

# **Executive Report on the Evaluation of Australia's Pacific Economic Infrastructure Assistance 2008-2018**

**Achieving sustainability and development  
impact**

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## Foreword

This Executive Report on the Evaluation of Australia's Pacific Economic Infrastructure Assistance 2008-2018 contains valuable lessons for Australia's infrastructure work in the Pacific. Reflecting on a decade of experience in delivering infrastructure projects, the Report discusses both DFAT's success and challenges, and provides a sound platform for informing future investments.

Acknowledging the role of infrastructure as an economic and social enabler, the Report highlights the importance of taking an 'infrastructure++' approach, to maximise the development impact of Australia's infrastructure investments. This approach recognises that infrastructure investments are most effective and sustainable when integrated into the broader portfolio of Australia's development activities.

The Report notes the need for DFAT to continue to invest in long-term partnerships with Pacific governments, and to invest in the development of human capital and constructive policy dialogue, alongside the delivery of physical works. It provides guidance on key issues for DFAT to consider in the concept, design and delivery phases of new projects, including the importance of taking a whole-of-life-cycle approach to project implementation and maintenance. It also reflects on best practice for DFAT when engaging with multilateral development banks, which are among the largest financial contributors in the Pacific, and which bring unique technical skills to complement DFAT's own expertise.

While acknowledging our successes in gender and disability inclusion, the Report also notes DFAT can do better in these areas. It highlights the need for DFAT to pay close attention to developing and maintaining critical technical skills, specifically related to the infrastructure sector. We welcome these findings as part of our culture of continual learning in our development programs.

This evaluation work is timely. While this publication provides the overarching findings from the evaluation, the more detailed work underpinning this Report is being used by DFAT programs to learn from, and build upon, Australia's strong record of infrastructure partnerships with Pacific governments. This includes infrastructure support through our bilateral programs, our support to multilateral institutions, including development banks, and our newly established Australian Infrastructure Financing Facility for the Pacific.

In 2020 the COVID-19 pandemic disrupted business as usual, including the finalisation of this evaluation, as resources pivoted towards supporting DFAT's COVID-19 response. Consequently, the data and findings in this summary document reflect the evaluation work completed prior to the pandemic.

I commend this Report to all development partners working in the Pacific. We trust it will help guide the delivery of economic infrastructure with our Pacific neighbours in the years ahead. We look forward to engaging in infrastructure projects in the Pacific that deliver true value for money, focussing on impacts and benefits for society well beyond the physical assets.

Dr Jenny Gordon

Chief Economist, Department of Foreign Affairs and Trade

## Acknowledgements

The evaluation team was led by Stephen Sedgwick AO FIPAA. The other members of the core evaluation team were Dr David Bray (infrastructure specialist) and Irene Wettenhall (evaluation specialist and manager). Mr Sedgwick and Dr Bray were contracted through Adam Smith International (ASI).

Leo Carroll from the former Office of Development Effectiveness (ODE) participated in the fieldwork in Vanuatu, Solomon Islands and Tonga. He provided direction and oversight to the evaluation and drafting of the report. David Osborne (economics and finance specialist) participated in the fieldwork in Vanuatu and contributed to the early economic analysis. Support for the evaluation was also provided by Rik Thornecliff from ODE. Warren Turner (ASI project manager) and Jennifer Mudge (gender specialist) from ASI provided comments on drafts of the report.

The team brought expertise in public policy and governance, infrastructure, economics, the multilateral development banks, Pacific region and countries, gender and social inclusion, aid program management, and monitoring and evaluation to the evaluation.

The evaluation team would like to thank the DFAT staff at the Australian Government's Port Vila, Honiara and Nuku'alofa Posts for facilitating the team's fieldwork. Sincere thanks also to the partner government officials; other country embassy and high commission officials; multilateral development bank, Pacific Region Infrastructure Facility, implementing organisation and civil society representatives; Australian Treasury and Prime Minister & Cabinet officials; and past and present staff and advisers from DFAT, the Australian Infrastructure Financing Facility and the former AusAID staff who were interviewed by the evaluation team. Thanks also to the members of DFAT's former Independent Evaluation Committee and the evaluation reference group who provided comments on the draft report.

# Executive Report

## Acronyms and abbreviations

ADB	Asian Development Bank
AIFFP	Australian Infrastructure Financing Facility for the Pacific
AQC	DFAT Aid Quality Check (prior to 2014, a Quality at Implementation Report)
ASI	Adam Smith International
AusAID	Australian Agency for International Development
CCA	Climate change adaptation
DFAT	Department of Foreign Affairs and Trade (Australia)
DPO	Disabled People's Organisation
DRR	Disaster risk reduction
ERR	Economic rate of return
FAQC	Final Aid Quality Check
ICT	Information and communications technology
IMF	International Monetary Fund
M&E	Monitoring and evaluation
MDB	Multilateral development bank
ODA	Official development assistance
ODE	Office of Development Effectiveness
PFM	Public financial management
PIC	Pacific island country
PNG	Papua New Guinea
PPA	Partner Performance Assessment
PRIF	Pacific Region Infrastructure Facility
TA	Technical assistance
TOR	Terms of reference

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## Purpose

This Executive Report ('Report') provides the key findings and lessons identified by an evaluation<sup>1</sup> commissioned in 2018 by the then Office of Development Effectiveness (ODE) to provide evidence for DFAT and its partners about how Australia can maximise development outcomes and promote Australia's strategic and policy priorities<sup>2</sup> through economic infrastructure investments in the Pacific.<sup>3</sup> This is a strategic evaluation. It draws on DFAT's performance assessments and other evidence from a sample of 28 investments over the decade from 2008–2018 but is not a review of individual projects or country programs. The aim is to identify barriers and constraints to effective performance and inform future DFAT investments and policy engagement.

The geographic focus is the smaller Pacific island countries (PICs).<sup>4</sup> The sectoral focus is economic infrastructure, encompassing transport, energy, urban development and construction, large-scale water and sanitation, information and communications technology (ICT), and the institutions that manage them.<sup>5,6</sup> Also considered are economic governance programs with a relevant policy-related or reform component, recognising that the policy and regulatory environments help determine the potential development outcomes achievable through infrastructure investments.

Post-disaster reconstruction and social infrastructure such as health and education facilities were out of scope. However, the distinction between economic and social infrastructure can be a fine one—for example, the provision of water supply and sanitation infrastructure has public health benefits as well as economic benefits. Also, in the Pacific context, the multilateral development banks (MDBs) are giving greater weight to social, equity and environmental benefits when assessing economic rates of return (ERR) for infrastructure investments.

Attachment 1 provides further detail about the context and conduct of the evaluation. Attachment 2 provides an overview of the investments selected for this evaluation and their performance.

## A broad approach to infrastructure is best – 'Infrastructure ++'

The evaluation takes a broad approach, which recognises the mutually reinforcing development benefits of linking infrastructure and other development interventions. This broad approach is referred to in this Report as 'infrastructure ++'.

This approach is broader than simply combining physical investments with technical assistance, policy advice and institutional strengthening. The evaluation argues that other elements of the aid program can (and should be designed to) complement and amplify the impact of infrastructure programs (and vice versa). For example, interventions to improve general health and education outcomes or to improve public financial management (PFM)

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<sup>1</sup> The original draft was prepared in March 2020 based on data available at that time and the team's analysis. Finalisation of the evaluation has been delayed by COVID-19. Although some analysis has been tweaked in the light of further thoughts and feedback the data has not been updated since March 2020.

<sup>2</sup> As outlined in the Australian Government's Foreign Policy White Paper (2017).

<sup>3</sup> Pacific island countries: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, Republic of Palau, Republic of Marshall Islands, Samoa, the Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu. In addition, the Pacific Regional Program provides funding for regional programs that complement Pacific bilateral programs.

<sup>4</sup> PNG is not covered by this evaluation, principally because extensive analysis is already available in respect of PNG programs but also to ensure that the experience of these smaller countries is not lost in a broader evaluation.

<sup>5</sup> DFAT (2015). Strategy for Australia's Aid Investments in Economic Infrastructure, 2.

<sup>6</sup> The undersea telecommunications cables to Solomon Islands and PNG, contracts for which were announced in June 2018, are also outside of the timeframe for the evaluation.

and governance, can help to sustainably raise the capacity of the public and private sectors to plan, build, operate or maintain economic infrastructure assets or to benefit from the provision of such assets. Indeed, more generally, investments that build human capital and institutional capability enhance the development effectiveness and sustainability of investments in economic infrastructure.

Three considerations have shaped the analysis. First, although there are exceptions<sup>7</sup>, DFAT does not typically undertake such investments simply to construct a physical asset. Rather, infrastructure can be a powerful enabler of economic and social development, including through improving equitable access to services.<sup>8</sup> Thus, the evaluation sought to identify lessons about how to maximise development benefits from infrastructure and address constraints and barriers to doing so.

Second, the sustainability of economic infrastructure requires good planning, appropriate design, effective maintenance and, since PICs are highly vulnerable, construction to climate and disaster-resilient standards. The evaluation has taken a full lifecycle approach, addressing priority setting, planning, design, implementation, operation and maintenance of infrastructure—including governance, resources and systems. It acknowledges also that key issues are building country and organisational capacity to encourage good decision-making, to provide sustainable resourcing and implementation of operations and maintenance systems, and to develop and enforce appropriate regulatory environments.

Third, the approach recognises that infrastructure investments are part of a broader development partnership and deepening relationship between Australia and PIC governments that are intended to progress that country's development agenda and Australia's strategic objectives. The evaluation has sought to identify lessons about how to establish and sustain effective relationships to support policy dialogue and long-term engagement through infrastructure.

Many of these lessons have applicability beyond the infrastructure-related elements of the aid program. While accepting that no single intervention can or should attempt to 'do everything', a sub-theme of the analysis involved identifying examples that explore the limits and efficacy of designing infrastructure investments in ways that exploit linkages and complement or are complemented by other elements of the wider aid program.

Indeed, a key finding of the evaluation, overall, is that significant payoffs across the aid program and the broader relationship between Australia and its PIC partners are available if DFAT pursues an 'Infrastructure ++' approach. Attachment 4 provides a fuller discussion. This issue is a recurring theme throughout this Report, reflecting the pervasiveness of the impact that adopting such an approach can provide. Moreover, maximising the prospects for success requires changes to 'business as usual' across multiple domains of DFAT's PIC infrastructure activity.

## **Pacific island countries lack financial resources and capability**

Despite a significant increase in aid flows from development partners to the region in the recent decade or so, PICs will continue to need for the foreseeable future very substantial assistance to construct and maintain the physical economic infrastructure necessary to

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<sup>7</sup> For example, in response to a specific government request to construct a building (for example, the Samoa Parliament House).

<sup>8</sup> Equitable access is both a place-based concept (for example, having regard to outer islands or remote communities) and relates to social groups (for example, having regard to gender or disability). Services relate both to the services provided by physical assets (such as access to transport) and to services more broadly across the economy (in health, education etc.).



underpin an adequate, equitably shared standard of living for their people.<sup>9</sup> In addition, many government institutions do not have sufficient capacity to plan, prioritise, regulate, resource, construct and maintain economic infrastructure. In the absence of sustainable and capable institutions, many PICs are dependent on substantial continuing outside support for expertise. Another key finding of the evaluation is that, in addition to finance, lack of sustainable capability is a major source of vulnerability for PICs that has long-term adverse consequences for the effectiveness and sustainability of economic infrastructure investments. Identifying options to address capability gaps was also an important sub-theme of the evaluation.

