

# **ADB (PARD)\* Submission to the Australian Department of Foreign Affairs and Trade**

## **Australia's new international Development Policy**

**November 2022**

### **I. INTRODUCTION**

1. The Asian Development Bank (ADB) is pleased to contribute to the Australian Department of Foreign Affairs and Trade's (DFAT) consultation on a new international Development Policy. ADB considers this work timely given the range of complex challenges across the Asia-Pacific, and values working closely with Australia in the region towards prosperity, inclusion, sustainability, and resilience.

*(\*Pacific Department (PARD) Covers operations in Cook Islands, Republic of Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.)*

2. The coronavirus disease (COVID-19) pandemic has had severe impacts worldwide including sharp declines in consumption and investment, lower tourism and exports, disruptions in trade and production, and adverse effects on health.

### **II. ADB'S ROLE IN THE ASIA-PACIFIC**

3. ADB is an international development finance institution founded in 1966 by 31 member countries, including Australia. Since its establishment, ADB has grown to encompass 68 member countries, 14 of which are Pacific island countries and classified by ADB as developing member countries (DMCs). ADB supports projects in DMCs that create economic and development impact, delivered through both public and private sector operations, advisory services, and knowledge support. ADB channels support to its DMCs through instruments such as: loans, grants, guarantees, equity investments, technical assistance, and policy dialogue. Although most of ADB's lending portfolio comprises loans to the public sector, ADB also provides direct assistance to private enterprises of developing countries. ADB's aspirations for Asia and the Pacific are aligned with major global commitments that Pacific DMCs and ADB have pledged to support, including the 2030 Agenda for Sustainable Development and the 2015 Paris Agreement on climate change.

4. To deliver on its mandate and respond to the growing needs of the region, ADB works jointly with international development agencies, multilateral and bilateral institutions, the private sector, and other emerging development partners to fund activities. Australia works with ADB as a (i) shareholder, (ii) Asian Development Fund (ADF) donor, (iii) project cofinancier, and (iv) knowledge partner. ADB and Australia enjoy a close relationship based on trust and closely aligned strategic priorities, including a shared commitment to the Pacific.

5. ADB's operations are guided by a number of corporate strategies, including ADB's Strategy 2030, and ADB's Pacific Approach, 2021-2025. Strategy 2030 is a long-term corporate strategy setting the course for ADB to respond effectively to the changing needs of the Asia Pacific region and achieve its vision of a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Strategy 2030 has seven operational priorities: (i) addressing remaining poverty and reducing inequalities, (ii) accelerating progress in gender equality, (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability, (iv) making cities more livable, (v) promoting rural development and food security, (vi) strengthening governance and institutional capacity, and (vii) fostering regional cooperation and integration.

6. The Pacific Approach, 2021-2025 serves as the framework for ADB operations in the Pacific region, with the following objectives:

- a. **Prepare for and respond to shocks** through economic resilience and public financial management by supporting fiscal and debt management, improved domestic revenue and mobilization, and better monetary policy and SOE reforms; health system strengthening by investing in rural service delivery, upskilling workers, digital information systems and improving governance and management; disaster risk reduction by taking a more comprehensive approach in addressing climate change issues; and economic recovery post COVID-19 by assisting the PIC-12 in designing and implementing policies to rejuvenate the tourism sector and continuing to support investments that promote economic growth.
- b. **Deliver sustainable services** through quality infrastructure by providing long-term sector support to finance, manage and maintain assets; sustainable renewable energy, connectivity, ICT and intermodal transport; livable cities and access to safe water and sanitation by focusing on improved urban services, forward-looking spatial planning and environmental protection alongside urbanization; and promoting state-owned enterprise reforms.
- c. **Support inclusive growth** through the private sector by improving access to finance and the investment environment and supporting micro, small and medium-sized enterprises; by improving the quality of basic education, leveraging digital tools and filling-in skills gaps in the labor market; and implementing a new social sector plan for the Pacific which focuses on high quality social services, reduced vulnerability and enhanced resilience of the poor and vulnerable groups, and strengthened gender and social dimensions.

