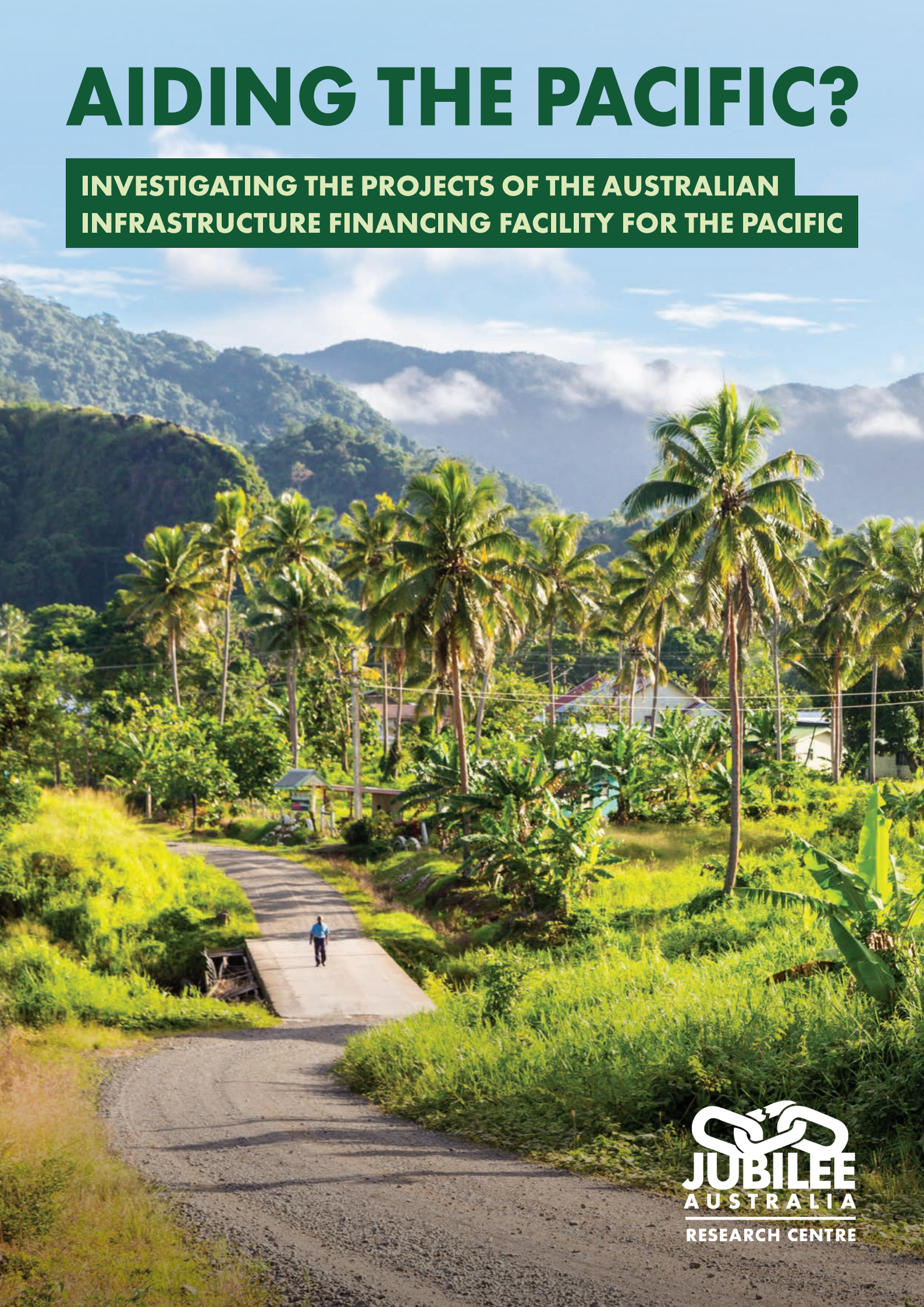
AIDING THE PACIFIC?

INVESTIGATING THE PROJECTS OF THE AUSTRALIAN INFRASTRUCTURE FINANCING FACILITY FOR THE PACIFIC



JUBILEE AUSTRALIA RESEARCH CENTRE

JUBILEE AUSTRALIA RESEARCH CENTRE, NOVEMBER 2022

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Design: Twofold Design
Cover photo: Ovalau Island, Fiji © Adobe Stock

ABOUT JUBILEE AUSTRALIA RESEARCH CENTRE

Jubilee Australia Research Centre is a not-for-profit research centre based in Sydney, Australia. We engage in research and advocacy to promote economic justice for communities in the Asia-Pacific region and accountability for Australian corporations and government agencies operating there.

We are an independent and not-for-profit organisation and donations are tax deductible.

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ACKNOWLEDGMENTS

The authors acknowledge the valuable input and comments from Samuel Day, Fyfe Strachan, Susan Engel, Brigid O'Farrell, Paul Roughan and Yuko Du. All views and any errors within the report are the responsibility of Jubilee Australia Research Centre.

ACKNOWLEDGMENT OF COUNTRY

We acknowledge and pay our respects to the Gadigal people of the Eora Nation as the Traditional Custodians of the land on which our office sits. We pay our respects to First Nations peoples of all the lands on which we work, live and play, their culture and Elders past and present. We recognise that this land was and always will be Aboriginal and Torres Strait Islander land, because sovereignty was never ceded.