## DFAT needs to choose carefully how assistance is financed

Australia has delivered economic infrastructure assistance in the Pacific over the period 2008-18 using several **financing modalities**<sup>10</sup>, sometimes in combination. Co-financing was the predominant financing modality across the investments examined for this evaluation. This was the result of a deliberate strategy to partner more often with MDBs to leverage their greater technical expertise and large resource base to exert greater influence on policy dialogue with partner governments and to participate in much larger programs than otherwise.<sup>11,12</sup> Other investments were directly funded and implemented by DFAT using its own resources.

Views vary considerably about the cost-effectiveness of co-financing compared to direct funding by DFAT. Analysis of the relative merits of alternative approaches was hampered by the lack of systematic comprehensive data about the costs incurred to support direct and co-financed investments respectively. A finding of the evaluation is that better data is required regarding costs incurred, including staff costs, for each approach to enable DFAT to make better informed decisions.

Importantly, the evaluation also finds that the performance ratings of the 28 investments covered by the evaluation (see Attachment 2) imply that neither funding modality (direct financing or co-financing) was inherently more effective than the other—it is ‘horses for courses’ as the circumstances demand. Sometimes a mix of modalities is appropriate.

**Direct financing** requires appropriate resourcing. Access to good technical advice and project management expertise is critical but, the evaluation found, is currently in dangerously short supply in DFAT. Technical advice may be supplied in-house and/or through good procurement: even in the latter case, though, DFAT needs sufficient in-house technical understanding to be a capable purchaser and to properly monitor performance in the planning and implementation phases. Greater recourse to direct financing will require a

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<sup>9</sup> The ADB has estimated the total infrastructure deficit in the Pacific (including PNG and Timor-Leste) to be US\$46 billion (adjusted to account for climate change mitigation and adaptation) out to 2030 [ADB, 2017. *Meeting Asia's Infrastructure Needs*, Table 1, xiv; cited in DFAT 2017. *Foreign Policy White Paper*, 100]. This implies around US\$3.1 billion annually will need to be invested in infrastructure in the Pacific (including PNG and Timor-Leste) up to 2030. These estimates do not include the costs of restoring infrastructure damaged by natural disasters. The PICs are highly susceptible to climate change and are amongst those most exposed to natural disasters in the world, which periodically generate substantial reconstruction requirements.

<sup>10</sup> This Report considers two aspects of delivery, namely (a) financing / funding modalities (whether and how DFAT works with and through partners, as in the case of direct delivery, co-financing or trust funds) and (b) delivery modalities (the form in which the assistance is delivered—principally project assistance, technical assistance, budget support and / or performance-based support using government systems). Around 57 per cent of DFAT expenditure in the decade to 2017-18 (\$240 million) was delivered through co-financing arrangements with the MDBs. Roads (\$198.1 million or 46.7 per cent) and energy (\$107.8 million or 25.4 per cent) received most.

<sup>11</sup> AusAID. Infrastructure annual thematic performance report 2007-08, 7.

<sup>12</sup> This was also consistent with an increased international focus on ensuring country ownership, effective partnerships and donor harmonisation in aid effectiveness. Australia is a signatory to the 2005 Paris Declaration on Aid Effectiveness, 2008 Accra Agenda for Action and 2011 Busan Partnership for Effective Development Cooperation.

significant investment in additional technical capability by DFAT. Direct delivery allows DFAT to exercise a larger degree of control but also requires DFAT to supply the administrative and technical support potentially available from an MDB in a co-financing arrangement.

**Co-financing** has leveraged significant additional resources for economic infrastructure projects, facilitating access to expertise, resources and economies of scale not otherwise available to DFAT. Most co-financed investments the evaluation examined proceeded reasonably smoothly to an adequately successful conclusion. The MDBs are a major (in some countries the largest) investor in infrastructure in the PICs and Australia's interests are well served if DFAT maintains an effective and influential relationship with the MDBs, including through co-financed investments.

## DFAT and MDBs bring different perspectives to bear

Over the period covered by the evaluation, DFAT typically provided grant funds to PICs whereas MDB interventions were predominantly funded via loans to be repaid by the recipient government. Partly therefore, DFAT and the MDBs approached their tasks differently and faced different incentives (see Attachment 3).

It was frequently asserted that timely loan disbursement is more highly regarded by MDBs than project impact and that they pass risk on to the implementation phase and to third parties. Moreover, MDBs tend to employ more specialist staff than DFAT, which typically employs 'generalists'. MDBs traditionally provide less in-country support, suggesting less detailed understanding of each country's 'political economy' than DFAT. The differences in perspective and expertise provide a basis for fruitful collaboration. The evaluation found, however, that understanding of these differences in approach and perspective varies amongst staff, especially in-country. Moreover, locally available skills and experience available to each organisation may vary. This may introduce benign irritants to the relationship or pose major risks to outcomes, with unnecessary tension in the relationships. Dialogue will be truncated if either party believes there is insufficient value addition from the other party. DFAT needs to be conscious of this risk and arrange its resources accordingly.

In some co-financed investments, DFAT has needed to invest resources to ensure that DFAT's policy objectives were both better met in the project design and/or implementation phases, and were appropriately reflected in monitoring and evaluation (M&E) arrangements that facilitated DFAT's accountability obligations, including in respect of gender and social inclusion. This may arise unexpectedly, even when DFAT is not the lead agency.

A mix of modalities can provide the 'best of both worlds' by bringing together the skills and understanding of DFAT and its co-financiers, recognising their different perspectives and the trade-offs regarding the control available to DFAT.

## Principles to guide the choice of funding modality

The evaluation found that an assessment of the relative costs and benefits of alternative financing modalities needs to be firmly based on a realistic appreciation of all the costs involved in the circumstances of each case and the outcomes achieved. The evaluation proposes best practice principles to guide DFAT's choices between alternative funding modalities, having regard to the resources (technical and financial) that each party can contribute or develop, the local track record and capabilities of DFAT and its prospective partners, DFAT's objectives and the desired degree of control it seeks to exercise, amongst other things. These are discussed more fully in Attachment 5.

A key finding is that DFAT must assure itself that its MDB partners (and where more than one, the lead MDB) and the recipient government have appropriate capability locally to undertake procurement and oversight design and delivery of the investment. DFAT should then assess the need for and be able to supply sufficient technical assistance and, when necessary, administrative and other resources for effective oversight and support.

The evaluation also finds that DFAT should actively decide (and obtain agreement) upfront about the nature of its engagement with partners and its involvement in the governance of any co-financed investment. A realistic assessment of its ability to influence how a project is designed and delivered should inform DFAT's assessment. The capacity to exert influence may be more apparent than real in some situations, implying that attempts to increase DFAT's influence in a co-financed investment may increase rather than mitigate DFAT reputational risks<sup>13</sup>. DFAT could usefully strengthen the skillsets and its guidance to decision makers, having regard to the analysis of the evaluation and the principles it has proposed.

An option is for DFAT to require these matters to be addressed at the Concept Note stage, with appropriately senior internal sign-off required of the conclusions reached.

## DFAT also needs to choose carefully between delivery modalities

DFAT also has choices about **delivery modalities** (the form in which the assistance is delivered—principally project assistance, technical assistance, budget support, performance-based support and use of government systems). A critical issue for this evaluation, is how effectively each of these choices support long-term capability development in PICs and/or support deep relationships with recipient governments. A related issue is the Australian government's appetite to accept increased risk while pursuing such objectives.

The evaluation argues that, whenever possible, DFAT's choices should support long-term capability development and deeper relationships with recipient governments. It particularly argues in favour of adopting long-term programmatic approaches to economic infrastructure whenever possible. Such approaches reflect the generally lengthy lifespan of infrastructure and can better facilitate long-term approaches in respect of key issues such as policy dialogue and more effective approaches to maintenance and capability development. They may also better convey Australia's long-term strategic commitment to the PICs.

Reliance on government systems may encourage capability development. However, DFAT, the MDBs and recipient governments may have different risk appetites. Australia may require additional checks and balances to mitigate financial risks. DFAT needs access to the capability to properly assess and realistically mitigate such risks. Decisions to adopt country systems need to consider the issues holistically, having regard also to local capacity, including the capacity to implement any additional checks that DFAT may require. In at least one such case, the evaluation found that DFAT had suffered reputational damage because of deficiencies in local capability<sup>14</sup>.

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<sup>13</sup> For example, the evaluation found that the reputational consequences for DFAT of the Port Vila Urban Development Project were considerable even though the control DFAT exercised in practice was not large.

<sup>14</sup> For example, the operations of the Solomon Islands National Transport Fund.

## Sustainable construction and maintenance—new approaches are required

New approaches are required to secure the sustainable provision of economic infrastructure to meet the social and economic needs of communities in PICs. The landscape is dominated by a ‘build-neglect-rebuild’<sup>15</sup> approach to maintenance, great vulnerability to natural disasters and climate change risks, generally severe funding constraints<sup>16</sup>, unresolved technical issues and pervasive capability deficiencies. The evaluation finds that each of these poses major challenges for the sustainable provision of effective economic infrastructure. It argues that progress is occurring in respect of resilience issues, especially to identify and adopt appropriately resilient construction standards, but major challenges remain in securing sufficient funds and in addressing maintenance.

Funding maintenance and rehabilitation of existing infrastructure is a serious challenge that will only increase as the stock of assets rises. PICs often favour new builds over maintenance, including to improve access to isolated communities that would otherwise suffer entrenched disadvantage and social disconnection, despite expert advice that maintenance of the existing stock will generally be more cost effective. PICs are unlikely to generate sufficient resources domestically<sup>17</sup> to meet these needs, while often still seeking high standards of infrastructure provision. The evaluation argues that a new approach is required<sup>18</sup>. A summary appears below. Further detail is provided in Attachment 6.

One element of such an approach may involve financial support for construction initially to higher standards that improve climate and disaster resilience and reduce lifetime costs, maintenance costs and other economic and social costs associated with degraded infrastructure. PICs lack important information to support key decisions. The evaluation believes that better practice demands that DFAT work to remedy such knowledge gaps, including through benchmarking and pilots. Relatedly, donors have frequently supported the introduction of asset management systems that are not ‘fit for purpose’, which often fall into disuse. The evaluation finds that alternative approaches are under investigation that may offer greater sustainability in the future. The evaluation believes that, as part of a holistic approach to improving information to support decision makers, including in PICs, DFAT should actively support the Pacific Regional Infrastructure Facility (PRIF) in its ongoing work to document and disseminate lessons and experience that can inform sustainable construction and maintenance.<sup>19</sup>

A major element of a new approach concerns resourcing. PICs face mixed messages from donors regarding maintenance—donors preference rehabilitation over maintenance, for example, including in respect of grants, which may discourage government-funded maintenance in the expectation that donors will fund rehabilitation once the asset degrades sufficiently. The evaluation believes that it would be better practice if DFAT were to adopt, on a case-by-case basis, the practice that it will oversight and fund maintenance of nationally

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<sup>15</sup> Alejandrino–Yap, M., Dornan, M., and McGovern, K. 2013. *Infrastructure Maintenance in the Pacific: Challenging the Build-Neglect-Rebuild Paradigm*. Pacific Infrastructure Advisory Centre. Sydney.

<sup>16</sup> For example, current expenditure on routine and periodic maintenance (including rehabilitation) of roads in Vanuatu is estimated to be around 10 per cent of that required to sustain the network (ADB 2018). By contrast, some well-managed utilities such as power in Tonga and water in the Solomon Islands have been able to secure considerably better outcomes.

