



International Development Contractors Community submission to DFAT on design of Infrastructure Financing Facility for the Pacific

The International Development Contractors Community (IDCC) is pleased to provide a submission to DFAT on the Australian Infrastructure Financing Facility for the Pacific (AIFFP).

The IDCC welcomes additional options for financing infrastructure in the Pacific. The infrastructure gap in the Pacific is significant. While it is already being tackled by the countries of the Pacific, donors, and multilateral development banks as well as Australia with grant funding, additional financing of infrastructure has the potential to deliver more returns. Careful selection of activities will allow the projects financed through the AIFFP to leverage off and potentiate other investments and result in the greatest impact on the gap.

The IDCC endorses the focus on core economic infrastructure of the AIFFP. Addressing core economic infrastructure will support the Pacific countries to reduce constraints to their economic growth. Strategic investments in core economic infrastructure, when supplemented with other investments in health and education can also deliver much needed improvement in service delivery and social outcomes.

The IDCC notes, however, that infrastructure is necessary for but in itself is not sufficient for development. Investments made through the AIFFP need to be made in close coordination and complemented with investments in the policy, regulatory, planning and budgeting spaces of the target sectors (and more generally the public sectors) in Pacific countries. Without such complementary interventions the financing made available through AIFFP will be undifferentiated from the loans of other countries operating in the Pacific. Significant forward planning will allow the investments of the AIFFP to be well coordinated with other interventions by Australia and others.

Rigorous forward planning will also ensure clarity in the objectives of the investments. Implicit in the name *Australian Infrastructure Financing Facility for the Pacific* is that the objective of AIFFP investments will be to support the development of Pacific countries. Through a Pacific that is stronger economically and more resilient, Australia will derive a national interest dividend.

The design must ensure that the commercial imperatives within the mandate of AIFFP's planned loan manager, Efic, do not override the objective of supporting the Pacific countries in their development. The IDCC recognises that the dual objectives of supporting Pacific countries and Australian business are not mutually exclusive, but cautions they must be carefully managed. The design of the AIFFP would be prudent to leave open the option of using institutions, other than Efic, to manage loan funds.

The success of the AIFFP is only possible if the governments and the private sector of the Pacific countries are involved from the start and remain at the heart of its planning and prioritisation. Indeed the AIFFP is an opportunity for the relationships between the Australian and Pacific governments to take on new dimensions, and for governments to work practically together on the long term investments. DFAT may want to consider Pacific representation as part of the AIFFP governance arrangements.



Australia has worked successfully to encourage organisations such as the World Bank and Asian Development Bank to increase the size of their investment loan portfolios in the Pacific. In many ways the success of years of lobbying is only now being realised. The IDCC would caution that the implementation of the AIFFP should not result in Australia reducing effort to work with the multilateral development banks in the Pacific. On the contrary the WB and ADB will continue to play a significant role there. Moreover there are opportunities for the concessional financing of the WB and ADB to be blended in smart ways with commercial financing of the AIFFP and others. The design of the facility should encourage projects to gain scale by joining with other financing sources.

The WB and ADB also have long experience and significant expertise in financing and the priority sectors of the AIFFP. There would seem to be opportunities for DFAT to supplement its own skill-set by working closely with the WB and ADB, potentially in a joint office. The significant expertise that lies in the private sector and in Infrastructure Australia and its state counterpart organisations also present opportunities for partnership.

The small countries of the Pacific are spread over a large ocean area and present unique infrastructure problems that demand smart solutions. At the same time commercial loans require clear return on investment (ROI). To achieve smart high returning solutions the AIFFP cannot afford to deprioritise significant front-end project investment. In this way the specific problems and the safeguards to be addressed will be properly understood and able to be embedded in design and implementation solutions. Developing a suite of bankable projects all with high ROI will provide DFAT a choice when seeking projects that best support foreign policy objectives.

The design of the facility also will need to put in place mechanisms to ensure investments remain focussed on the outcomes flowing from the capital investment. Too often infrastructure investments even if focussed on outcomes at the beginning, become the end themselves. Important as good buildings, reliable power generation, and macro improvements to telecommunications are, the investments need to deliver in terms of improvements to services. As such the investments need to factor in life-time costs of operating and maintaining the infrastructure (and the recurrent funding available for this), and the development of and access to human capital needed to deliver the services.

The procurements associated with big infrastructure are known throughout the world for being potential corruption entry points. The Pacific is not immune in this regard. A significant tool in the fight against corruption is transparency. The IDCC encourages DFAT to use the design of the facility to promote transparency in infrastructure projects across the Pacific. The benefits of transparency go beyond reducing corruption and are in keeping with the broader values to which Australia adheres and promotes internationally.

The AIFFP will be successful by working on projects properly assessed for high ROI. The IDCC cautions against the quick selection of projects for financing. Infrastructure projects themselves done well take a long time from start to finish but there are many opportunities within the project management cycle, from concept development to works completion, through which to measure and mark success. Governance arrangements of the AIFFP and how, for example, Australia works with countries prone to debt stress, can be useful facets to measuring the success.



The IDCC discourages the government from rushing the design and legislation of the AIFFP at the expense of getting it right. Over the long-term Australia and Pacific countries will reap the benefits of a well-designed AIFFP.

In summary a well-designed AIFFP will see Australia, as a trusted partner in the Pacific, support smart infrastructure. That is investment that delivers improved services and results in improved economic and social outcomes for Pacific islanders. In practice this means

- Planning and analysis done in concert with Pacific governments to ensure the projects with strong business cases that are selected accord with the priorities of Pacific countries;
- Capital investment coordinated and combined with soft interventions to ensure infrastructure results in real service delivery improvement
- Working with grant providers, and concessional and commercial lenders to bring to bring scale to projects, and
- Drawing on the comparative advantages of Australian and international expertise to ensure optimal project design, financing and implementation.