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Airai Bai (traditional meeting house) on Babeldaob, Palau

ABBREVIATIONS

ACFID	Australian Council for International Development
ADB	Asian Development Bank
AFL	Airports Fiji Pte Ltd
AIFFP	Australian Infrastructure Financing Facility for the Pacific
BSCC	Belau Submarine Cable Corporation
CPS	Country Partnership Strategy
DoE	Fiji Department of Environment
DFAT	Department of Foreign Affairs and Trade
EFA	Export Finance Australia
EIA	Environmental Impact Assessment
FEED	Front End Engineering Design
FSM	Federated States of Micronesia
GDP	Gross Domestic Product
PNG	Papua New Guinea
PPL	PNG Power
SPPP	Solar Pacific Pristine Power Inc

EXECUTIVE SUMMARY

The Australian Infrastructure Financing Facility for the Pacific (AIFFP) was announced by Prime Minister Scott Morrison in November 2018. The AIFFP was originally touted as a AUD$1.5 billion initiative, comprising up to AUD$1.5 billion in loan financing and a far smaller envelope of $500 million in grants.

In March 2022, the Australian government announced that the loan envelope of the AIFFP would double, increasing to $3 billion. The grant allocation was subsequently increased from $500 million to $1 billion in the October 2022 mini-budget.

SUMMARY OF PROJECTS

At the time of writing (October 2022) 13 projects have been announced by the AIFFP, incorporating four energy projects, three undersea cable projects, two airport infrastructure projects, one project addressing flood alleviation, one developing port infrastructure and two focused on roads.

The 13 projects of the AIFFP are spread throughout the Pacific with four projects in Papua New Guinea (PNG), three in Fiji, two in Palau, one shared by the Federated States of Micronesia, Kiribati and Nauru, and one project in each of the Solomon Islands, Timor Leste and Nauru.

Since its inception, AIFFP has committed a total of just over AUD$1 billion in financing – a quarter of its allocation. Of this, 80% has been in the form of loans and guarantees and 20% in grants. Three quarters of all financing allocated to date has gone to PNG.

The vast majority of AIFFP's funds - $868 million – has gone to transport sector projects, with a further $156 million devoted to energy, $17 million to communications and only $5 million on a water and climate change adaptation project.

Export Finance Australia (EFA), Australia's export credit agency, finances the loans of the AIFFP.

FINDINGS

The report makes the following findings:

It is clear that the selection of some AIFFP projects is being driven by geopolitical considerations, including seeking to establish Australian influence in the Pacific as a counter to Chinese influence.

At present it is hard to assess whether the AIFFP will increase debt distress to those nations who are receiving concessional loans.

The AIFFP is falling well short when it comes to public disclosure of project documents and its stated commitment to transparency, especially when it comes to the business case for projects and for social and environmental impacts.

The AIFFP's set up, including its need to provide finance mostly through loans, results in it pushing most of its financing to 'bankable' projects. This risks pushing the AIFFP towards financing development projects that are extractive in nature and not of benefit to the people of the recipient countries.

The AIFFP, while able to support climate mitigation projects, is not well designed to support meaningful climate adaptation for vulnerable communities, which is arguably the most pressing financial need facing the Pacific at the present moment.

Fruits for sale in Nadi, Fiji

RECOMMENDATIONS

Recommendation 1: Halt further expansion of AIFFP

The Government should halt any further expansion of the AIFFP until a substantive review and evaluation of its development impacts is undertaken, considering whether its projects are helping broad-based and inclusive development, poverty alleviation and the capacity to meet the needs of Pacific nations on climate change, or whether in contrast projects are pushing an extractive model of development.

This review should include participation from civil society groups in Australia and the Pacific.

Should this review not find evidence of contribution to inclusive development and poverty alleviation, the AIFFP should be redesigned to ensure it can achieve this.

Recommendation 2: Disclosure

The AIFFP should take the following steps to improve its disclosure and transparency:

- It should adopt the same approach to disclosure as the multilateral development banks such as the ADB and the World Bank when it comes to social and environmental assessments.
- For projects with a loan component to a private entity or a state-owned enterprise, a business case should be released that demonstrates the rationale by which revenues will be raised to repay the loan.
- For projects that lend to sovereign borrowers, it should disclose how the project is going to increase GDP and explain how AIFFP funds will not increase debt distress for recipient countries.

Recommendation 3: Aid Program

If the AIFFP is continued, funding for the program should be additional to the aid budget and should not take any funds away from the aid budget.

I. INTRODUCTION

The Australian Infrastructure Financing Facility for the Pacific (AIFFP) is part of Australia's Pacific Step-Up initiative and became operational on 1 July 2019.[1]

Announced by Prime Minister Scott Morrison in November 2018, the AIFFP was touted as a AUD$2 billion initiative, to 'significantly boost Australia's support for infrastructure development in Pacific countries and Timor Leste'.[2] It was originally to involve up to $1.5 billion in loan financing, and a far smaller envelope of $500 million in grants.

The AIFFP's stated aim is to fund priority gaps in telecommunications, energy, transport and water infrastructure.[3] By mid-2022, the AIFFP also included a 'Climate Infrastructure Window' which supports renewable and lower-emissions energy generation and transmission.[4]

AIFFP projects may involve loans, grants, or contain both loan and grant elements, and loans may be to sovereign, state-owned enterprise or private sector partners.[5]

In March 2022, as part of its 2022/2023 Budget, the Government announced that Australia would double the AIFFP's lending headroom from $1.5 billion to $3 billion. The grant allocation was subsequently increased from $500 million to $1 billion in the October 2022 mini-budget, bringing the program total to $4 billion.[6]

1.1 HOW DOES THE AIFFP WORK?

The AIFFP does not have its own stand-alone legislation, but was created by putting together the ODA grant capacity with EFA's lending capacity. The AIFFP has an Advisory Board, chaired by the Department of Foreign Affairs and Trade's (DFAT) Head of the Office of the Pacific, which provides advice to the Minister for Foreign Affairs.