<sup>17</sup> The evaluation’s sombre assessment of the capacity of PICs to fund maintenance, climate change adaptation (CCA) and disaster risk reduction (DRR) also has regard to the other demands on PIC resources to address gaps in the provision of adequate economic and social infrastructure. These are also substantial, even though published gaps are typically estimated assuming that targeted infrastructure provision in PICs remains well below the standards of the OECD.

<sup>18</sup> This challenge is not new. It was a central issue identified in a review of transport in the Pacific almost three decades ago (World Bank. 1993. *Pacific Islands Transport Sector Study*).

<sup>19</sup> PRIF is currently funding and monitoring trials of concrete paving in the Solomon Islands, Vanuatu, Tonga and Fiji.

significant economic infrastructure assets constructed substantially with DFAT funds for a period of time, noting that DFAT already adopts this approach in some instances.<sup>20</sup> This may well be more cost-effective than investment in some new builds and would be additional to pursuing 'no regrets' options, such as policy dialogue.<sup>21</sup> It would need to be supported by an appropriately long-term strategy to build the necessary institutional capability to ensure that such funds are applied wisely and in timely fashion.

The evaluation found that substantial efforts have been made in some PICs to build private sector capacity to undertake maintenance and some construction, especially in respect of roads. This included simple maintenance undertaken by local communities. The evaluation finds that active steps are typically required to develop such capability, including to provide necessary technical and business training and initial access to equipment. Government procurement and budgeting practices may also require modification, for example, to facilitate tendering and allow multi-year and performance-based contracting, to improve the efficiency and effectiveness of works. These approaches may not be replicable in all circumstances. For instance, it may not be appropriate for communities to maintain major roads that are heavily trafficked and require sophisticated equipment.

The approach adopted to maintenance has wide ranging ramifications and needs careful assessment as a strategic issue at the project design stage<sup>22</sup>. For example, community-based approaches are more likely to be beneficial in respect of routine maintenance of rural roads. Labour-based approaches, for example, may incur cost penalties compared to provision by equipment-based, possibly international, contractors. In such circumstances the trade-off between cost penalties incurred and development benefits foregone needs careful assessment. The need to actively consider such trade-offs also arises when gender and disability inclusion are important objectives.

## **Sustainable success in building PIC capability requires a sustained 'infrastructure ++' approach**

The capability gaps PICs face are manifold. The evaluation was constantly reminded of shortages of skilled personnel but also deficiencies in the ways that critical organisations are organised and managed. These can constrain the effectiveness of both the asset constructed and policy dialogue.

The small domestic labour market and limited capacity of in-country education and training delivery, coupled with the fragile or (post) conflict affected situations of many PICs with which Australia maintains a bilateral aid program<sup>23</sup>, reinforce the challenge in many PICs. Moreover, building the technical and professional skills of individuals, especially deep analytical, problem solving and critical thinking skills, takes time. Labour mobility results in a continuing need for skills development. Donors can (and do) plug gaps by facilitating access to external expertise. But this only plugs a gap. It does not solve the problem.

A key finding of the evaluation is that sustainable success in building the professional capability of PIC entities would benefit from a sustained 'infrastructure ++' approach. Such

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<sup>20</sup> For example, through the Kiribati Roads Rehabilitation Project, South Tarawa Sanitation Improvement Project, Nauru Port Redevelopment and Reform Project and, arguably, through its support of the Solomon Islands National Transport Fund.

<sup>21</sup> 'No regrets' type options are policy dialogue, continued advocacy for increased grant funds for the PICs and continued recourse to co-financing to leverage funds from MDBs.

<sup>22</sup> Potentially as a component of the Theory of Change analysis that supports project design.

<sup>23</sup> ADB 2016 [*Mapping fragile and conflict-affected situations in Asia and the Pacific: The ADB experience*] lists Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Solomon Islands, Timor-Leste and Tuvalu as 'fragile'. It also concludes that Vanuatu is not currently fragile or conflict affected but that 'fragility remains in these countries that still need special attention'.

an approach is long-term and needs to be supported by credible long-term commitment to improved health and education outcomes and to deepening PFM and governance skills in addition to building specific infrastructure capability. The evaluation argues that such an approach is consistent with Australia's existing comparative advantage compared to some other donors, and its strategic interests.

Skilled and knowledgeable personnel are typically in short supply. Although there are exceptions, both across countries and in respect of entities within a country, a range of shortages of skills, knowledge and professional capabilities was identified, including:

- across the full range of the infrastructure life cycle—from planning and prioritisation, to project design and appraisal, through to implementation, operations and maintenance
- limited capacity for effective PFM, (including in respect of procurement), regulatory reform and public policy development and implementation
- deficiencies in respect of engineering and other professional and technical expertise, a function of both limited numbers of appropriately skilled personnel locally and high turnover
- good relationship and people management skills can be undervalued both as an aid to project execution and as a vehicle to build organisational capability and culture.

A common theme that emerged in discussions was that many key organisations are weak. In addition to shortages of skilled and knowledgeable labour, there had been long-term underinvestment in management capability and management systems leading to an ineffective workplace culture and poor performance. Cultural norms and the constraints imposed in some situations by kinship-based relationships (for example, where civil and traditional authority structures may be inverted) may condition approaches to performance management in some PICs.

The evaluation found that donor support often amounted to serial capacity substitution, whether by accident or design. For example, donors often fund external advisers to provide technical expertise and, in some cases, transfer skills to indigenous staff. However, the evaluation found that these approaches too often had little lasting impact on domestic capacity. It has suggested principles to guide better selection, tasking and oversight of advisers. These principles (see Attachment 7) include: greater clarity about any capability development obligations of advisers; clear commitment to such roles by PIC supervisors, their senior managers and donor contract managers; and selection processes that have regard to both technical competence and relationship management skills.

Nonetheless, the evaluation found instances in which capable organisations had been built over time, typically with significant and long-term support from donors, initial injection of management and technical skill from outside the entity<sup>24</sup> (sometimes drawn from other PIC countries such as Fiji and PNG) and active external mentoring of senior management over a significant period, including through twinning arrangements.<sup>25</sup> These were often utilities (state-owned enterprises) subject to the oversight of a professional board, with incentives

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<sup>24</sup> Nevertheless, the evaluation found successes. External advisers were employed in key leadership positions as organisational change agents with apparent success in Tonga and the Solomon Islands. These involve not just skills transfer but also the building of organisational capability, including in parts of the Solomon Islands Ministry of Finance and Treasury, Tonga Power, Solomon Water, Solomon Power, and the Tina River Hydro Power Project Office.

<sup>25</sup> The Economic Reform Unit of the Finance Ministry of the Solomon Islands government, for example, has been the beneficiary of a now discontinued long-term twinning arrangement with the Australian Treasury. Tonga Power has a long standing, mutually beneficial twinning arrangement with North Power in New Zealand. Although not pursued in the context of any investments examined by this evaluation, DFAT has supported such arrangements in some instances. For example, DFAT could learn from its successful support for the Pacific Water and Wastewater Association under the Australian Water Partnership.



aligned because the entity internalised the consequences of poor management (including poor customer focus or ineffective maintenance) in lower profitability.

However, not all utilities respond as well to such incentives. Other factors are also crucial. The evaluation finds that DFAT can (and should) learn from the success stories and, while acknowledging that the necessary conditions are not yet prevalent everywhere, seek to replicate them when circumstances permit. It also suggests that DFAT could provide leadership and (a) appoint a suitably experienced capability champion within DFAT to build DFAT expertise and commitment, and (b) formally adopt an 'infrastructure ++' approach which explicitly acknowledges the links between the long-term sustainability of infrastructure investments and broader development issues including governance and human resource development. Broadening DFAT's support for business-to-business mentoring arrangements would also provide real leadership, as would pursuing options to improve the 'skills legacy' left by DFAT investments, including through greater support for technical training of local staff through, for example, the Australia Pacific Training Coalition.

## Gender and disability inclusion

The evaluation focussed on gender and disability inclusion as the key areas of social inclusion that DFAT's investments in the Pacific have addressed.<sup>26</sup> Infrastructure investments that are designed to increase access to services and livelihood opportunities for women and people with disabilities contribute to economic growth and greater equality. Infrastructure development also has potential to do harm and exacerbate inequalities if their needs are not adequately addressed in program design and implementation. Gender-responsive and disability-inclusive infrastructure development is thus a development, equity and safeguards issue.

The evaluation confirmed that DFAT is seen as a leading advocate for gender equality and disability inclusion in the region and has positively influenced and supported the MDBs to better address gender. However, the constituencies for gender equality and disability inclusion in the PICs are still emerging. The evaluation found that DFAT should support civil society in the PICs to build these constituencies with governments.

More progress has been made on gender in DFAT's infrastructure investments than disability. This is a result of DFAT's requirement for more systematic attention to gender over the evaluation period. However, there is still a substantial gap between DFAT's policies and program implementation for both; and DFAT's internal resourcing of gender expertise has not kept pace with its expectations of a stronger gender response in infrastructure investments. DFAT's draft guidance note on infrastructure and gender (2018) should be finalised as soon as possible to provide guidance for new infrastructure investments.

Better DFAT practice to enable disability inclusion would require as conditions of project approvals that (1) universal design principles are applied in the construction of new infrastructure and (2) evidence is provided that national Disabled People's Organisations were consulted to identify entry points and opportunities for disability inclusion.

MDBs also have more to do to improve their focus on gender and disability, with interventions to improve the quality of investment designs and to lift their M&E systems to

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<sup>26</sup> There was limited evidence of other areas of social inclusion, which in the Pacific context includes rural or outer island populations. These were included in the target populations for some investments (e.g. Tonga Outer Island Renewable Energy Project) but DFAT has not adopted a formal policy approach to this group. Increased population pressures on urban centres resulting from rural-urban migration was addressed in several investments (e.g. Port Vila Urban Development Project; Nukuálofa Urban Development Sector Project).

better capture such issues being a major reason why DFAT has felt the need to commit additional resources to improve co-financed investments. It is notable, moreover, that road investments with distinct community development objectives and targets for participation of women achieved better results on gender equality than more narrowly focussed infrastructure programs. The evaluation found program design (including the attention paid to community development and gender) had a greater impact on gender outcomes than either the DFAT policy change from 2014<sup>27</sup> or whether the investments were directly delivered or co-financed with MDBs. As previously noted, potential trade-offs between competing objectives need careful analysis.

In summary, the evidence is that systematic and targeted attention to gender equality issues in design, implementation and monitoring of investments is needed to maximise outcomes. Development outcomes from infrastructure investments are also improved if DFAT undertakes complementary targeted investments to promote gender equality and women's empowerment. This is a clear demonstration of the value of DFAT pursuing 'infrastructure ++', for example to improve the educational attainment and workforce readiness of women, which can also lift the capacity of the workforce to support the provision of sustainable infrastructure<sup>28</sup>. Another example is support for regulatory reform to expand access to and affordability of infrastructure for all (for example ICT and utilities). The evaluation further found that it would be valuable for DFAT to insist on adequate representation of qualified women amongst those recruited for project advisory work – these could provide role models and encourage other women to persist with their education and training.

## **Establishment of the AIFFP brings new challenges and opportunities**

Australia has opened a loans window to support development in the PICs with the establishment of the Australian Infrastructure Financing Facility for the Pacific (AIFFP) in 2019. As discussed in Attachment 3, the role and approach when the development intervention is principally based on lending is subtly different to when grant funding is employed. Much greater responsibility rests with the recipient government, which is responsible to its taxpayers for meeting future loan repayments. DFAT needs to ensure that this subtle shift in its relationship with recipient government is well understood by, and reflected in the behaviours of, its staff.

