO, ACFID: (02) 8123 2216.

Introduction

ACFID welcomes the opportunity to provide a submission to DFAT's Design of the Australian Infrastructure Financing Facility for the Pacific (AIFFP). ACFID also welcomes the Australian Government actively looking for new ways to finance international development cooperation, including by addressing infrastructure challenges in the Pacific, and more broadly. However, the decision to establish the \$2BN AIFFP represents a significant shift and as such, warrants careful and informed consideration to ensure its feasibility and subsequent effectiveness.

Whilst ACFID supports the AIFFP in principle, we have **three key concerns**:

- (1) there is insufficient material available relating to the AIFFP's standards of governance; risk management; environmental and social safeguarding; transparency and accountability;
- (2) there is also insufficient information available to determine whether the AIFFP design accords with Australian development cooperation policy, procurement and performance requirements or whether the AIFFP approach to long term infrastructure planning will reap benefits for both the Pacific and Australian interests; and
- (3) there is also insufficient evidence of the proposed governance arrangements between EFIC and the Department of Foreign Affairs and Trade (DFAT).

Without this information, ACFID is concerned that the proposed AIFFP model may establish both a precedent for, and a trajectory towards, creating facilities for Australian Government development financing that are sub-optimal in their reliance on EFIC. Whilst ACFID anticipates that many of the concerns raised below are being considered in the design of AIFFP, it is unusual that such critical questions of governance remain in the domain of internal design, rather than as part of appropriately established development financing institutions and instruments with public, transparent and widely available lending criteria and project assessment arrangements.

ACFID recommends that greater time be allowed to establish the AIFFP and its financing arrangements so that wider public, Pacific, multisector expert consultation and co-design is complete.

ACFID recommends that financing for AIFFP or other development initiatives should not rely on EFIC as the 'back office' given its insufficient transparency and safeguards.¹

What features would you like to see reflected in the AIFFP design?

Adherence to high standards of investment, lending, accountability and transparency. A key concern for the Australian Government has been the rise in lending for infrastructure by China in the Pacific. China's lending has been characterised as cheaper, having less oversight and conditions attached than Western lenders and is nimbler, operating with flexibility in meeting shorter-term needs of Pacific leaders. Given the greater need for public accountability as a democratic nation, Australia has a challenge to establish its comparative advantage as a lender, whilst retaining high standards of investment, lending, accountability and transparency.

In responding to this challenge, utmost in the design of the AIFFP should be **three key principles: serving long term Pacific interests; honouring Pacific leadership and locally-led solutions; and creating genuine partnerships for the long term.** In practical terms, firstly, this means recognising that mitigating and adapting to climate change is fundamental to the future of the region, as recognised in the Boe Declaration. All infrastructure must be climate resilient and projects prioritised which build greater resilience to existing community assets. Secondly, the AIFFP must recognise Pacific leadership by further examining how it can support existing proposals, such as the Pacific Resilience Facility; the ambitions and guiding principles for infrastructure; and the 'Blue Pacific' as outlined by Secretary General of the Pacific Islands Forum, Dame Meg Taylor. Thirdly, the AIFFP should consider how it can forge genuine partnership through infrastructure. For example, projects should not displace local labour but assist in skills transfer and strengthening local capacity. The Pacific's engineering expertise and capability are low.

¹ On this point, please refer to ACFID's submission to the Foreign Affairs, Defence and Trade Legislation Committee on the Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) Bill 2019.

Australia should consider how (with the AIFFP) it can help grow the Pacific's engineering capacity so infrastructure investments have longevity and pay dividends in terms of local leadership and ownership.

Adequate and expertly informed consultation domestically, internationally and in the countries where the AIFFP operates. The period for design and consultation has been inadequate given this is a substantial departure from the current policy approach to development driven infrastructure. This is a technical field as well as a geopolitical and geo-economic one, and the present haste around this design and supporting legislative arrangements suggests that the latter factors are attracting more consideration than the former. Adequate coordination with existing infrastructure lending entities such as ADB and World Bank will be critical, as is ensuring the appropriate finance and infrastructure skillsets reside within DFAT management of AIFFP and its interaction with EFIC.