The lending is disbursed by Export Finance Australia (EFA) (formerly the Export Finance and Insurance Corporation), which provides support to, and is the lender of record for, the AIFFP via its National Interest Account.[7] EFA is only involved in AIFFP projects that have a loan component.[8]

The AIFFP can provide financing to private firms[9] or to sovereign governments. When the AIFFP provides loans to the private sector, it uses a 'market-like pricing approach'. When providing sovereign loans, it draws on relevant multilateral development bank (MDB) lending rates (World Bank's International Bank of Reconstruction and Development (IBRD) and the ADB's Ordinary Capital Resources (OCR)) to determine the appropriate interest rates.[10]

The AIFFP's framework for determining eligibility for loans (including guarantees), grants or a combination, also draws from MDB frameworks. The 'primary framework' is the World Bank's Sustainable Development Finance Policy, which 'informs the degree to which a country may borrow on non-concessional terms depending on income level and their debt sustainability as assessed by the IMF'.[11]

The AIFFP provides only grant financing to seven countries: the Federated States of Micronesia, the Republic of the Marshall Islands, Tonga, Kiribati, Samoa, Nauru and Tuvalu.[12] This flows from the AIFFP position that it will not offer loans to sovereigns or state-owned enterprises for countries rated at a high risk of debt distress.[13]

Where countries are eligible for at least part of their MDB funding as concessional loans (PNG, Solomon Islands, Vanuatu, Timor-Leste, Fiji, Palau), the AIFFP will combine its loans with grants to provide a concessional package.[14]

AIFFP's Design Document specifies that it will take debt sustainability into account in considering whether to offer loans. It provides that, where a country is rated by the IMF as at high risk of debt distress, the AIFFP will not offer loans to sovereigns or state-owned enterprises that breach lending policies of the World Bank or the IMF's debt limit policy.[15] This means that in some cases the AIFFP has provided a concessional sovereign loan package to countries rated at high risk of debt distress – such as Papua New Guinea.

Loans for AIFFP projects are not treated as ODA-eligible, however, the grants are ODA-eligible and drawn from the aid budget.[16]

The argument for making loans is premised on the assumption that doing so allows the government to support infrastructure development in the Pacific while allowing 'the ODA grant budget to be minimally impacted.'[17]

1.2 PURPOSE OF THIS REPORT

Since 2017, China's Belt and Road policy and its influence has continued to expand in the Pacific.[18] In the Pacific, one of the areas of focus is diplomatic alliances of China versus Taiwan. As at time of writing, allies in the Pacific of Taiwan include Palau, Tuvalu, Nauru and the Marshall Islands,[19] with Kiribati and the Solomon Islands switching their allegiance in September 2019.[20]

In March 2019, Jubilee Australia Research Centre, Caritas Australia and the University of New South Wales raised concerns that the AIFFP may be used to politicise aid, and that the aid program would move away from one of its great strengths: its focus on grants, thus potentially worsening debt distress. It also questioned whether or not its focus on infrastructure was justified, without a specific case being made on a country-by-country basis for what sort of infrastructure was needed. In all, it recommended that the proposed AIFFP not be approved as planned.[21] However, the AIFFP legislation was passed by both houses just before the May 2019 election.

The AIFFP notes that it aspires to the following principles: responsiveness, transformation, responsible lending, safeguards, local content, climate resilience, equality and inclusion, quality, risk management and transparency.[22] This report aims in part to test whether or not these principles are being adhered to in the light of its geopolitical driver, that is to compete with China.

It has been proposed that the AIFFP will be reviewed every four years.[23] Reviews will focus on 'AIFFP's relevance, efficiency, effectiveness, impact and governance'. The first system-wide external review was released shortly before the publication of this report, in November 2022. It found that the AIFFP was operating effectively and efficiently, has high quality staff and has developed a high quality policies and systems. The review spoke positively about the AIFFP's environmental and social safeguards policies and staff commitment to them.

However, the external review failed to assess whether the AIFFP's projects are appropriate to address the most important development challenges in its partner countries or whether its projects are likely to lead to development or poverty alleviation outcomes. A question in the review was whether the AIFFP's investments are likely to have economic and social benefits, but the review did not answer the question directly. Instead, the review commented on the theoretical framework underpinning the AIFFP, rather than implementation: 'policies and systems in place related to economic and social benefits, climate resilience, and environment and social safeguards are high quality and are likely to contribute to investments achieving benefits in these areas (noting that an assessment of implementation is not yet possible)'.[24] The review also asked whether AIFFP is investing in countries or sectors of high need or priority, but, in answering this, only considered whether AIFFP's sectors and countries of focus are similar to other infrastructure funders (such as ADB). There remains a need, therefore, for an assessment of the AIFFP's development effectiveness as a component of the aid program. The Australian National Audit Office has identified a potential future performance audit, slated for 2023, to look at DFAT's establishment of the AIFFP.[25]

The purpose of this report is to provide an overview of the AIFFP's projects to date with the following questions in mind:

- What lessons can we conclude from the current crop of AIFFP projects?
- Is the AIFFP picking projects that will lead to positive development outcomes?
- Is there a geopolitical logic behind the choice of some of the projects, and if so, is this appropriate?
- How does the need to avoid increasing sovereign debt affect the performance of a program that has a substantial loan element?
- Are other priorities being ignored, such as the need to reduce poverty and to help the Pacific address climate change adaptation and mitigation needs?
- Is the AIFFP living up to its commitment to transparency? If not, how is the lack of transparency impacting on the choice of projects?
- Are the institutions being used to deliver the AIFFP the most appropriate to deliver development finance?