Although the AIFFP is expected mainly to lend to sovereign governments, it also has scope to lend to others, including private sector borrowers. The evaluation has not undertaken a detailed assessment of the opportunities available for private sector lending in respect of economic infrastructure investments. It seems likely, however, that in the transport sector, roads will offer few such opportunities in PICs<sup>29</sup>, with slightly better chances for ports and airports. Based on recent experience, telecommunications and the power sectors may provide the best opportunities for private sector investment.

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<sup>27</sup> In 2014, DFAT introduced a target that that 80 per cent of aid program investments, regardless of their objectives, effectively address gender issues in implementation

<sup>28</sup> Poor education opportunities for girls and women in some PICs severely limits the opportunities available to them. This casts a long shadow: for example limited education limits their employment options while the consequent absence of female role models in influential positions and poor financial literacy can adversely affect girls' aspirations and expectations of their future employment prospects, leading to continued undervaluing of education.

<sup>29</sup> Only one instance of road tolls was found in the sample of investments examined, which was a causeway in Kiribati where a toll is intended to support maintenance. However, anecdotes provided to the evaluation suggest the toll is not consistently collected. More generally, low traffic volumes in PICs limit the potential for revenue generation from tolls.



Importantly, the AIFFP will also have access to a grant facility to support its lending activities that responds to sometimes high levels of public indebtedness and the IMF's associated recommendation that future public borrowing be on highly concessional terms. The grant window is of major strategic importance to DFAT, including because even in the AIFFP context, grant funds can enable DFAT to preference development not just delivery, to build in quality 'by design' and to put in place approaches to M&E that demonstrate the value of such approaches. Just as in the case of the traditional aid program, active alignment of AIFFP investments with an 'infrastructure ++' approach to country programming is a valuable opportunity for DFAT to assist a country to progress its development agenda most effectively and advance Australia's strategic objectives in respect of its relationship with that country.

## DFAT capability to build enduring relationships

Relationships are at the heart of DFAT's development work: relationships with other donors, with contractors and with each PIC government (politicians and officials). The evaluation finds that DFAT requires virtually the same capabilities to operate as an effective partner for donors, contractors and PICs alike, namely appropriately skilled and knowledgeable staff in several domains. However, there are important shifts of emphasis and of degree depending on which relationship is under examination. For example, the implications of insufficient access to requisite technical skills are likely to be far greater when managing a contractual relationship than one with an MDB. The required capabilities include:

- country knowledge
- specialist knowledge, especially infrastructure specialist knowledge, which is assessed to be in dangerously short supply amongst DFAT staff, but also decision making under uncertainty<sup>30</sup>, gender and social inclusion, and organisational capability development
- knowledge of how MDBs operate and why they have a different philosophy to DFAT and face different incentives
- multi-faceted relationship management skills.

Better workforce management practices, as well as effective aid delivery, suggest that DFAT could usefully take active steps both to strengthen its capability in each of these domains and to require DFAT staff, through strengthened policies, supporting guidance and accountability obligations, to address infrastructure projects consistent with the better practices identified in this Report.

A critical premise of this evaluation is that Australia's strategic interests in the Pacific are best served when key PIC governments view Australia as their preferred development partner. Sustaining such a relationship has long been an Australian government objective. Attachment 9 includes a discussion of what PICs may seek in a 'preferred development partner'.

When institutions are weak, as in many PICs, relationships matter more than normally.<sup>31</sup> Moreover, the current environment is unusually propitious if DFAT is willing to learn the lessons from its investments in the recent past. The Australian Government has significantly increased the priority assigned to economic infrastructure and the PICs within the aid program. The establishment of the AIFFP provides a substantial new modality to enable Australia to engage in economic infrastructure investments in the Pacific, including through

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<sup>30</sup> Including in respect of climate change adaption (CCA) and disaster risk reduction (DRR).

<sup>31</sup> The view of a senior, experienced Australian official.

sovereign and other lending. PIC needs are great, though some also already carry high levels of debt. New players have emerged and existing players have stepped up their investments also, providing a wider range of choice between potential partners for PIC governments. New opportunities have thus emerged to strengthen relationships with PICs through good infrastructure investments but, in an era of greater recipient government choice, the consequences of poor choices by Australia are also heightened.

The evaluation found that the implications for PIC counterparts of staff turnover at Post, DFAT's reluctance to rely wholly on country systems in some cases and the timeliness of access to specialist expertise can colour perceptions of DFAT's performance at times. Yet, overall, DFAT is generally well regarded by the governments that were consulted during the evaluation. Nonetheless three options are presented to strengthen Australia's claims.

First, as a long-term partner, Australia can preference longer term development objectives over, say, speed of delivery.<sup>32</sup> Moreover, a demonstrable focus on achieving 'infrastructure ++' would be a visible manifestation of the breadth of relationship that Australia seeks and is prepared to resource. This is as relevant for AIFFP infrastructure loans and grants as it is for DFAT's participation in direct or co-financed activities.<sup>33</sup>

Second, 'the key to quality is investment in better design'<sup>34</sup>. Australia's provision of grant finance, including as an element of the AIFFP, provides Australia with an option to be known for consistently pursuing high quality development outcomes (not just asset construction) by funding good design. In this respect DFAT should also seek to ensure that its country programming is 'joined up', with an 'infrastructure ++' orientation, whether delivery is through the AIFFP or more traditional interventions; and DFAT should champion approaches to M&E that enable it to demonstrate the development benefits such an approach enables and build the in-country constituency in support of it.

Third, Australia has deep historical relationships with many PICs. The evaluation finds it is in Australia's strategic interests that its actions convey a credible commitment to remain a partner for the long term. Like Australia's ten year \$250 million infrastructure commitment to Solomon Islands, Australia has an option to frame its economic infrastructure ambitions in key PICs in the context of multi-year commitments to a program of works, including maintenance and organisational capability development, not simply a string of disjointed projects. Such an approach readily embeds economic infrastructure investments within a sustained 'infrastructure ++' approach (acknowledging that Australia will be working with and through other development partners in pursuing such an approach). The credibility of such an approach will be stronger if the Australian government provides funding certainty to enable DFAT to commit to such a program for five or more years into the future (on a rolling basis).

## Key lessons for DFAT and the design of DFAT projects

This section summarises the key lessons for DFAT in building its own capability and in designing projects that maximise development outcomes, consistent with Australia's

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<sup>32</sup> The evaluation has found that a visible point of difference for DFAT, supported as necessary by grant funds to help reduce any short-term cost penalty, can be an approach that avowedly supports sustainable local capacity development, local employment, social inclusion, policy reform as necessary, and disaster-resilient quality construction.

<sup>33</sup> It would seem to be in Australia's best interests both to pursue effective development outcomes but also to grant-subsidise the collection of M&E evidence that demonstrates the value of such an approach.

<sup>34</sup> Kelly P. 2019. 1 Social infrastructure in the Pacific – what works? (internal DFAT communication)

strategic objectives as long-term development partners of the PICs. These are that DFAT's policies, guidance and accountability arrangements should be strengthened such that DFAT:

- formally **adopt and implement an 'infrastructure ++' approach** that positions economic infrastructure within a broader development context (see Attachment 4 for how best to implement this approach).
- **actively consider which funding modality is most appropriate** in the circumstances of each project, having regard to the capabilities and objectives of DFAT, its prospective funding partners and the country concerned.
- **choose delivery modalities that support long-term capability development and deeper relationships with recipient governments.** This particularly argues in favour of adopting long-term programmatic approaches to economic infrastructure whenever possible.
- proactively **work with governments and development partners to maximise the longer-term sustainability of construction that is funded**, including in respect of design standards, arrangements to support sustainable operations and maintenance, and in-country capability development (see Attachment 6).
- more actively **engage in building sustainable long-term capability in PICs** (both to maximise development outcomes and because it is consistent with the kind of enduring partnership it seeks with PIC governments), including through:
  - appointing a 'capability development champion' to strengthen DFAT's ability to assist PIC entities to build effective organisations.
  - applying the principles set out in Attachment 7 to inform the recruitment, assignment and governance of in-line and other advisers for all relevant DFAT directly funded projects and technical assistance and, as far as possible, for all other relevant projects with which it is involved.
  - commissioning, in conjunction with PRIF as appropriate, research into success factors in building more sustainable organisations in PICs so as to inform program design and policy dialogue, noting that:
    - a one-size all approach is unlikely to fit all cases<sup>35</sup>
    - experience suggests there is potential to make greater use of twinning arrangements to support PIC government activities.<sup>36</sup>
  - Actively considering options to improve the 'skills legacy' left by DFAT investments, including through greater support for technical training of local staff through the Australia Pacific Training Coalition and/or reform of procurement practices to reward or require the provision of accredited training for local staff, if market conditions are propitious.
- **Strengthen the alignment between practice and DFAT's stated policy objectives in respect of Gender and Disability Inclusion** by proactively:

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<sup>35</sup> For example, circumstances vary between organisations whose core business is to provide policy advice or to devise and enforce regulation compared to those required to undertake project planning and implementation, or operations and maintenance.

<sup>36</sup> Drawing on the lessons of the Australian Water Partnership's support for the Pacific Water and Wastewater Association, the ADB's Water Operators Partnerships ('Twinning Utilities for Better Services') and the relationship between Northpower (New Zealand) and Tonga Power Limited.

- Working with civil society organisations in the Pacific to strengthen constituencies for gender equality and disability inclusion.
- Ensuring that program designs and monitoring and evaluation frameworks for all economic infrastructure investments include targets and indicators for gender, thereby increasing accountability for gender results.
- Strengthening disability inclusion in economic infrastructure investments by requiring funding approvals to state that universal access principles will be followed in design and construction of new infrastructure and that national Disabled People's Organisations have been consulted in the design and will have a role in the monitoring of investments.
- pro-actively **ensure that DFAT capability is 'fit for purpose'** including through:
  - recruitment of more infrastructure specialists, including in respect of decision-making under uncertainty, climate change adaptation and disaster risk reduction.
  - acquiring better capability to make judgements about and to craft strategies to assist suitable PIC agencies to strengthen systems and deepen organisational capability over time (a 'capability champion' being a prospective option).
  - requiring relevant DFAT staff to remedy any gaps in their knowledge, skills or experience in respect of the operations of PICs (including their systems) within their areas of responsibility, MDBs, relationship management<sup>37</sup> and contract management, and providing options and/or incentives to require staff to develop the necessary capabilities.
- actively promote use of grant funds and appropriate project designs to **preference development not just delivery, quality 'by design' and approaches to M&E** that demonstrate the value of such approaches (see also the discussion of what PICs prefer in a development partner in Attachment 9 and the discussion of 'Quality by design' in Attachment 10)

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<sup>37</sup> Field work has shown that views differ (within and) between recipient governments about how they wish to interact with donors. Some Ministers and officials expressed a strong preference to manage donor relationships 'one-on-one'. Others prefer to work centrally on fewer, larger projects through a lead donor. DFAT needs to be flexible and competent to play the role appropriate to each country's, and possibly each project's, context.

## Attachment 1: Context and conduct of the evaluation

The combined population of the PICs (excluding PNG) is around 2.3 million people, spread over an area comprising 15% of the Earth's surface.<sup>38</sup> Within the region, there is considerable diversity both in the populations of individual PICs<sup>39</sup> and population density in different locations. While overall the PICs still have predominantly small, young, rural populations, internal migration is leading to higher population density in capitals and places such as Ebey in the Marshall Island and South Tarawa in Kiribati.<sup>40</sup> This is placing pressure on infrastructure and services.