7. ADB supports gender equality in all its projects, considering it critical for sustained economic growth, faster poverty reduction, and inclusive development. ADB also prioritizes environmental and social safeguards as a cornerstone of its support to inclusive economic growth and environmental sustainability in the Pacific. These safeguards intend to minimize and mitigate adverse project impacts on the environment and affected people, and to help borrowers strengthen their safeguard systems and develop the capacity to manage environmental and social risks.

### III. CHALLENGES AND OPPORTUNITIES

8. Most Pacific nations are remote, small in size and population, and vulnerable to shocks. Geographical dispersion and distance from major markets limit competition and increase costs. Economies are narrow and rely heavily on the public sector and large, often struggling state-owned enterprises, while small economies of scale limit private sector growth and job opportunities. Complex legislation and weak policies—along with human and institutional capacity constraints—raise the cost of doing business, suppress business and household access to finance, make it hard for investors to assess risks, and slow economic growth. Pacific nations are also exposed to a wide range of worsening climate-related hazards, such as tropical cyclones, floods, droughts, storm surges, and sea level rise. Frequent natural disasters and climate change create additional barriers to developing infrastructure and providing essential services—including energy, roads, ports, and internet connectivity—which have a direct impact on investor confidence and the ability of Pacific nations to engage in sustained trade. At present, these constraints are being compounded by the impact of the COVID-19 pandemic and the protracted road to an emerging recovery. ADB has a robust portfolio in the Pacific aiming to address these persistent constraints, which have direct and indirect impacts on trade and investment in the Pacific region.

9. **Regional health security.** The COVID-19 pandemic is a major global crisis that requires national, regional, and global intervention and collaboration to mitigate damage to health, livelihoods, and economies. Significant gaps remain in the post-pandemic era in preparing the region to become more resilient to future health emergencies, ranging from active disease surveillance, strengthening of regional reference laboratory capacities, sustainable government financing for health, to implementation of the International Health Regulations on border control, progress made towards Universal Health Coverage and Sustainable Development Goals. ADB will continue to work closely with Pacific countries on their response to the pandemic, and where possible, incorporate suitable response

measures throughout ADB operations and procedures

10. **Regional connectivity and infrastructure.** Regional connectivity and infrastructure—including telecommunications, roads, bridges and ports—are critical for economic development by enabling efficient movement of goods and two-way trade, connecting supply chains and markets, and enabling communications. Trade and investment opportunities can be greatly enhanced by promoting interconnectedness of communities to the global economy, and providing faster, cheaper, and easier movement of goods, passengers, and vehicles on key economic corridors. Infrastructure development can also attract private investments.

11. **Climate change and disaster risk management.** Pacific countries are highly vulnerable to climate change and natural disasters. Across the Pacific there is an urgent need to build and replace infrastructure to ensure greater resilience to such events. In terms of trade and investment, extreme events such as tropical cyclones can severely interfere with supply chains, push businesses into insolvency, and reduce overall investor confidence. Resilience to climate change and natural disasters will, among other things, improve the ability of Pacific nations to engage in sustained trade, and increase investor confidence. Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability is therefore essential to promoting trade and investment in the Pacific, and is an operational priority in ADB's Strategy 2030. ADB seeks to help its DMCs build resilience to the effects of disasters, while also providing assistance.

12. Across the Pacific there is a need to further expand and replace infrastructure to meet the development needs of people. This requires ensuring that infrastructure can withstand shocks and stresses. In the face of the rising frequency of destructive natural hazards and the eroding effects of climate change, infrastructure needs to not only be climate- and disaster-proofed but increase the resilience of vulnerable communities. This requires investing not only in individual assets but entire infrastructure systems that consider knock-on effects and synergies between core sectors such as water, energy and transport for the future of resilient economies and populations. The siting and design of these investments need to consider the best available knowledge on future impact of natural hazards and climate change to help communities adapt and reduce their exposure to risks.

13. ADB is also integrating climate change adaptation, mitigation and disaster risk management into investment operations to ensure continued economic growth and a sustainable future for all in the Pacific and looks forward to working with the Government of Australia to this end.