In short, are the assumptions behind the design, priorities and actual operation of the AIFFP, driving outcomes that are leading to questionable development benefits?

II. AIFFP PROJECTS

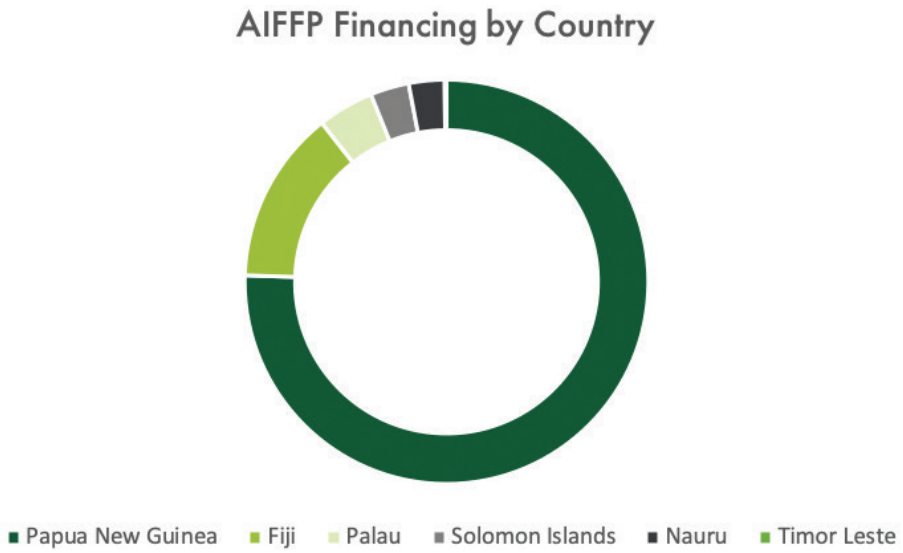
2.1 OVERVIEW

As at time of writing, the AIFFP has announced thirteen projects, spread over five main categories: energy, telecommunications (which largely focuses on undersea cables), infrastructure, transport and water. Since its inception, AIFFP has committed a total of just over AUD$1 billion in financing – a quarter of its allocation. Of this, 80% has been in the form of loans and guarantees and 20% in grants.

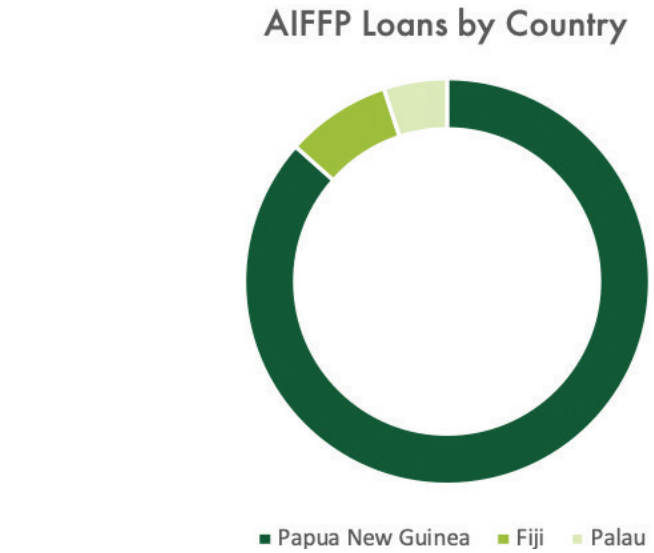
Table 1 - Overview of all AIFFP projects by category[26]

Category (AUD)	Project	Country	Loan (AUD)	Guarantee (AUD)	Grant (AUD)	Total funding package (AUD)	% Loan or guarantee
Transport Infrastructure **$867.9 million**	Papua New Guinea Ports Infrastructure Investment Program	Papua New Guinea	$521.4 million		$100 million	$621.4 million	84%
	Wau and Sepik Highways	Papua New Guinea	$61.6 million		$14.7 million	$76.3 million	81%
	Airports Fiji	Fiji	$6.5 million	$61.9 million		$68.4 million	9.5% loan 90.5% guarantee
	Nauru Airport Refurbishment	Nauru	$0		$30 million	$30 million	0%
	Fiji Transport Infrastructure Restoration Project	Fiji	$57.1 million		$14.7 million	$71.8 million	80%
Energy **>$155.7 million**	Tina River Hydropower Transmission System	Solomon Islands	$15.1 million		$17.3 million	$32.4 million	47%
	Palau Solar Plant Investment	Palau	$25.7 million		$5.7 million	$31.4 million	82%
	Papua New Guinea Solar Plant	Papua New Guinea	$0		To be determined	To be determined	0%
	Papua New Guinea Laitim Hauslain Project	Papua New Guinea	$73.6 million		$18.3 million	$91.9 million	80%
Communications Infrastructure **>$17 million**	Palau Submarine Cable Branch System Project (PC2)	Palau	$12.6 million		$2.9 million	$15.5 million	81%
	East Micronesia Cable	FSM, Kiribati and Nauru	$0		Under negotiation	Under negotiation	0%
	Front End Engineering Design (FEED)	Timor Leste	$0		$1.5 million	$1.5 million	0%
Water/Climate Change Adaptation **Up to 5 million**	Nadi Flood Alleviation Project	Fiji	$0		Up to $5million	Up to $5million	0%
TOTAL			**$773.6 million**	**$61.9 million**	**$210.10 million**	**$1,045.6 million**	**80%**

The majority of projects are located in Papua New Guinea, with a total finance package of more than $789 million – three-quarters of all AIFFP finance provided to date. The real figure will be higher if negotiations still pending regarding the grant to finance PNG Solar Plant are successfully completed.