Access to electricity and at least basic drinking water services is increasing, but there are significant gaps and variations across the region. Road density is low overall, with access frequently disrupted by natural hazards and inadequate maintenance. Road construction on a remote island can be four times more costly than in more densely populated large economies.<sup>41</sup> Road maintenance in the Pacific remains a significant challenge—more than half the roads in the PICs are unpaved and in disrepair. Remoteness, disaster risk and small scale add significantly to costs across the spectrum of infrastructure investments.

Development assistance is generally high, though it varies on a per capita basis.<sup>42</sup> Australia is the largest donor to the PICs, providing 47 per cent of all net official development assistance (ODA) over the period 2007–17<sup>43</sup>, but is not (yet) the largest donor for economic infrastructure<sup>44</sup>. Other major donors were the USA (20 per cent), Japan (14 per cent), New Zealand (11 per cent) and the European Union (5 per cent).

Australia's approach throughout the period covered by the evaluation was governed by several policy statements<sup>45</sup>, which afforded increased priority and funding for infrastructure investments in PICs, including in partnership with MDBs. The evaluation coincided with the initial implementation of the \$2 billion Australian Infrastructure Financing Facility (AIFFP). While the policy settings for infrastructure have varied over the decade, Australia's economic infrastructure investments in the PICs have typically combined support for construction and maintenance with technical assistance (TA), policy advice and institutional strengthening to varying degrees<sup>46</sup>.

### A strategic evaluation, informed by a sample of 28 investments

This is a strategic evaluation. It draws on DFAT's performance assessments and other evidence from a sample of 28 investments over the decade from 2008–2018 but is not a review of individual projects or country programs. The investments were drawn from the six countries that accounted for 95% of DFAT expenditure in the period plus one substantial

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<sup>38</sup> World Bank (<https://www.worldbank.org/en/country/pacificislands/overview>)

<sup>39</sup> The four larger states have populations of around 200,000 people or more each, four have populations of around 50,000 to 100,000 people each, and six countries have fewer than around 20,000 people.

<sup>40</sup> The United Nations Population Fund (formerly the United Nations Fund for Population Activities). 2014. Population and Development Profiles: Pacific Island Countries, 5.

<sup>41</sup> ADB, 2017. Meeting Asia's Infrastructure Needs, 53.

<sup>42</sup> Per capita assistance is especially high in some of the smaller countries and lower in the more populated ones.

<sup>43</sup> Total AusAID / DFAT expenditure on economic infrastructure in respect of in-scope PICs over the period from 2007-08 to 2017-18 was \$423.4 million. The top six recipients of this infrastructure spending were the Solomon Islands (\$140.6 million), Vanuatu (\$92.0 million), Nauru (\$53.4 million), Samoa (\$52.1 million), Kiribati (\$36.7 million) and Tonga (\$25.6 million).

<sup>44</sup> The World Bank and Japan are the two largest supporters of economic infrastructure in the Pacific (including PNG).

<sup>45</sup> Changing priorities, and the changing needs and priorities of the PICs, has meant that in some cases investments designed to meet certain priorities have had to adapt to changing priorities and reporting requirements during implementation. This has been the case particularly in relation to the increased emphasis on gender and disability inclusion; approaches to maintenance involving the local private sector and job creation; and increased attention to climate and disaster-resilience.

<sup>46</sup> For the purpose of this evaluation, we refer to this combination of 'hard' and 'soft' infrastructure support as 'infrastructure plus'.

water and sanitation investment in the Marshall Islands to provide a sectoral and geographic spread consistent with the scope of the evaluation. They comprised one investment in the Marshall Islands, two in Kiribati, three in each of Nauru and Samoa, four in Vanuatu, five in Tonga, nine in the Solomon Islands and one regional program that encompassed a range of activities. Attachment 2 provides an overview of the performance ratings of these investments.

## Methodology

Quantitative and qualitative methods of data collection and analysis were used in a complementary way to collect and analyse different types of evidence. These included a desk review of program documentation for the selected investments; a review of the broader literature on economic infrastructure development; fieldwork in Vanuatu, the Solomon Islands and Tonga; and meetings and interviews with over 120 key informants. This mixed methods approach is grounded in the understanding that adopting different but complementary lines of enquiry leads to more robust and credible findings and conclusions. An evaluation reference group<sup>47</sup> was established to provide advice to ODE to improve the quality and relevance of the evaluation to DFAT decision makers and staff involved in Pacific economic infrastructure-related policy development and program management.

The evaluation takes a broad approach, which recognises the mutually reinforcing development benefits of linking infrastructure and other development interventions. This broad approach is referred to in this Report as ‘infrastructure ++’.

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<sup>47</sup> The group comprised staff from relevant areas of DFAT and the international division of Treasury.

## Attachment 2: An overview of the investments covered by the evaluation and their performance

### Overview of the selected investments

Total funding approved for the 28 investments examined during the evaluation amounted to \$410.6 million (some of which was spent outside the evaluation timeframe of 2007-08 to 2017-18). Funding approvals averaged \$18.5 million per investment in the two larger countries (the Solomon Islands and Vanuatu) and \$9.7 million in the remainder (with \$14.7 million the overall average). The Solomon Islands and Vanuatu together accounted for 58 per cent of funding approvals, with Kiribati, Nauru, Samoa and Tonga each receiving broadly similar shares (about 7-10 percent) and the Marshall Islands a small share (2 percent) of total assistance.

Expenditure on roads (including physical works, equipment, policy and technical support) was \$180.6 million (44 per cent the total expenditure for the 28 investments), with a further \$37.1 million (9 per cent) spent in the maritime subsector and for projects that involved more than one mode of transport. Large-scale water and sanitation systems also received significant support (\$87.6 million or 21 per cent). If small-scale water supply and sanitation was included, this figure would be substantially higher, but this is classified as social infrastructure. Energy (primarily for power generation) received significant support (\$47.7 million or 12 per cent of total expenditure). Of this, twice as much was used to support renewable energy compared with non-renewable energy.

Physical works (principally rehabilitation of roads<sup>48</sup>) accounted for around 64 per cent of expenditure in the investments where the documentation included that information, with technical assistance, capacity building, training and management accounting for most of the remaining expenditure. For about a third of the total expenditure, however, the precise purpose could not be determined from the documentation available.

Technical assistance, capacity building, training and management support were directed to improving the operating environment and to build a country's capacity to plan, build, operate or maintain assets.

Investments were generally of long duration, on average almost 7 years (12 years being the longest). Six investments had more than one phase.

Twenty of the 28 investments involved co-financing—twelve with the ADB, five with the World Bank and three with both banks. In several cases<sup>49</sup>, DFAT financed some activities or technical assistance outside of the co-financing arrangement. Funding was provided in whole or in part through PRIF trust funds for nine of the co-financed projects (excluding funding for the PRIF Coordination Office).

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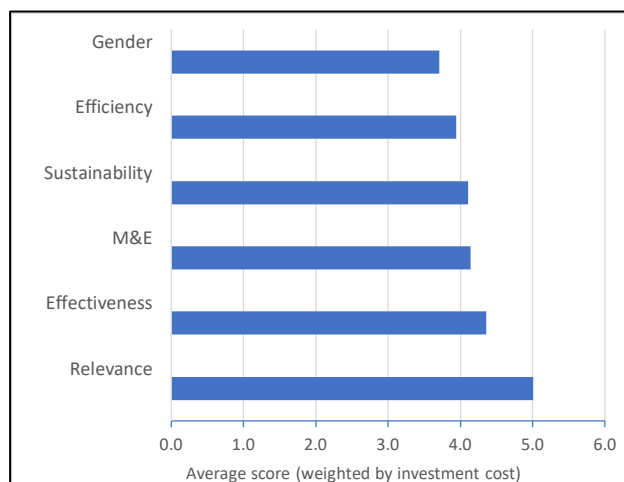
<sup>48</sup> It is often not possible to distinguish between routine maintenance and rehabilitation. Partner government systems typically do not distinguish correctly between these categories and governments have little incentive to do so if donors are more likely to fund rehabilitation than maintenance.

<sup>49</sup> Water Sector Support in the Marshall Islands; Nauru Electricity Supply Security and Sustainability / utilities support; Samoa Power Sector Expansion; Tonga Energy Roadmap Institutional and Regulatory Framework Strengthening Project; and the Solomon Islands Urban Water Supply, Telecommunications Support and Transport Infrastructure programs.

## Performance is generally ‘adequate’

Extensive quantitative analysis based on DFAT’s latest annual quality assessment of the performance of each of the 28 projects included in this sample <sup>50</sup> reveals that, in respect of the six most commonly available criteria (which are scored on a scale of 1 to 6):

The average score is heavily clustered around a rating of 4, namely ‘adequate’. Indeed, virtually half of investments averaged a rating of ‘4’.



**Figure 1: Investment performance by assessment criteria**

Across the entire economic infrastructure portfolio, there is no clear evidence that performance is related to country size or scale of the investments.<sup>51</sup> This suggests that other factors have a greater influence on performance, which was generally confirmed during interviews undertaken as part of the evaluation.

The most highly rated criteria were the relevance of investments to the partner country (with an average of virtually 5, i.e. ‘good’) and support for the private sector. Lowest ratings were assigned, on average, to the treatment of gender<sup>52</sup> and the efficiency of implementation, both of which average just under 4 (‘less than adequate’) - see Figure 1.

There is no statistically significant difference in the total score for each of the criteria between investments in small and large countries (namely Kiribati, Marshall Islands, Nauru, Samoa and Tonga compared to the Solomon Islands and Vanuatu).

<sup>50</sup> Aid Quality Check (AQC) reports are prepared annually for investments in excess of \$3 million. They assess the performance of the investment in the year under review using a six-point standardised assessment and ratings system: 6 (very good); 5 (good); 4 (adequate); 3 (less than adequate); 2 (poor); 1 (very poor). A final AQC (FAQC) follows completion of each large investment. It assesses performance over the full term of an investment. The analysis in the evaluation is based on the most recent available documents—namely 11 FAQCs and 12 other AQCs. These are complemented by five reviews that provide information on the performance of elements of multi-initiative investments. Analysis, which is contained in a companion document that is available on request, shows that reasonable conclusions can be drawn from the mixed use of AQCs and FAQCs, noting that FAQCs indicate slightly higher values for the Effectiveness and Sustainability of investments relative to the preceding AQCs and slightly lower performance with regard to Gender Equality and M E.

<sup>51</sup> This data compares the average score attributed to the investments undertaken in each country across six criteria. Average ratings are lowest in Kiribati and highest in Nauru. The data needs careful interpretation. For example, the individual components of the Kiribati Infrastructure Initiative are not separately rated. The rating for Vanuatu, the next lowest ranked country, is adversely affected by the particularly poor performance of one of its three investments (the Port Vila Urban Development Project). The very high rating given to investments in Nauru may have been affected by the approach and expectations adopted by the independent review of the program.

<sup>52</sup> This is consistent with aid program as a whole, with relevance one of the highest rated criteria and gender one of the lowest rated criteria across the aid program.



## But there are outliers

Instructive examples for lessons learned were often found amongst the statistical outliers—investments assessed overall as of higher quality or, alternatively, of less than adequate performance.

Projects in the Solomon Islands and Tonga display the greatest variability in the ratings for the six criteria, meaning they are assessed as performing relatively better against some criteria than others.

