



Management Response to the Australian Infrastructure Financing Facility for the Pacific (AIFFP), Two-Year System-Wide Review

The Australian Infrastructure Financing Facility for the Pacific (AIFFP) provides financing to sovereign governments, state-owned enterprises and private sector partners for key infrastructure projects in Pacific island countries and Timor-Leste. The AIFFP was announced in November 2018 and commenced operations in July 2019 as a core pillar of Australia's Pacific engagement. The AIFFP relies on Export Finance Australia (EFA) for back-office support and as lender of record for AIFFP loans.

The AIFFP prioritises finance for quality and resilient infrastructure which meets international environmental and social safeguards and generates lasting economic opportunities for Pacific island communities. It was established to respond to the infrastructure deficit in the Pacific and Timor-Leste. The AIFFP has three strategic objectives: Pacific countries have increased access to capital to support quality, resilient and inclusive economic infrastructure; Australia delivers infrastructure financing that meets the development needs of Pacific countries; and Australia is partner of choice for financing infrastructure in the Pacific.

In 2022, the AIFFP was independently evaluated for the Department of Foreign Affairs and Trade (DFAT) after it had completed two years of operation. The system-wide review (the Review) was envisaged in the AIFFP design to focus on the development and establishment of the AIFFP. DFAT commissioned Alinea International to undertake the Review, with the findings intended to inform future adjustments to the operation of the AIFFP ensuring it meets its core objectives.

DFAT welcomes the Review Report. We note the Review's overall finding that the AIFFP has made good progress compared to its peers to become the second largest infrastructure financier in the Pacific by both financing value and number of projects. Since its establishment, the AIFFP has finalised financing arrangements for 10 capital works projects worth over \$1 billion. We note the Review's findings that the AIFFP has made 'considerable and impressive progress' to develop high quality systems to meet its needs. These systems include AIFFP's Standard Operating Procedures and its due diligence; risk management; monitoring, evaluation and learning; and procurement systems.

DFAT accepts, or partially accepts, seven out of 10 of the recommendations put forward in the Review Report and notes the remaining three. The full Review recommendations and management responses are provided in the table below.



Priority Recommendations

Review Recommendations	Response	Explanation	Action Plan	Indicative Timeline
1. Additional staff resources to support AIFFP operations should be sought. For any additional staff resources acquired, consideration should be given to prioritising these to implementation oversight and safeguards.	Agree	As the AIFFP transitions from establishment to implementation, additional resources are required across the facility, with a particular focus on program management and risk capability.	Workforce planning and recruitment is underway, with additional safeguards specialists joining the AIFFP in July 2022. Additional funds were provided in the Government's October 2022 Budget to strengthen the AIFFP's project management and risk capability, reflecting that construction and procurement has started across nine countries.	Ongoing
2. The AIFFP should experiment with the placement of staff in-country to determine if this should become a priority.	Agree	The AIFFP operates across the Pacific and in Timor-Leste. Investments are developed at the request of, and in close collaboration with, partner governments and the private sector in these countries. While DFAT has an existing overseas network, the AIFFP's investments would benefit from dedicated resources overseas, especially during implementation.	The AIFFP has established two long-term positions in Port-Moresby to support key investments and deployed staff on short-term-missions to Fiji, the Solomon Islands and Timor-Leste. The AIFFP's workforce plan will consider, with the agreement of partner governments, additional long-term resources in key countries.	Q2, 2022 onwards
3. The AIFFP should propose to the Australian Government options to improve the	Noted	AIFFP's loan pricing policy in force during the review period required each AIFFP loan to cover EFA's costs of funding and administering the loan. As	The AIFFP's loan pricing policies and the terms and conditions of each loan are determined by the Government and take account of budget impact. DFAT will	Ongoing



Review Recommendations	Response	Explanation	Action Plan	Indicative Timeline
competitiveness of the AIFFP's loans, with a particular focus on the headline interest rate and the ease of borrowing for partners.		global interest rates and therefore funding costs rise, this will impact AIFFP's ability to remain competitive. In addition, the AIFFP is required to follow EFA's lending procedures which mirror commercial lenders rather than standard sovereign lenders. This adds complexity in legal agreements and implementation of social and environmental safeguards.	consider options to ensure the AIFFP's lending remains competitive. The AIFFP will also work with EFA to streamline the administration and implementation of its loans to reduce complexity for borrowers, while ensuring international best practice standards continue to be met.	
4. For the longer term, the AIFFP could explore the Australian Government's appetite for operating models which may increase the AIFFP's efficiency.	Noted	The current model enabled a rapid start-up of the AIFFP, however it creates operational challenges that will need to be addressed to increase efficiency in the longer term.	DFAT will continue to assess the appropriateness of AIFFP's operating model to provide long-term effectiveness.	Ongoing