Only four countries have been allocated loans under the AIFFP to date – PNG, Fiji, Solomon Islands and Palau. The vast majority of those loans (85%) are allocated to PNG.



Some AIFFP grants/loans are in USD and some are in AUD. Only one project (Airports Fiji) was in local currency. Given the fact that at the time of writing the AUD and USD is at a historical low versus the USD, grants/loans denominated in US dollars will have become more expensive since their announcement. This report uses the exchange rate provided on the AIFFP website at the time of writing, which is generally 0.7 USD/1 AUD.

Note: the external review of the AIFFP, released in November 2022, includes two projects that do not appear on the list of investments on the AIFFP website: Tonga Parliament House ($13 million) and Timor-Leste Cable Implementation Support ($7 million). For this report, we have only referred to projects detailed on the AIFFP website.

2.2 TRANSPORT INFRASTRUCTURE

At a total of AUD$868 million, transport infrastructure is by far the largest sector targeted by the AIFFP. These funds are split across five projects:

- The Papua New Guinea Ports Infrastructure Program;
- Wau and Sepik Highway Upgrades;
- Airports Fiji;
- The Nauru Airport Refurbishment.
- The Fiji Transport Infrastructure Restoration Project

As the Fiji Transport Infrastructure Restoration project was announced shortly before the completion of this report, on 18 October 2022, we have included this project in our totals, but are not considering this project in detail in this report.[27]

Papua New Guinea Ports Infrastructure Investment Program

Category: Transport
Country: Papua New Guinea
Type: Grant and loan
Grant: USD$70 million (AUD$100 million)
Loan: USD$365 million (AUD$521.4 million)
Total amount: USD$435 million (AUD$621.4 million)
Grant/loan breakdown: 16% grant, 84% loan
Status: Memorandum of Understanding signed and loans disbursed[28]

At $621.4 million, the Papua New Guinea Ports Infrastructure Program is by far the largest program by dollar value announced by the AIFFP.

The Australian Government is partnering with the Government of PNG to finance an investment to upgrade and refurbish selected PNG ports.[29] The countries signed an agreement in January 2022.[30] A Memorandum of Understanding followed in June 2022.[31] The project comprises a grant of USD$70 million, and a loan of USD$365 million. The loan will be at a variable interest rate of LIBOR + 0.8 per cent, over 24 years.[32]

PNG Ports Corporation is the 'sole authority' over all declared ports in the country and manages 15 of the 23 declared ports in PNG.[33] The ports managed by PNG Ports Corporation are Lae, Port Moresby, Kimbe, Madang, Alotau, Rabaul, Kavieng, Oro Bay, Kieta, Buka, Vanimo, Lorengau, Wewak, Daru and Aitape.[34]

The investment by Australia will involve an upgrade to seven of these ports. This includes works to be undertaken on Kimbe on the north coast of New Britain, Lorengau (Manus Island), Kavieng (New Ireland), Vanimo (West Sepik) and Wewak (East Sepik). Lae Tidal Basin (PNG's largest port), will be positioned to 'become a regional hub to the Pacific by improving Lae Port's capacity to service dedicated container ships from Southeast Asia'.[35]

The announcement to invest in these ports follows Chinese interest in PNG ports, particularly in ports such as Daru and Vanimo.

The port of Daru, situated on Daru Island, is approximately 200km from the Australian mainland,[36] and even closer to Australia's islands in the Torres Strait. In November 2020, China's Fujian Zhonghong Fishery Company signed a memorandum of understanding with the PNG government and the Fly River provincial government to build a $200 million 'comprehensive multi-functional fishery industrial park' on the island of Daru. The project was announced by China's Ministry of Commerce, with the support of Beijing's ambassador in Port Moresby, Xue Bing.[37]

The port was to support a billion-dollar plan to build a new city on Daru and was to include an industrial zone, seaport, business and commercial zone along with a resort and residential area, over an area of 100 square

kilometres[38]. In May 2021, reports disclosed that Australia had signed a Memorandum of Understanding with Papua New Guinea, for 'impact projects' on Daru as well as the South and Middle Fly districts in Western province'.[39]

The port of Vanimo has also already been slated for upgrade as part of the proposed Sepik Infrastructure Project by Frieda River Ltd, a subsidiary of Australian-based but Chinese state-owned company PanAust.[40] The Sepik Infrastructure Project forms one of the four key elements for the controversial Frieda River copper and gold mine,[41] which is yet to be approved.[42] Under the proposed Sepik Infrastructure Project, the port of Vanimo would be redeveloped, with the upgraded port to be a 'multi-berth facility suitable for international vessels up to Handymax size' and will 'establish a new Asia-Pacific trade link between natural resource-rich Papua New Guinea and Asia'.[43]

While PNG's ports are important for trade, they are also potentially used to facilitate the unsustainable export of rainforest logs. For example, the port of Vanimo in Sandaun Province is surrounded by logging concessions and major exports from the port include timber and palm oil (a commodity closely linked to rainforest logging).[44] Since 2010, more than 7 million cubic metres of logs have been exported from Sandaun Province and the province has seen a dramatic increase in annual loss of tree cover.[45]

Global Witness and BBC investigations conducted in 2016 and 2019 on the Bewani logging and palm oil concession close to Vanimo raised human rights concerns about the project, including a lack of adequate community consent, continued opposition to the project and use of child labour in the oil palm plantation[46]. Another concession in the area (Vanimo Blocks 1-6) was the subject of a government-funded review that reported "[l]andowners complained that the company frequently uses police to threaten villagers with guns to address issues that could easily be resolved through normal dialogue".[47]

The PNG Ports Corporation was also a partner in the controversial Noble Centre project in Port Moresby, with a Chinese state owned enterprise, China Railway Construction Engineering Group (PNG) Real Estate Co. The Noble Centre, a 23-storey skyscraper built to be the tallest in PNG, has been 'deemed uninhabitable' after more than 70 defects being discovered.[48] Faults in the project are serious, involving mechanical, electrical and fire safety concerns. The company said that it had invested $95 million in the project.