14. **Business and household access to finance.** Access to financial services, such as remittances, is critical for individuals and businesses to thrive in the Pacific and for the islands to remain resilient in the face of short- and long-term challenges. With correspondent banking relationships reducing, this affects access to finance, prosperity, and security of the Pacific people, countries, and the region. Correspondent banking relationships are reducing due to perceived, whether real or not, risks and unprofitable volumes. In real terms, loss in correspondent banking means that options to engage in cross-border economic activity, such as remittances, tourism transactions, import of needed goods, were denied, delayed, or increased in cost. Pacific countries could move towards diversifying their reserve currency holdings and have swap arrangements for alternative currencies such as the RMB supporting increasing influence from non-traditional partners. To respond to the challenge, Australia could advocate and support regional harmonization of AML, CFT, and PF laws and regulations, a standardized know-your-customer utility or a private or public hub bank that could combine individual Pacific nations financial flows into a single, larger stream of funds. In addition to economic implications, de-risking could have national and regional security implications.

15. **Enhancing responsiveness through context-specific approaches.** The unique challenges of engaging with Pacific small island developing states include multidimensional yet nuanced risk factors that affect the Pacific in different ways and to different degrees. Given the structural constraints and vulnerabilities to either exogenous shock and/or slow- and rapid-onset natural hazards—including climate change impacts and weather-related

impacts—noted above (para. 8), standard development approaches to engagement are less than effective. Further, the increasing likelihood of compounded and/or protracted crises requires a different way of doing business that considers the full spectrum of both fragilities and the sources of resilience that respond to them in each of the Pacific nations. No one size of development assistance fits every situation or context, and it is critical to develop tailored approaches, including policy, process, and procedure to ensure optimal effectiveness of development outcomes. ADB is committed to enhancing and enriching its base of analytics and diagnostics to better understand the structural fragilities and multidimensional vulnerabilities faced by the Pacific nations. It recognizes the need for long term in-country presence, and engagement with a broader spectrum of actors and stakeholders that strengthens inclusive approaches to both modern and traditional structures of governance. ADB is committed to designing processes that are fit for purpose, adaptable, flexible and appropriate for both public and private sector environments where institutional architectures are weak and/or underdeveloped. This tailored and flexible context-specific approach for Pacific nations aims to address, where possible, prevailing vulnerabilities and help build national and regional resilience that contributes to long term sustainable development outcomes.

## **I. PARTNERSHIPS**

16. As demonstrated most recently through ADB’s support to the Asia-Pacific to respond to the impacts of COVID-19, partnerships are critical to enhance and coordinate the respective development programs in the region. It will continue to be important to engage together in local, national, regional, and multilateral contexts as relevant to build on gains and strengthen relationships toward greater effectiveness, efficiency and certainty for the country operations.

17. The QUINTS meeting for partners in health, convened by the Government of Australia, was a useful platform during the pandemic to improve resource mobilization and coordination, particularly towards COVID-19 vaccine deployment and health emergency financing. ADB will look forward to further collaborations in the post-pandemic era to strengthen the region’s resilience to future health emergencies. The QUINTS platform may also be useful in facilitate the implementation of the G20 Pandemic Fund to the region.

## **II. OPPORTUNITIES AND RECOMMENDATIONS**

18. ADB acknowledges the consistent and impactful support provided by the Government of Australia to the Asia-Pacific region. One area that would benefit from greater attention is to enhance trade and investment in the Pacific. In light of current economic forecasts, strengthening trade and investment will be particularly important in the economic recovery of Pacific countries impacted by the COVID-19 pandemic.

19. ADB welcomes the Government of Australia’s ratification and support of the Pacific Agreement on Closer Economic Relations (PACER) Plus Agreement, which will support signatory countries to become more active in, and benefit from, regional and global trade opportunities. PACER Plus is expected to create greater opportunities for growth, long-term job creation, and increased living standards. The Agreement is also expected to contribute to advancing more gender-inclusive trade policies and strategies in the region, primarily through enhancing women’s access to trade and markets, as well as facilitating labor mobility initiatives that support women’s empowerment.

20. ADB looks forward to building on its long-standing partnership with the Government of Australia in supporting the Asia-Pacific region to achieve national development goals. To that end ADB is grateful for the opportunity to contribute to the deliberations underway for a new international development policy.