Other Recommendations

Review Recommendations	Response	Explanation	Action Plan	Indicative Timeline
5. The AIFFP should consider how appropriate policy and regulatory environments, and provisions for longer-term maintenance, can be supported in partner countries to ensure the AIFFP can achieve its long-term objectives.	Agree	The AIFFP works closely with borrowers to ensure investments lead to quality infrastructure assets that meet real needs in the Pacific and Timor-Leste. AIFFP finance is delivered consistent with guiding principles of maximisation of local Pacific content; climate resilience; gender equality, disability and social inclusion; and sustainability. In doing this, it is critical to ensure appropriate policy and regulatory environments with practical provisions for longer-term maintenance.	The AIFFP will continue to work with partner countries to harness opportunities to strengthen policy and regulatory environments as well as longer-term maintenance provisions as appropriate through leveraging DFAT's bilateral aid programs to the Pacific and other global and regional partnerships. Where possible, AIFFP will work with borrowers to consider revenue streams for infrastructure investments to fund maintenance plans; explore options to encourage private sector service delivery to support maintenance of investments; and where other alternatives are not easily available, may directly fund maintenance in addition to capital investments.	Ongoing
6. To increase efficiency and attractiveness to partners, the AIFFP and EFA should explore an agreement to establish an environmental and	Noted	The AIFFP has developed robust environmental and social safeguards processes and systems. However, in the current model, both AIFFP and EFA have safeguards processes which must	The AIFFP will continue to work closely with EFA and explore opportunities to improve the efficiency of the safeguards approach used by the AIFFP. Complete reliance on AIFFP's safeguards may not	Ongoing



Review Recommendations	Response	Explanation	Action Plan	Indicative Timeline
social due diligence process that includes a level of reliance on the AIFFP's safeguards systems. However, full reliance may never be possible given EFA's role as lender of record.		be met which creates additional complexity and inefficiency.	be possible as EFA is the lender of record.	
7. The AIFFP should consider how it can shape demand from partners for investments in high-priority sectors and countries.	Agree	The AIFFP operates on behalf of the Australian government and has a high-level objective of advancing Australia's national interests by contributing to a stable, secure and prosperous Pacific. To support this, the AIFFP would like to be a partner of choice for financing infrastructure in the Pacific including in high-priority sectors and countries.	The AIFFP engages with Pacific governments and industry to listen to their priorities and responds to quality proposals for finance consistent with AIFFP's investment mandate. The easing of travel restrictions has enabled more face-to-face conversations that has deepened AIFFP's understanding of infrastructure financing needs. It is also informing adjustments to AIFFP so that it can become the partner of choice in the region by most effectively meeting local needs.	Ongoing
8. The AIFFP should consider how it can set clearer expectations with Pacific partners on the	Agree	As the AIFFP is focussed on quality infrastructure, there are significant due diligence, feasibility and safeguards processes to undergo for each	The AIFFP will ensure timeframes are embedded in discussions with Pacific partners for a common understanding and will explore additional options to	Ongoing



Review Recommendations	Response	Explanation	Action Plan	Indicative Timeline
likely timeframes for investment approval.		investment in addition to government approval processes. This can take a significant amount of time and needs to be clearly communicated with partners in initial stages to manage expectations. As the AIFFP increases its portfolio, there is also more internal data available regarding timeframes.	increase awareness of expected project timeframes.	
9. The AIFFP should consider mechanisms to improve communication and coordination with relevant programs/partners and options for increasing disability inclusion guidance in its systems and policies.	Partially Agree	The AIFFP recognises that there can be improved communication and coordination with the contributing programs and partners and that there could be strengthened attention on disability inclusion where appropriate and feasible at the investment-level.	The AIFFP will seek to engage more closely with specific programs and partners mentioned in the report as well as ensure opportunities for disability inclusion are realised for investments where possible, including through additional contracted or dedicated support.	Ongoing
10. The AIFFP should finalise the IMS as an immediate priority.	Agree	The Investment Management System (IMS) is a critical tool in the project management of the AIFFP investments. Due to the nature of the AIFFP operations, a tailored approach was required and a bespoke solution was identified through collaboration with	The AIFFP will continue to enhance the IMS as needed to ensure it supports investment management.	Ongoing



Review Recommendations	Response	Explanation	Action Plan	Indicative Timeline
		the Department of Defence. The IMS is now being rolled out incrementally across the AIFFP portfolio.		