For a project of this scale, the lack of a publicly available business case raises many questions. Without seeing such a business case, it is unclear to both the Australian and the PNG public which sectors of the PNG economy that this ports upgrade is supposed to assist. Will the project mostly be to assist the export of primary products such as minerals and round logs, or oil palm? If so, such a rationale for the project would be very seriously concerning given that the extraction of these commodities are associated with a wide range of environmental destruction and human rights abuses, tax evasion by multinational companies, and lack of demonstrated benefit to the bulk of the PNG population.[49]

Wau and Sepik Highways

Category: Transport
Country: Papua New Guinea
Type: Grant and loan
Grant: AUD$14.7 million
Loan: USD$43.12 million (AUD$61.6 million)
Total amount: AUD$76.3 million
Status: Loan disbursed[50]

In March 2022, the AIFFP announced the intention to support PNG's Department of Works and Highways to undertake 'long-term rehabilitation and maintenance of approximately 359 kilometres of roads along the Wau Highway in Morobe Province and Sepik Highway in East Sepik and West Sepik (Sandaun) provinces from 2022 to 2027'.[51] The project funds are for project management, contract oversight and support with implementation. It will also contribute to designs for the proposed Trans-National Highway.[52]

The loan for the project is being offered at a floating interest rate of LIBOR + 0.8 per cent over 23 years.

Part of the Wau Highway from Lae (Lae – Timeni) would be the transport route for the Wafi Golpu copper and gold mine, a joint venture proposed by Australian companies Newcrest Mining and Harmony Gold Australia, a subsidiary of South African mining company Harmony Gold. It is unclear at this point whether the decision to finance this project has been influenced by the desire to support the Wafi-Golpu mining project. It is however, important to note that the Wafi-Golpu mine is extremely controversial, especially given the unpopularity of the proposed tailings disposal method for communities who live in the Huon Gulf area of the province.[53]

Airports Fiji (AFL)

Category: Infrastructure
Country: Fiji
Type: Loan and guarantee
Loan: FJD$10 million (AUD$6.5 million)
Guarantee: FJD$96 million (AUD$61.9 million)
Total amount: FJD 106 million (AUD$68.4 million)
Breakdown: 91% guarantee, 9% loan
Status: Funded

In June 2021, the AIFFP, alongside ANZ Fiji, signed a FJD 106 million (AUD $68.4 million) package of support to Airports Fiji Pte Ltd (AFL).[54] AFL is a Fijian state-owned enterprise that manages Nadi airport, Nausori International Airport and the thirteen outer island airports. The loan is for essential maintenance and capital works at Nadi International Airport and several outer islands' airports. It will also be used to refinance existing debts. This maintenance plan follows in the wake of a $105 million terminal upgrade project that commenced in 2013 and was completed in 2018.[55] The interest rate for the FJD$10 million loan is 4.25 per cent over five years (fixed rate)—the guarantee is at the same rate but is at a variable rate.[56]

Answers to questions on notice at Senate Supplementary Estimates, noted that 'of the total FJD106 million loan to Fiji Airports, FJD66 million (AUD44.00 million) is to refinance existing debt Fiji Airports held with Westpac Fiji'.[57] This means that 62 per cent of the loan is refinancing existing debt.

The project did not have an Environmental Impact Assessment. Answers to questions on notice revealed that 'Fiji Airports engaged with the Fiji Department of Environment (DoE). DoE determined that an environmental impact assessment (EIA) was not required as the works involved minor airport developments, the majority of which were maintenance of existing assets on airports land, and would not significantly change the nature or degree of existing environmental and social risks and impacts. The AIFFP confirmed DoE's position as consistent with DFAT Safeguards Policy.'[58]

At Senate Supplementary Estimates it was asked: *How was this project chosen? Has modelling been done on the costs and benefits of this project in light of the tourism downturn caused by COVID-19, and any implications for Fiji's ability to repay the loan?* The response provided was: 'The loan supports Fiji Airports in the context of COVID-19 by allowing essential capital investment during a period of depressed activity that is intended to improve Fiji Airport's capacity, serviceability and safety. The loan is intended to strengthen Fiji Airport's position to support the recovery of the Fijian economy, which has suffered significantly during COVID-19. Export Finance Australia conducted credit analysis on the loan, including assessment of the risk of COVID-19 negatively impacting Fiji Airports capacity to repay the loan.'[59]

However, the point remains that 62 per cent of the loan package is refinancing existing debt.

