

**ADB (SERD) CONTRIBUTION:
AUSTRALIAN GOVERNMENT CONSULTATION OF FOR A INTERNATIONAL
DEVELOPMENT POLICY**

Note: These comments reflect the views from across **ADB SERD's* sector divisions and resident missions.**

*(*Southeast Asia Department Covers operations in Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam.)*

A. OVERALL COMMENTS

1. As climate change will shape the region's social and economic development for the coming decades, we welcome the Australian Government's focus on climate resilience, highlighting the need to target the most vulnerable communities and marginalized groups.
2. We appreciate that Australia has been working closely with Southeast Asian and Pacific countries through regional platforms (such as ASEAN) which helps the whole region's resilience. A relevant example is our ongoing cooperation with Australia's DFAT for the [ASEAN Australia Smart City Trust Fund](#) which aims to make ASEAN cities livable and resilient using smart and digital solutions to solve various shocks and stresses in urban areas. Australia's continued funding support, knowledge, and experience sharing from various universities and research institutions on urban and climate resilience will enhance the impact of future and ongoing development programs.
3. We also welcome the proposed blended finance mechanisms to combine domestic financing, external borrowing from MDB such as ADB, Australian grant and other potential private sector investment is welcome, particularly in areas where multi-dimensional vulnerability and poverty issues in the local context can be addressed.
4. We highly value Australia's partnership with ADB in the region and hope to continue the proactive engagement as we all jointly strive to find solutions to increasingly complex challenges brought about by climate change and also the COVID-19 pandemic which is jeopardizing the future.

B. PROPOSED ANSWERS TO GUIDE QUESTIONS

- 1) **What key trends or challenges will shape Australia's engagement in our region and globally over the next five to 10 years? What risks and opportunities does this present for Australia's development assistance?**
 - **On trends and challenges.** With significant number of people located in coastal areas, Asian countries are highly vulnerable to climate risks. A clear example is Indonesia which is very exposed to climate change risks due to its island geography, with over 80,000 km of coastline and 42 million people living less than 10 meters above sea level. Changes in temperature and hydrological cycle also negatively affect economic development and the most vulnerable people.

Climate risk will continue (i) increasing flood and drought disasters; (ii) contributing to water shortage affecting economic development and access to clean water services; (iii) negatively affecting food security and livelihood of rural population by reducing agriculture and aquaculture productivity.

- **On risks and opportunities.** Asian countries would benefit from expanding infrastructure and agriculture support with more emphasis on climate resilience, introducing nature base solutions (NBS) for improved water resources management, low carbon and climate smart agriculture to help rural economies and food security, and circular economy and technology towards sustainable economic development.
- **Regional context.** Given the nature of the relationship between Australia and the Indo-Pacific region and the differences within the region, Australia may need to take a differentiated approach between the Pacific and Southeast Asia. In the Pacific, Australia will need to continue to build the nation states to be more resilient and self-sustaining. In Southeast Asia the challenge is to help build resilient diversified economies, strengthen their global comparative advantages and support a stronger regional framework. Greater focus will be needed upon good governance in key institutions, strengthened capacity at decentralized levels of government and human resources development.

The challenges and risks in the Southeast Asia region include the impact of climate change on the fragile ecosystems, thus developing climate resilience in the region will remain important. While higher education is important, the real challenge in the region is a lack of skills to adopt new technologies and build internationally competitive value chains, which Australia is well placed to support.

- **Country context.** As in most Southeast Asian countries, COVID-19 has set back Indonesia's development albeit the government's response in the form of public health measures and social assistance has been robust and comprehensive. As part of its economic recovery strategy which Australia is supporting, Indonesia will have to:
 - overcome its long-standing development challenges, including human development constraints and a lack of competitiveness;
 - manage climate change and disaster risks, which could lead to declines in livelihoods and food security, especially among the poorest and most vulnerable; and
 - achieve environmental sustainability, including by building back greener.

Indonesia must navigate a context of heightened economic uncertainty, while managing emerging megatrends such as climate change, technological disruptions, demographic changes and rapid urbanization.

It is worth noting that in many parts of Asia and Pacific, entrenched poverty needs to be tackled as it exacerbates vulnerabilities, exclusions, fragilities, and conflicts.

- **Further opportunities.** Australia's development assistance can play a significant role in tackling climate change including through adoption of robust position on GHG emission reduction, adaptation, and transfer of technology and knowledge.

Given the enormous financial resources needed to address many global issues, it is important to crowd in private sector financing. The challenge in doing so has always been the lack of bankable projects. Australia could strengthen its efforts to become a key developer of sustainable, green, inclusive and bankable projects that can crowd in private

sector financing. Upstream partnerships with multilateral institutions such as ADB will also continue to be relevant at both regional- and country-levels.

2) What development capabilities will Australia need to respond to these challenges?

- Improved planning is central to better structure investments (blended financing), have robust engineering (value engineering), introduce innovative solutions and technologies, and increase environmental and financial sustainability of investments (NBS, operation and maintenance systems).

3) How can Australia best utilise its national strengths to enhance the impact of our development program and address multidimensional vulnerabilities?

- As earlier noted, Australia could consider partnering with multilaterals and private sector partners to leverage greater impact and change. We note that ADB has been cooperating with Australia's annual [Partnership Performance Assessments](#) of cofinanced projects. Those assessments should be able to provide useful suggestions or lessons not only to help leverage larger investments but also access knowledge benefiting from Australian expertise. For example, Australian grant funding through the [Sustainable Infrastructure Assistance Program](#) (SIAP) in Indonesia has been helping improve planning in several sectors, leveraging multibillions of investments from ADB.

4) How should the new policy reflect the Government's commitments to build stronger and more meaningful partnerships in our region, founded on mutual trust and respect and shared values of fairness and equality?