The average score for each criteria for investments of less than \$10 million is higher than for larger investments. It is possible that other factors contribute to the difference besides the size of the investment, for example the sector, implementation arrangements, etc. However, the sample size is insufficient to allow a multivariate analysis.

Although there was substantial bunching of the average overall performance rating around 4, seven<sup>53</sup> investments attracted an average rating at less than 4 (i.e. they performed less-than-adequately) and five<sup>54</sup> investments attracted scores that averaged 5 and above (ie were rated as 'good' or better').

The evaluation team's fieldwork in Vanuatu, the Solomon Islands and Tonga and interviews with a range of DAFT staff and others enabled a deeper understanding of the challenges the projects faced, having regard to the themes under examination and DFAT's assessments of performance against specific criteria (not only average performance across all criteria). These discussions informed the evaluation findings recorded in the Report.

## And ratings don't tell the whole story

Discussions with those involved in projects, interviews with experienced personnel and academics, supplemented at times by the literature review undertaken during the desk review and project documentation, identified a number of themes that have also informed the work of the review. These include:

- project performance ratings may have been achieved after a considerable amount of unanticipated work by DFAT and others to address issues that could otherwise have reduced the performance of the project
- the delivery modality (how assistance was delivered) and its effectiveness can affect results
- approaches to construction and maintenance are currently in a state of flux, with some dissatisfaction about the sustainability of current approaches
- organisational capacity and the quality of the enabling environment in PICs varies widely, and options to improve them may either not be well understood or not seen to be feasible
- gender and social inclusion are developing areas of attention that have significant implications for maximising sustainable development outcomes

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<sup>53</sup> The Transport Sector Consolidation Project and the Energy Roadmap Institutional and Regulatory Framework Strengthening Project in Tonga; the Port Vila Urban Development Project in Vanuatu; the Road Rehabilitation Project and the South Tarawa Sanitation Improvement Project in Kiribati; and the East Guadalcanal Road and Bridges Project and the Urban Water Supply Program in the Solomon Islands.

<sup>54</sup> The Transport Sector-Based Approach Phase 1 Project in the Solomon Islands; Telecommunications Sector Support in Vanuatu under the Governance for Growth Program (Phase 1); and the Port Redevelopment and Reform Project, Technical Assistance to the Nauru Utilities Corporation and Electricity Supply Security and Sustainability Project in Nauru.

- DFAT capability may be challenged in some circumstances
- the broader government to government partnership / relationship in which infrastructure investments are implemented is important (both to the development outcomes achieved and to the furtherance of Australia's strategic interests).

## Attachment 3: DFAT and MDBs follow different business models

DFAT and MDBs follow different business models, which are not always well understood.

### Philosophical differences about the role of the funder

MDBs traditionally finance projects in PICs principally via loans to be repaid by the recipient government. Mostly, the projects are implemented using the recipient government's systems. MDBs believe their role is that of a responsible lender. Mostly, they keep at arm's length during implementation so that their oversight can be objective. The low-key administrative support they traditionally have provided in-country, with key MDB staff generally located out-of-country, reflects this perspective.

On the other hand, Australia provided only grant funding during the period of this evaluation. DFAT is responsible to the Australian government and taxpayers to ensure these funds are used appropriately, including when recipient government's systems are in use. DFAT's oversight has at times therefore been more active than most MDBs. DFAT has encouraged and supported the MDBs to scale up their in-country presence to provide stronger support and oversight for recipient governments.

The pressure is to greater future convergence of these business models in the Pacific. This includes the establishment of the AIFFP, which has a loans window.

### Nuanced differences in the importance attached to rates of return

The MDB charters require loan-financed investments to secure an economic return. DFAT considers strategic as well as economic drivers. It champions a broader analysis of development benefits than some MDBs—for example, in respect of gender and disability inclusion. DFAT has flexibility to make grants that may only pay off in the longer term, for example through policy dialogue, sustainable capability development, or interventions intended to broaden development impacts that may not initially reflect in market transactions. DFAT will typically supplement a loan-financed MDB investment with grant funds intended to improve the efficiency or effectiveness of a co-financed investment, though possibly in ways that are difficult to quantify or may have a muted initial impact on rate of return analysis.

An MDB required to meet a threshold ERR may be less willing than DFAT to commit funds, especially loan funds but also administrative resources, during the design stage to explore options to secure longer term but uncertain development benefits or if unexpected issues emerge during implementation.

### MDBs and DFAT face different incentives

Timely loan disbursement may be more highly regarded by MDBs than project impact. It was also asserted sometimes that MDB design and contracting processes in PICs are geared towards protecting their risk—passing risk on to the implementation phase and to third parties.<sup>55</sup> This can cause cost blow outs and delays, leading DFAT to commit additional technical assistance. DFAT has reported in project assessments also that insufficient attention may be paid during the design phase to issues of particular interest to Australia

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<sup>55</sup> The poor preparation for the Port Vila Urban Development Project was cited as an example.

such as gender equality, disability inclusion and making appropriate provision for M&E in order to promote and assess development effectiveness.

## Attachment 4: Better practices that support ‘Infrastructure ++’

Formal adoption of an ‘infrastructure ++’ approach, which the evaluation supports, implies that DFAT should explicitly link economic infrastructure, economic governance and other elements of the country program in Pacific aid investment strategies. This should acknowledge the links between the long-term sustainability of infrastructure investments and the success of the relevant PIC’s governance (including PFM) reforms and human resource development strategy to strengthen social cohesion and deepen the economy’s skill base. Better practices include that DFAT:

- Work in collaboration with development partners to **promote broad-based and inclusive development**.
- **Require program managers to collaborate** to maximise the synergies that can be achieved over time between infrastructure investments (including those advanced under the AIFFP) and other DFAT activities such as those to improve PFM, education or health outcomes.
- **Reflect Australia’s long-term country commitment into a multi-year (at least five years), programmatic economic infrastructure funding commitment to key PICs, as part of a broad (‘infrastructure ++’) long-term strategy** to secure sustainable development outcomes, and which encompasses both the AIFFP and the traditional aid windows in an integrated way. This approach can support long-term capacity building, sustained policy dialogue and long-term funding for maintenance. It may also better advance Australia’s long-term strategic interests.

## Attachment 5: Best Practice Principles to guide choice of infrastructure funding modality

In summary the evaluation has found that:

- the diversity of projects delivered directly by DFAT suggests that the decision to fund directly was made on a case by case basis
- quantitative data shows there was no systematic difference in the outcomes achieved for projects that were directly financed rather than co-financed. It is 'horses for courses'
- however, additional effort has been required at times from the partners, including DFAT, to maximise outcomes achieved through co-financed projects
- co-financing has leveraged significant additional resources for economic infrastructure projects
- data was not collected that would enable an assessment to be made of the DFAT resource (including staff time) costs of direct compared to co-financed delivery
- a mix of funding modalities may be appropriate.

### Principles when choosing between direct and co-financed financing modalities (or a mix of both)

The evaluation finds that DFAT should actively choose the funding modality it adopts for each project, having regard the following questions / principles when choosing between direct and co-financed financing modalities (or a mix of both):

1. **Does DFAT acting alone have sufficient resources available to fund the investment at an adequate scale and to design, monitor and implement it properly?** The resources required are financial, administrative, and technical. The technical resources required can be both sector specific and quite broad, including expertise in respect of Climate Change Adaptation (CCA) and Disaster Risk Reduction (DRR). Direct delivery may be an option if DFAT has sufficient resources. If not, co-financing could enable DFAT to leverage the resources of its partners, especially the MDBs. The Report has found that significantly greater recourse to direct financing will require DFAT to acquire significant additional capability.
2. **Are DFAT's objectives well aligned with those of potential co-financiers?** High alignment will more readily (but not automatically – supportive partner capability is also important) lend itself to a co-financed investment with minimal need for strong oversight by DFAT.
  - a. **If alignment is not high, but co-financing is preferred for other reasons,** will DFAT have sufficient opportunities / leverage to influence the project to improve that alignment, especially at the design stage (eg in respect of gender, disability, social inclusion and the adequacy of M&E).
3. **Relatedly, what degree of control or influence does DFAT reasonably wish to exercise over the project?** And how broadly or narrowly does DFAT wish to influence the project—in whole or in part? **Note, however:**
  - a. **although most control is typically achieved through direct financing, alternative options are available,** including mixed funding. Parallel financing with DFAT sole funding particular elements of a co-funded project can provide substantial leverage if not total control at potentially lower cost to DFAT.

DFAT can focus its contribution in a co-financing arrangement on matters of particular interest to Australia. In parallel funding it may also choose to disburse through DFAT systems rather than through MDB systems. These decisions require clarity about objectives and a well-informed assessment of the costs and benefits of each approach.

- b. **co-financing may offer scope to leverage Australia's influence beyond those elements of a project that it can afford to finance** in its own right. In dialogue with partners, for example, DFAT may seek to influence project design to achieve a stronger focus on gender and disability-inclusive development or to affect the terms of policy dialogue with government.
4. **Are there policy benefits available through co-financing of an integrated approach beyond those available from a direct investment supported by purposeful donor coordination?** Potential benefits, for example, may relate to scope for more coherent policy dialogue with government or for pursuing mutually reinforcing activities as part of an integrated project or sectoral program that would secure faster, larger or more sustainable development outcomes.
5. **Are there strategic benefits available to DFAT from direct financing sufficient to outweigh any resourcing penalties and associated risks?** Project badging considerations or a response to a specific or sensitive request from a PIC government may be cases in point.<sup>56</sup> Another may be concerns about the use of country systems in a particular instance that can't be satisfactorily addressed otherwise.
6. **What are the risks associated with this project or activity and what is the best approach to manage them?** This issue is not straightforward since poorly designed or executed projects carry their own risks, irrespective of their funding arrangements. Whether DFAT has more or less scope to manage risk in some co-financing arrangements<sup>57</sup> compared to well-resourced direct delivery will depend on the circumstances of the case, including DFAT's capacity to exert influence and the capability of the parties to identify and manage risk (including DFAT's capability). The local track record (potential MDB lead, recipient government and Post) may be instructive. Co-financing allows DFAT to piggy-back on the administrative, technical and risk management resources of the MDB(s) if they are assessed to be effective.
7. **Does the funding modality support the breadth of the relationship DFAT seeks to have with a recipient government, which in the Pacific is typically much broader than that sought by an MDB.** Co-financing and collective donor action may carry less risk to DFAT's broader relationship (for example when contentious policy dialogue is required to improve development outcomes). Alternatively, direct delivery may be required to support a legitimate government request that other donors are not equipped or unwilling to meet or where Australian carriage is in Australia's strategic interests.

### Particular issues arise if co-financing is preferred

The difference between direct financing and co-financing is often one of degree. However, management of reputational and other risks in the context of co-financing requires careful

<sup>56</sup> For example, the Samoa Parliament House.