The Fiji Labor Party leader Mr Mahendra Chaudhry was critical of the AIFFP loan, stating that while appreciating the gesture, 'we believe there are other important priorities that need to be addressed'.[60] He also stated there was a 'worrying lack of transparency about the loan, no details have been provided on its terms and conditions, even if it is being underwritten by the Australian government, and secondly, our tourism industry is at a complete standstill.'[61] In other words, they were not earning the tourism receipts needed to pay back the loan. He commented: 'We keep pumping more and more money into tourism sector instead of trying to broaden our economic base.'[62] National Federation Party leader, Professor Biman Prasad, said that the Government had taken the loan at a time when people were struggling to put food on the table.[63]

The loan and guarantee from the AIFFP occurred in the context of Fiji continuing to seek loans from multilateral banks, including the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank and the World Bank, and from other donors. These loans include AUD$454 million and JPY10,000 loans from Japan in 2020 and 2022, a $200 million from the ADB in 2020, and a potential $320 million from the ADB and DFAT.[64]

The Annual Debt Report released by Fiji's Ministry of Economy in 2020-2021 noted that at the end of the fiscal year, Government total outstanding debt stood at US$7.7 billion, equivalent to 79.8 percent of Gross Domestic Product (GDP).[65] At the beginning of 2022, ADB reclassified Fiji from a group C to a group B country, meaning it qualified for concessional financing, after a post-COVID economic contraction and a subsequent rise in poverty rates.[66]

Given the above context, the decision to finance this project requires close scrutiny. While this is a private sector loan, if Fiji Airports are unable to service the loans for any reason, the Fijian government (and therefore the Fijian people) could in the end be liable for its repayment.

Nauru Airport Refurbishment

Category: Infrastructure
Country: Nauru
Type: Grant
Amount: AUD$30 million
Status: Announced

Under this project, Nauru's international airport will be upgraded. Australia will provide a AUD$40 million grant finance package, including AUD$30 million in grant funding through the AIFFP.[67]

The refurbishment is intended to extend the service life of the runway by another 25 to 30 years. The financial package will also provide vital air traffic equipment and enable climate-resilient upgrades to sections of the Nauru ring road.

The project intends to 'employ Nauruan workers and use local materials, where possible, to help stimulate Nauru's economy', and states that this will contribute to Nauru's economic recovery from COVID-19.[68]

The project, which will be delivered by the AIFFP in partnership with the Nauru Department of Transport, includes re-surfacing of the runway and upgrade of critical air traffic control equipment. The funding will also upgrade sections of the Nauru ring road.[69]

Nadi airport, Fiji

2.3 ENERGY

As at time of writing, the AIFFP has four potential energy projects in the pipeline at a potential outlay of $155.7 million. These include three potential renewable energy projects:

- a solar plant in Papua New Guinea;
- a $91.9 million electricity project in Papua New Guinea;
- a transmission system for a hydropower project in the Solomon Islands; and
- a solar facility and battery storage system in Palau.

Papua New Guinea Solar Plant

Category: Energy
Country: Papua New Guinea
Type: Grant
Amount: Under negotiation
Status: In negotiation[70]

In 2018, Papua New Guinea invited the leaders of Japan, the United States, New Zealand and Australia to help it realise its goal of connecting 70% of the country to electricity by 2030. At the time, approximately only 13% of Papua New Guinea's population had reliable access to electricity.[71]

Subsequently, the Papua New Guinea Electrification Partnership has begun to roll out projects to increase access to electricity, including building 'new power plants, expanding electricity grids, and connecting households, schools, clinics and businesses to electricity for the first time, across PNG'.[72]

As Shane McLeod wrote for the *Lowy Interpreter:* 'An unstated but obviously central factor in the countries signing up to the partnership is to displace the growing influence of China in PNG, some of which was being pursued through large scale electricity projects with questionable economic underpinnings.'[73] One example of this is the proposed Ramu-2 hydropower plant, the 'largest power infrastructure project ever undertaken in Papua New Guinea to date'.[74] Said to be worth US$800 million, it is linked to China's Belt and Road initiative;[75] the lead consortium partner in the project is the Shenzhen Energy Group of China.[76] It is intended that the Ramu-2 asset will be 'transferred back to the PNG Government after 25 years of operation, debt free'.[77] The Ramu-2 project is 'seen as a nation building project, structured to supply base load energy to Wafi-Golpu and Ramu Nickel mines, as well as clean, cheap and reliable electricity to the vast majority of people living within the Ramu system'.[78]

In June 2020, then Australian Prime Minister Scott Morrison and PNG Prime Minister James Marape announced that a suite of new investments would be delivered in the energy sector, valued at $250 million.A number of projects under the Papua New Guinea Electrification Partnership were listed as being under active consideration for AIFFP funding, via a mix of grants and loans, 'to bring on additional, low-cost electricity generation to the Ramu Grid'.[79] This included scoping for a new gas-fired power plant at Hides, a refurbishment of existing hydroelectricity plants, a new solar power plant (the first of its kind in PNG), and upgrades to transmission lines in the Ramu and Port Moresby Grids.[80]

In addition, Australia stated that it would provide up to $20 million from the Development Assistance Program to pilot off-grid electrification projects in remote areas, providing sustainable power and lighting to many communities for the first time.[81]

And China's involvement in energy projects in PNG continues. In 2019, the planned US$145 million Yonki to Mt Gaden electrification project was 'awarded to a Chinese company, TBEA Ltd, without an obvious open tendering process'.[82] In February 2022, it was announced that PNG and China signed a concessional loan agreement for second phase of a PNG Power grid project from Yonki to Mt Hagen, which could be for $US223 million.[83]

Against this background, Australia initially proposed to fund the Markham Valley Solar Plant.[84] The proposed large scale solar plant was originally to be located in Markham Valley, Morobe Province, Papua New Guinea, and would connect to the Ramu electricity grid which supplies Lae, Madang and the Highlands. The plant was slated to be

PNG's first utility scale solar power plant and one of the largest solar plants in the Pacific.[85] It was connected to a Biomass Project being developed by Oil Search and Aligned Energy.[86]

The project's co-location with the biomass project appears to have led to some initial delays in the project. In response to questions at Senate Estimates in 2021, DFAT advised that '[t]he owners of the land, Oil Search, are having negotiations with the PNG government, and with PPL, on the Biomass Project, which has slowed down the solar project because PPL's preference is to progress both of those projects in parallel.'[87]