- Partnerships are the key to successful growth within the Southeast Asia region. Its many regional institutions and organizations are able to bring great convening power to assist in developing an architecture that creates a coordinated and stronger regional economy and global voice. Australia can assist in this endeavor.
- Building on country plans and commitments will help strengthening partnerships with benefiting countries. Promoting transfer of knowledge and partnerships with renowned institutions will help maximize development impacts. For example, the SIAP in Indonesia helped to leverage transfer of knowledge from European Space Agency to improve planning and engineering for water resources development in the country.

5) What lessons from Australia's past development efforts should inform the policy? What is Australia seen to be doing comparatively well?

- Australia has a long track record of, and significant comparative advantage in, supporting programs in Indonesia, Philippines and Viet Nam focusing on infrastructure development and related policy and regulatory reforms. Australia's financial assistance has paved the way for significant infrastructure investments from multiple development partners.
- Australia partnerships with international organizations has proven efficient and beneficial for receiving countries, enabling to leverage financing for development projects and to bring innovations. This has been the case in Indonesia through the SIAP support.

[For instance, DFAT supported SIAP, Phase I of which was completed in 2019. The Program successfully catalyzed \$5 billion in ADB lending and cofinancing from the ASEAN

Infrastructure Fund, the World Bank, Germany's KfW *Bankengruppe*, *Agence Française de Développement*, Clean Technology Fund, and the Clean Energy Fund under the Clean Energy Financing Partnership Facility. As of November 2022, the ongoing SIAP Phase 2 has leveraged about \$3 billion in ADB lending and cofinancing from Clean Technology Fund, Asian Clean Energy Fund under the Clean Energy Financing Partnership Facility, Japan Fund for Poverty Reduction, and Export-Import Bank of Korea.]

6) How should the performance and delivery systems be designed to promote transparency and accountability, as well as effectiveness and learning in Australia's development assistance?

- For larger economies, a results-based approach should be considered. The introduction of e-government systems also fosters accountability and transparency.
- Establishment of steering committees that are co-chaired by line ministries benefiting from Australian support has demonstrated an efficient way to design, implement and monitor Australian assistance. For example, the process for approving funding proposals under SIAP in Indonesia has instilled great ownership from the entities receiving support and enabled greater policy dialogue.

7) How should the new policy address the role of ODA and non-ODA in supporting the development of our regional partners?

- More support to help countries develop regulatory frameworks and create enabling environment for blended financing would help increase opportunities for private investment in sustainable development. For example, circular economy, water supply development, sustainable agriculture and aquaculture have potential for more private sector participation. We acknowledge past support by Australia (together with Canada) in promoting public-private-partnerships (PPPs) in the Philippines.

8) What are the different development financing needs and to what extent are they being filled, including by partner governments in the region, bilateral donors, multilateral organisations, as well as private, philanthropic, and other sources of financing?

- **Regional context.** Current initiatives in Southeast Asia to support [green finance](#), [energy transition mechanism](#), [blue finance](#), among others require innovative approaches for mobilizing resources. To the extent that many development partners are rallying towards supporting these initiatives, it is important to have the right champions to coordinate and lead.
- **Country context.** Key challenge for Indonesia's green recovery is the scale of financing needed. Indonesia's average annual infrastructure financing needs are estimated at \$74 billion (climate-adjusted) with an annual infrastructure financing gap of about \$51 billion. To meet these large financing requirements, Indonesia will have to strengthen its capacity to raise resources from all sources, including at the national and subnational levels. Indonesia has struggled to attract sufficient long-term private financing for infrastructure investments despite abundant global savings. Increasing access to and reducing the cost of private capital requires action on following fronts.
 - Develop a solid pipeline of green, bankable and fiscally sustainable projects; and
 - Mobilize green and sustainable investments through capital markets.The above require continued support from neighboring Australia.

9) What innovative forms of development financing could Australia use to draw on private, philanthropic, and other sources of financing to meet development financing needs beyond what is available from likeminded bilateral donors and multilateral organisations? What is best practice around the world, including for blended finance? What are relevant international comparators to inform Australia's future use of development finance?

- Indonesia needs more investment in environmentally friendly and socially inclusive infrastructure. However, creating bankable green investments will require public finance to be used strategically to crowd in private sources of green finance and investments.
- One example of how such blended finance approach can work is through scaling up the work that ADB and Australia are doing jointly through SIAP Phase 2 in supporting SDG Indonesia One Green Financing Facility (SIOGFF). This Facility is a \$150 million innovative transition financing mechanism under PT SMI that links funds provision to subprojects with clear green, SDG, and financial bankability targets. Designed as a de-risking facility, it aims to leverage ADB and government funds to catalyze a multiple of green funds from private, institutional, and commercial sources over time.
- ADB is also making efforts to design and implement blended finance facilities with contributions from philanthropies and such experience may be relevant for Australia. For example, [Climate Innovation and Development Fund](#) is ADB's first private sector grant-based concessional financing facility sponsored by private institutions. CIDF is designed to support and help drive innovative and high-impact private sector climate projects in South and Southeast Asia. Launched in February 2022 with \$25 million in grant commitments from the Bloomberg Family Foundation Inc. and Goldman Sachs Charitable Gift Fund, The Fund aims to leverage up to \$500 million in additional financing for private sector innovation in conventional and non-conventional renewable power generation, sustainable transport, climate-smart urban solutions, grid optimization technology, agriculture and land use, and green manufacturing and construction.
- Another opportunity for joint collaboration among Australia, Indonesia and ADB could take the form of support for (i) development of pipeline of projects and (ii) issuance of blue, green or sustainability bonds to finance projects identified earlier.