Pacific development interests at the heart of design and implementation. The AIFFP should not be driven solely or primarily by geostrategic considerations and must seek to maximise human development and human security. The shift to loans-financed infrastructure is partially aimed at countering China's Belt and Road Initiative, yet if it remains primarily a geostrategic tool, it will shift Australia's focus away from human development outcomes across Asia and the Pacific. Pacific infrastructure priorities established through national planning processes, infrastructure strategies and regional initiatives including the Pacific Resilience Facility should be at the heart of the AIFFP. Locating the AIFFP in the Pacific should be considered, as should formalized and transparent loan criteria and governance arrangements which puts Pacific development at the forefront in order to achieve the Prime Minister's vision of "genuine and authentic" partnership.

Transparent 'back office' financing and consideration of financing alternative to EFIC. At a minimum, the exemption for EFIC from FOI, and the 'commercial in confidence' and 'national interest' grounds for EFIC withholding information on budget should be removed. The financial model for AIFFP poses unacceptable reputation and performance risks to Australia. The proposed legislative provisions for allowable loans – namely, loans which "EFIC thinks appropriate" and "likely to result in Australian benefit" are inconsistent with international lending standards including those of World Bank and ADB. Given corruption, safeguarding and performance risks relating to infrastructure work in the Pacific, and the history of initiatives financed by EFIC which may be in conflict with OECD DAC guidelines and Humanitarian Principles², ACFID urges DFAT to look at alternative and long-term ways to finance projects such as AIFFP where the financing arrangement supports development objectives, rather than risks undermining them.

Alignment to DFAT Performance Framework. It is essential that all loans made meet Principle 1 of DFAT's environmental and social safeguards: do no harm. This will ensure that the rights, health, safety, and livelihoods of people including, children, women, indigenous peoples, and other vulnerable or disadvantaged groups are protected. This is also fundamental in DFAT's consideration and selection of loan-financed development partners. Both the EFIC Bill's Explanatory Memorandum and DFAT official statements at Senate Estimates in February 2019 allude to EFIC's proposed expanded powers and its relationship with the AIFFP as supporting "development" outcomes yet it is unclear whether the AIFFP's performance will be measured according to DFAT's development performance criteria, despite EFIC's new role bringing it into interaction with Australia's high-performing development cooperation program.

Infrastructure alone will not achieve development results. Structural, policy, management and social adaptation must be supported in order to realise the development potential of infrastructure, and additional ongoing costs associated with maintenance of assets beyond the project timeframe of its build must be planned for. All loans-financed projects should be bundled together with grant-funded "soft" infrastructure projects. These investments should include the systems and institutions that support education, health, gender, governance, and climate outcomes beyond the lifecycle of the infrastructure establishment.

Consideration of the needs of diverse women and girls at all stages of infrastructure development. Investment in infrastructure can be a powerful tool for gender equality and women's rights. The UK's Gender and Development Network highlights the provision of employment in infrastructure projects as challenging social norms around "women's work", citing projects in India and Ethiopia where large numbers of women have been employed in

² <https://www.sbs.com.au/news/the-feed/is-australia-violating-treaty-by-supplying-weapons-for-yemen-civil-war>

public construction projects. Infrastructure can also reduce the time burden of unpaid care work as improved access to clean water, cooking fuels and electricity reduce the time women spend on domestic work.³

Transparent and accountable governance arrangements between the Department of Foreign Affairs and Trade (DFAT) and EFIC prior to AIFFP establishment. Insufficient information is available relating to EFIC's expanded infrastructure mandate or the governance arrangements around its interaction DFAT, including in relation to its proposed new capacity for sovereign lending or in relation to the AIFFP. The arrangements for decision making should be clarified and documented prior to the operations of EFIC to ensure transparency in decision making and authority, including clarification of the role EFIC has in 'administering' AIFFP.

³ On this point, ACFID refers DFAT to the submission made by the International Women's Development Agency.