<sup>57</sup> DFAT's experience with the Port Vila Urban Development Project is salutary. DFAT suffered reputational damage because the community assumed DFAT's influence over the troubled project was greater than in reality.

thought, relationship management<sup>58</sup> skill and clear communication with partners and governments. If co-financing is looking the preferred option:

- **DFAT should realistically assess whether the donor partners (especially the lead donor) and the recipient government have the necessary capability locally** to manage necessary procurement and oversight design and delivery of the investment **and IF NOT, further assess whether DFAT can supply sufficient technical assistance and, when necessary, administrative and other resources** for effective oversight and support to ensure an effective outcome.
- **DFAT should realistically assess whether it has available the range of capabilities needed to maximise the value it obtains from co-financing.** At a minimum DFAT needs capability to act as an intelligent purchaser and the relevant staff, often at Post, need to have the understanding, experience and people skills to manage the complex relationships that co-financing involves. Critically important is to know when and how to intervene, supported by timely access to technical expertise sufficient to judge the adequacy of project design, the wisdom of procurement decisions (for example, in respect of the selection of advisers or contractors) and to inform DFAT's project oversight and monitoring.
- **DFAT should identify and obtain agreement to the nature of its engagement upfront** with the major donors and, as necessary, the government. Sensitive judgements need to be made in the circumstances of each case. The nature of DFAT's engagement strategy (including in project governance), and DFAT's resource commitment, should reflect its assessment of the partner's resource commitment and capability in respect of the specific investment project in hand. Care should be taken, though, because DFAT's ability to affect an outcome during a crisis may be less than it appears – too little engagement and too much may both carry risks.
- **DFAT should seek agreement upfront to how issues should be handled that arise during implementation and to the M & E arrangements.** Although most projects in this sample proceeded reasonably harmoniously, significant issues arose occasionally that proved difficult to address quickly in-country. Some caused DFAT undue reputational damage. An engagement strategy should include agreed escalation procedures when local dialogue is insufficient or too slow, which could involve multi-staged processes (possibly with Canberra and Manila or Washington).

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<sup>58</sup> Perceptions can vary about the nature of each institutional relationship. The review heard frequently that some in DFAT believe the MDBs view them as a cash cow (or 'ATM') and that some in MDBs believe that DFAT treats them like 'a contractor'. These are complex relationships, which require skilled management.



## Attachment 6: Best Practice Principles to achieve sustainable construction and maintenance

The evaluation identified best practice principles that DFAT could usefully adopt to improve the likelihood that construction it funds, and the associated maintenance, are sustainable. These include that DFAT should:

- **Agree, on a case-by-case basis, to fund maintenance of nationally significant economic infrastructure assets constructed substantially with DFAT funds.**  
This would address persistent funding constraints and be additional to pursuing ‘no regrets’ options, such as policy dialogue. This would also, ideally, be supported by an appropriately long-term strategy to build the necessary institutional capability.
- **Ensure that any economic infrastructure proposal it supports explicitly addresses the framework for subsequent operations and maintenance,** for example cost recovery, user charges and, in the case of roads, road safety and vehicle overloading. These have a major influence on the efficiency, effectiveness and social and environmental impact of economic infrastructure.
- **Continue to advocate for outsourced maintenance provision and, as necessary, the adoption of active measures to develop private sector capacity, including community capacity where appropriate,** to supply it, including in respect of tendering arrangements, technical support, multi-year contracting and predictable, steady workflows.
- **Actively engage with the larger PIC governments to develop PIC institutional capacity to manage economic infrastructure** to secure the best economic and social outcomes, including to extend governance initiatives in PFM etc to include line agencies responsible for roads construction and maintenance.<sup>59</sup>
- **Actively champion the adoption of simplified asset management systems that are ‘fit for purpose’** in the PIC context and that can be reliably and sustainably applied by PIC agencies at the conclusion of the intervention.
- **Actively support PRIF in its emerging research to establish the best means to improve disaster resilience and reduce life-time costs of roads** to governments and road users, for example possibly to construct roads to a higher initial quality.
- **Support, in conjunction with PRIF as appropriate, the documentation and dissemination of experience on a range of technical matters, such as:**
  - a. the use of *community-based maintenance* in the Pacific (including research into the relative economic efficiency and development effectiveness of community, labour-based as opposed to equipment-based approaches)
  - b. the initial *development of local contracting industries* and subsequent support as they become mature
  - c. *maintenance contracting models* (including multi-year contracting, performance-based contracting, and local or regionally-based contracting)
  - d. *benchmarking of maintenance activities* to indicate the relative performance of PICs and opportunities for improved outcomes

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<sup>59</sup> As was the case through the early stages of the Vanuatu Governance for Growth Program.

- e. the inclusion of *indicators related to effective funding of maintenance* in any policy-based lending arrangements or budget support
- f. the *relative benefits and appropriate roles for locally sourced as opposed to internationally sourced* maintenance contractors.

## Attachment 7: Best Practice Principles to guide better selection, tasking and oversight of advisers

### Use advisers more effectively to build capability

Many projects include the recruitment of advisers to supply skills or knowledge not available to the recipient government's executing agency. Processes to select and support external advisers placed in government agencies need careful thought and skilled execution, with a clear understanding of the ultimate objective. The evaluation argues this objective should most often be support for long-term capacity development in preference to simply short-term substitution.

Most projects funded in-line and adjunct advisers in government agencies, often ostensibly with a remit to transfer skills to local staff and develop their capability. Issues raised with the evaluation team on several occasions during field work were: Is there an overemphasis on recruiting for technical skill to the exclusion of 'people skills' necessary to support skills transfer such as relationship management? Is the focus on the individual or the team? Is the adviser tasked (and sufficiently skilled) to help build organisational capability or simply to provide the next phase of capacity substitution?

The evaluation found mixed results from the use of advisers. It concluded that constraints on high performance by advisers include (only some of which are amenable to donor action):

- **Adviser turnover is often too high.** This may reflect short tenure appointments (with advisers sometimes subject to the uncertainties of frequent, possibly annual, periodic renewal), and/or adviser frustration leading to resignation, and/or advisor incompatibility with the role and/or performance issues that lead to premature termination of the adviser. It was also suggested that short tenure may have adversely affected recruitment for the PRIF Coordination Office.
- **Expectations may differ about the adviser's role.** The adviser's supervisors or work colleagues may expect the adviser to perform a line role, particularly when time is short. In those circumstances, local staff and their boss may expect that the adviser will 'just do it', rather than support them to do the job in the longer term.
- **Work colleagues may resent adviser churn**, especially if each new adviser seeks to redo the work of their predecessor, or resent the adviser's relatively higher remuneration for ostensibly the same work.
- On the other hand, **from the perspective of the adviser**, the work ethic of work colleagues may be poor, including poor attendance and low willingness (and/or capacity, possibly) to learn.

### How to achieve better results using advisers

Several hypotheses were advanced during consultations to improve adviser effectiveness. These include that **success is more likely if DFAT ensures that:**

- the **receiving agency 'owns' the process**, identifies where advisers are needed and prepares the advisor's terms of reference (TOR).
- The **selected adviser has both technical skill and is a good 'cultural fit'**. The recruitment process should use valid techniques to assess not just whether a candidate's technical skills and experience are those necessary to discharge the TOR but also whether there is a 'cultural fit' with the workplace concerned together with appropriate

communication skills, people management skills, adaptability, creativity and flexibility. An assessment of technical capacity only, 'on the papers', seems high risk.

- **There are shared (and appropriately high) expectations** between advisers and their line manager(s) and co-workers. One interlocutor argued that the relevant in-country agency head should be involved in the selection of senior advisers to ensure that he or she is comfortable with the selection and committed to the arrangement.
- **There is a degree of certainty regarding tenure and continuity** so that well performing advisers have both the incentive and the opportunity to engage in long-term capability building.
- **The adviser is well supported within their workplace or through a functioning network** of advisers or by appropriately sensitive engagement with donor representatives external to the organisation—the difficulties faced by so called 'orphan advisers' may lead to resentment, frustration or early resignation.
- **Managing contractors (and any external supervisors, including donors) respect the role, expertise and seniority of the adviser.** Compliance with administrative requirements is important. Even more important, however, is support for the advisor to produce the intended outcomes, including skills transfer.
- **The adviser's accountabilities, including for skills transfer, are clearly laid out and fairly assessed** by their supervisor (which may require the provision of specialist training to the supervisor); and the performance management applied to advisers demonstrates to other staff how an effective performance management system should operate.
- **A novice adviser is properly inducted** on arrival in-country so they 'know what to expect', have an understanding of local norms and the context in which they are working, and understand their wide remit as both technician and coach.
- **DFAT project managers recognise the capacity building role** and are not compelled to compromise it to achieve overall project ratings by diverting time from the role.

It is most likely that key constraints will be the pool of appropriately skilled advisers and supervisors and the experience of DFAT staff at Post. If so, an option is that DFAT appoint a 'capability development' champion. The champion's job would be: to work in collaboration with relevant Posts to support them to identify agencies that could become candidates for longer term capability development; to assist the agency and Post to map out a long-term capability development plan (including support for peer-based mentoring and preferably linked to a longer term program of DFAT investments); and to work with a cadre of potential advisers to offer long-term commitments of work for those who upskill their capability to meet DFAT requirements as agents for capability development rather than substitution. The remuneration of such advisers will require careful thought—for example, suitably experienced candidates could be offered a premium compared to standard remuneration but with withholding or, less reliably, claw-back arrangements to link ultimate pay to progress in building capability, not simply substituting for it. Some experimentation may be necessary to get the balance of incentives right (and a suitable trade-off achieved between perceived and actual risk / reward).

## Attachment 8: Good practice approaches to guide gender and disability inclusion

Good practice approaches that the evaluation found improve gender and disability inclusion include:

- Gender and disability inclusion need to be **adequately resourced, including for monitoring and evaluation in program implementation budgets**. DFAT's draft guidance note on infrastructure and gender (2018) should be finalised promptly.
- DFAT should **work more closely with civil society** organisations in the Pacific to strengthen constituencies for gender equality and disability inclusion.
- **Invest more at the design stage** to engage stakeholders and undertake **assessments of gender, disability and safeguards risks**.
- DFAT should **require as conditions of project approvals** that (1) universal design principles are applied in the construction of new infrastructure and (2) evidence is provided that national Disabled People's Organisations (DPOs) were consulted to identify entry points and opportunities for disability inclusion<sup>60</sup>.
- **Community-based contracts for rural roads maintenance can promote women's labour force participation** but these are not a universal solution. Roads investments that prioritised community development and capacity development achieved better results on gender equality than narrower infrastructure programs. However, this was more effective where there was significant underemployed labour and where it was difficult for contractors to mobilise equipment on a large scale.<sup>61</sup> Potential trade-offs between competing objectives need careful analysis.
- Explore options to increase employment of women in infrastructure through **technical and contractor skills development**.<sup>62</sup>
- **Gender-responsive infrastructure planning and construction can increase the efficacy** of support for markets, financial services and value chains (and vice versa).
- **Regulatory reform to expand access and affordability of services** (e.g. electricity, transport, internet and mobile phones) related to infrastructure improves development outcomes for all.
- **Safeguarding women's rights when compensation is paid** for land acquisitions for infrastructure projects is a critical issue.<sup>63</sup>
- **Safeguarding women and girls from violence and sexual exploitation** by foreign construction workers is also key to the 'do no harm' approach to infrastructure.

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<sup>60</sup> Several projects have engaged with DPOs to identify opportunities for disability inclusion through consultations, surveys and accessibility and safety audits. Examples include conducting a survey of people living with disabilities in targeted communities where community sanitation facilities were being built; consideration of disability accessibility in a Traffic and Pedestrian Management Plan; and engagement of a national DPO to carry out accessibility and safety inspections of road upgrades.

<sup>61</sup> The ADB co-financed Solomon Islands Road Improvement Project (2007-2014) and Vanuatu Roads for Development Project (2009-18). Other factors contributing to strong gender results in the Solomon Islands project were the inclusion of a gender workforce participation target; providing incentives for contractors to employ women; using a gender awareness checklist for contractors to guide community consultations; requiring contractors to conduct HIV/AIDS awareness training and using civil society organisations to conduct the training; providing business skills training to women's groups; and inclusion of gender-sensitive indicators on employment and income in M&E. There are lessons also in the approach of DFAT's Roads for Development Program in Timor-Leste which is aiming for 50 per cent women's participation in employment. It has piloted innovative approaches to address constraints to women's participation such as supporting female-owned companies to tender for work, integrating gender equality issues into technical training for road contractors and trialling childcare arrangements for women wishing to work as labourers.

<sup>62</sup> For example, the ADB co-financed Nuku-alofa Urban Development Project (including its support for Tonga Power Limited) and the DFAT-funded Australian Water Partnership's support for the Pacific Water and Waste Water Association.

<sup>63</sup> The Solomon Islands Tina River Hydropower Development Project has sought to reduce opportunities for inappropriate capture of funds by men by including women in negotiations and making arrangements for the sharing of community benefits.

## Attachment 9: What might PICs seek in a ‘preferred development partner’

The evaluation has found that PIC governments prefer effective partnerships to traditional ‘donor-recipient’ relationships and can be sensitive if partners do not understand ‘the Pacific Way’.<sup>64</sup> When institutions are weak, as in many PICs, relationships matter more than normally.<sup>65</sup> The evaluation supports<sup>66</sup> relatively straightforward hypotheses of what PIC governments might seek in a ‘preferred development partner’. These apply broadly, not just in respect of infrastructure investments, and include:

- the partner ‘listens’ and understands the country’s development needs
- the partner works constructively with the country to meet the country’s development needs and maximise outcomes achieved
- shared country-led decision making<sup>67</sup>
- shared development objectives (although other objectives may differ)
- respectful dialogue based on deep country knowledge (including of its ‘political economy’ and culture)
- project relevant expertise
- timely, predictable and efficient processes, with a bias towards using in-country systems
- reliable, relevant project design that is ‘fit for purpose’ and consistent with the country’s capacity to operate and maintain the outputs (physical or otherwise)
- mutual commitments to engage for the long-term (including a partner that is prepared to make multi-year commitments)
- a bias towards problem solving
- flexibility to recognise and respond to changing country needs and opportunities to support policy and operational reform.

Over recent decades, Australia has utilised a range of instruments to formalise its partnerships with the PICs. These include bilateral development cooperation treaties and joint agreements (or strategies) including the Partnerships for Development from 2007 and aid partnership agreements from 2016. These generally state that DFAT’s relationship will be built on shared principles of mutual respect, mutual responsibility for improved development, and a commitment to ownership, alignment, harmonisation, mutual accountability and managing for development results.<sup>68</sup>

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<sup>64</sup> ‘Participants pointed to the ‘Pacific Way’ of conducting discussions as a technique for suspending open dispute on contentious issues, to allow reflection and informal approaches to opposing parties to develop a way forward...In the Pacific Way, big guys don’t openly throw their weight around, or they may find the basis of it melting away,’ Hughes 2013:19,20.

<sup>65</sup> The view of a senior, experienced Australian official

<sup>66</sup> Based on an examination of the ‘Doing Development Differently’ literature, discussions with government representatives during field visits and observations from MDBs and other partners.

<sup>67</sup> The role of donors to appropriately influence and inform country decision making is an important, subtle issue.

<sup>68</sup> See, for example, the Solomon Islands - Australia Aid Partnership Arrangement 2017-20, para 1.4.

## Attachment 10: Quality by Design

Sound project preparation/design together with good delivery, flexibility to respond to changed circumstances, effective governance and informed monitoring arrangements are critical to maximising outcomes<sup>69</sup>. 'Design' encompasses project identification, technical investigation, engineering design and an assessment of expected development impacts. Indeed, inadequate project design contributes majorly to poor performance. The evaluation identified clear evidence that investments where the scope was substantially changed from that presented in their design or where inadequate technical investigation was undertaken initially added to implementation risk and eventually poor performance.<sup>70</sup>

Australia's provision of grant finance, including as an element of the AIFFP, and its long term commitment to key PICs, provides Australia with opportunities not available to loan-only or emergent financiers to be known for consistently pursuing high quality development outcomes (not just asset construction) by funding and otherwise supporting good design. The Report argues this presents an opportunity for Australia to establish a 'point of difference' and a good basis for a long-term strategic development partnership with at least some PICs.

This attachment is not intended as a full articulation of best practice in respect of project design. Rather it brings together observations made in the Report about how DFAT can maximise development outcomes of economic infrastructure projects, consistent with its longer-term strategic objectives and policy priorities<sup>71</sup>. Better practice in respect of economic infrastructure, whether in respect of directly funded projects or those delivered in conjunction with development partners<sup>72</sup>, requires that the project design stage<sup>73</sup> provides:

- analysis of the **context of the investment**, including the enabling legal, institutional and planning environment for it, links to other elements of that country's infrastructure investment program, and its aid program and development objectives.
- evidence that the **scope of the investment** has been determined after analysis of (a) the engineering, social, environmental, economic and lifecycle options and issues presented by the project, (b) options available to combine physical investments with technical assistance, policy advice and institutional strengthening that can magnify development outcomes achievable from construction and (c) options available to forge strong links to other elements of that country's aid program that can complement and amplify the impact of this infrastructure program (and vice versa), referred to throughout this Report as Infrastructure ++<sup>74</sup>.

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<sup>69</sup> For further consideration of project preparation, see: Adam Smith International (2014). Assessment of the Effectiveness of Project Preparation Facilities in Asia. Prepared for the G20 Development Working Group. September.

<sup>70</sup> The co-financed Port Vila Urban Development Project (PVUDP) project in Vanuatu is the clearest example: DFAT's performance reports show that, amongst other things, the initial project design provided for inadequate drainage, having regard to local topography and weather conditions. Remedial design work cost time and significant resources. Interviews revealed that another ADB project in Vanuatu, which did not involve DFAT funding, initially included a wharf designed against incorrect geological assumptions. Again, rectifying the design work was expensive. In the case of the Transport Sector Consolidation Project in Tonga, the scope was expanded during implementation from an institutional development project to also include a substantial program of infrastructure works.

<sup>71</sup> Within the sample of investments considered by the evaluation, two examples stand out of DFAT support to the design of physical investments, namely the design of the port redevelopment project in Nauru and the considerable assistance that Australia has provided to the project preparatory studies for the Tina River Hydropower Development Project in the Solomon Islands. The latter is one of the largest investments in the Pacific, with a total expected funding by all financiers, including the private sector, of US\$240 million.

<sup>72</sup> This report acknowledges that Australia must work with and through other development partners in pursuing such an approach.

<sup>73</sup> DFAT's internal analysis should begin at the Concept Note stage, especially in respect of alternative financing and delivery modalities, with decisions subject to senior level sign off.

<sup>74</sup> Examples include to extend governance initiatives in PFM etc to include line agencies responsible for roads construction and maintenance, and the value of interventions in respect of health or education that improve equity and strengthen human capital and the productivity of labour.

- For example, this work could include the options available, and their relative merits, to improve development outcomes and equitable access to services<sup>75</sup> through, for example regulatory reform, labour market interventions (such as through mandatory training requirements or provision of skills development options), provision of marketplaces and similar community facilities, or access to micro-finance.
- Relatedly, DFAT should also ensure that its own country programming is 'joined up', with a long term 'infrastructure ++' orientation, whether delivery is through the AIFFP or more traditional interventions.
- that an **appropriate standard/quality of the infrastructure is** constructed, including in respect the DRR and CCA needs of the relevant PIC and having regard to lifetime costs (including O & M costs and other economic, social and environmental costs associated with degraded infrastructure).
  - The evaluation found approaches to construction and maintenance are currently in a state of flux, with some dissatisfaction about the sustainability of current approaches but with little technical investigation of options<sup>76</sup> and of the challenge of infrastructure capital requirements and O&M costs that far exceed current budgetary envelopes.
- the **strategy for long term sustainability of infrastructure development** and the rationale for it (see also Attachment 6). Such analysis should address how well the proposed construction standards facilitate appropriate longer-term O & M<sup>77</sup>, having regard to the PIC's resource constraints, climatic conditions etc. It could also usefully address capability constraints and options to address them (for example the best role for community participation in O & M, to support skills development, clarify accountability obligations, strengthen the regulatory environment and its enforcement, and/or secure additional funding).
  - This matter could usefully be addressed specifically as a component of the Theory of Change element of design documentation. These have a major influence on the efficiency, effectiveness and social and environmental impact of economic infrastructure.
- that both the project design<sup>78, 79</sup> and the monitoring and evaluation framework address options to improve **gender and disability inclusion**, which in some cases may require action to build the constituency for such initiatives, and include **targets and indicators**<sup>80</sup> for gender and disability inclusion across the project lifecycle, thereby increasing accountability for these results (see also Attachment 8).

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<sup>75</sup> Services relate both to the services provided by physical assets (such as access to transport) and to services more broadly across the economy (in health, education etc).

<sup>76</sup> The Roads for Development Project in Vanuatu is to undertake such analysis.

<sup>77</sup> Moreover, asset management systems must be 'fit for purpose' lest they fall into disuse.

<sup>78</sup> The issues are broader than access to markets and value chains or access to services and can include regulatory reform to improve affordability and secure equitable access. They can also include protecting women's rights when compensation is paid for land and adopting a safeguards approach to address the risk of violence against women resulting from conflict within families over women's increased participation in economic activities and changing roles. Another risk is sexual exploitation of local girls and women by foreign construction workers. These highlights the importance of gender analysis at the design stage to identify risks and monitoring during implementation.

<sup>79</sup> The evaluation found that the balance of investment goals between infrastructure, capacity building and community development has varied across the major roads projects. It is notable, however, that roads investments that prioritised community development and capacity development achieved better results on gender equality than narrower infrastructure programs.

<sup>80</sup> With one notable exception, investments commencing in 2014 or later perform better on gender equality compared to those that commenced before—illustrating the value of including planned gender outputs and monitoring indicators in program designs.



- Moreover, consistent with DFAT's disability inclusion objectives, **universal access principles should be followed** in design and construction, supported by adequate consultation with local disability groups about options to increase disability inclusion.
- Analysis of alternative **delivery modalities**, including the strength of **partner systems** (and whether it is more appropriate to work through them or outside of them), and the potential use of **local private sector contractors** to deliver infrastructure and subsequent O&M (and what support is needed to enhance their capacity). This should identify any steps necessary to mitigate unacceptable risks, provide an assessment of in-country capability to give effect to them, and consider options to remedy any capability gaps.
- Analysis of the nature of any **capability gaps** in executing agencies across the project lifecycle and in entities responsible for construction or longer term O & M, and how to address them (for example through support for capability development or to build private sector capacity).
  - This includes that the selection, tasking and governance of **in-line and other international advisers** provides clarity about the roles advisers should play, consistent with longer term development of PIC capability and with the Principles set down in this Report (including in Attachment 7).
- Analysis of alternative, sustainable **financing modalities**, having regard to the analysis of this Report (see, for example, Attachment 5<sup>81</sup>). If the project is not solely financed by DFAT, the nature of **DFAT's engagement with partners** and its involvement in the governance of any co-financed investment should also be addressed. This Report argues that roles and responsibilities should be agreed upfront if other partners are to be involved, informed by a realistic assessment of the capabilities each party will contribute to the project, including DFAT.

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<sup>81</sup> This step is important. The evaluation found that satisfactory project performance ratings may have been achieved only after a considerable amount of unanticipated work by DFAT and others to address issues that could have reduced the performance of the project.