The AIFFP website has since been updated to state that the Markham Valley site 'proved unsuitable during feasibility assessments' and that an alternative site is being sought.[88]

At 2021 – 2022 supplementary estimates, the government was questioned as to why they had announced the project if the negotiations hadn't been finalised.[89] The following explanation was provided:

> There are a number of phases to any of the projects. The first phase is one of identification to concept, and both governments—the Australian government and our partner-country government—have typically, or routinely, announced the projects when they're between concept and design phases but before the finalisation of the full financing packages and all the financing documentation. Following the completion of the financing documentation, the project would then move into procurement stage and then finally into implementation stage.[90]

As far back as May 2019, it was suggested that the United States and a group of Pacific allies were 'proposing to finance a power plant to kick-start the Wafi-Golpu mine. The proposal would be the first to be funded by a partnership of the United States, Australia, New Zealand and Japan that pledged to support electricity projects in Papua New Guinea (PNG) during the Asia Pacific Economic Co-operation Summit held in November in the capital of Port Moresby.'[91]

However, spending on small-scale household solar may be a more effective way to progress an increase in access to electricity, especially in rural and remote locations.[92] The plans for a large-scale solar project raise questions about potential links to planned or existing large scale mines, which will require further scrutiny once a site is selected.

Papua New Guinea Laitim Hauslain project

Category: Energy
Country: Papua New Guinea
Type: Grant and loan
Grant: USD$12.8 million ($AUD18.3 million)
Loan: USD$51.5 million ($AUD73.6 million)
Total amount: AUD$91.9 million
Breakdown: 20% grant, 80% loan
Status: Loan disbursed[93]

In March 2022, the AIFFP announced the PNG Laitim Hauslain ('bringing light/power to households/community') project, which will form part of Australia's support to the Papua New Guinea Electrification Partnership.[94] The AUD$91.9 million project will be delivered via a USD$12.8 million grant and a USD$51.5 million loan, at a floating interest rate of LIBOR + 0.8 per cent over 24 years. PNG Power Limited (PPL) is the entity that will receive the loan.

The investment will 'enable Papua New Guinea Power Limited to expand the distribution grid in Morobe and East New Britain provinces. The financing will cover medium and low voltage powerlines, transformers, and household meter connections.'[95] The project intends to 'connect an additional 30,000-40,000 households, schools, and health clinics to the electricity grid for the first time'.[96]

This is expected to increase PPL's existing customer base by approximately 25 per cent. The *Laitim Hauslain* project is also the Australian Government's contribution to the proposed USD$208.6 million Power Sector Development Project, which will be delivered jointly with the ADB.[97]

Tina River Hydropower Transmission System

Category: Energy
Country: Solomon Islands
Type: Grant and loan
Grant: USD$12.1 million (AUD$17.3 million)
Loan: USD$10.6 million (AUD$15.1 million)
Total: USD$22.7 million (AUD$32.4 million)
Breakdown: 53% grant, 47% loan
Status: Funded

The Tina River Hydropower Project is a 'national project of the Solomon Islands' [98], and will be the first large utility-scale renewable energy project in the nation.[99] It aims to 'dramatically increase' the amount of renewable energy in the Honiara national grid by nearly 70 per cent, while reducing reliance on diesel power. The installed capacity in Honiara is 26 MW (peak load 14.3 MW)[100] – the Tina River Hydrodevelopment Project will provide 15MW.[101] The Project will be located on the Tina River tributary of the Ngalimbiu River, 30 kilometres from Honiara,[102] on the island of Guadalcanal.

The Tina River Hydropower Project will also be the 'first large-scale infrastructure project to be developed as a public-private partnership in the Solomon Islands'.[103] The Australian Government is one of six major financiers of the project, alongside the World Bank, the Asian Development Bank, the Green Climate Fund, the Abu Dhabi Fund for Development and the Korea Ex-Im bank.[104] Like PNG, the electricity access in the Solomons is also very low, with only 16 per cent of the population connected.'[105]

The project is being financed through a combination of loans and grants. The final cost for building the hydropower dam and station is estimated at US$184 million, with the total project cost expected to reach US$240 million over the next five years.[106] The Project will involve four key components: a hydropower facility; an access road; a transmission line; and technical assistance. Managed by a dedicated Project Office under the Ministry of Mines, Energy and Rural Electrification, the project is part of a broader initiative called the Solomon Islands Sustainable Energy Project.

For its part, the AIFFP is partnering with the Solomon Islands Electricity Authority to develop a transmission system, which includes a 22km transmission line to connect the Tina River hydropower site to the electricity grid in Honiara by the end of 2023.[107] The AIFFP will fund the transmission system's development costs and construction works.[108]

The USD$22.7 million (AUD$32.4 million) financing package will involve a USD$12.1 million grant (AUD$17.3 million), and USD$10.6 million loan (AUD$15.1 million). The loan will be provided at a fixed interest rate of 3.05 per cent, over 24 years.[109] The loan component was approved in writing by the Minister as being in the national interest under s 27 of the EFIC Act in July 2020.[110] In addition to AIFFP financing, Australia is committing around AUD$29 million from the bilateral aid budget to the Tina River Hydropower Project, bringing Australia's total financing to the Hydropower Project to around AUD$61 million.[111]

While the project was initially projected to be completed and operational in 2024,[112] it appears that likely the project's completion will be delayed as the ground breaking ceremony only took place in November 2022.[113] Jubilee Australia has been informed that the project enjoys longstanding support from local communities, and that there is an eagerness from communities to see it progressed quickly. A contributing factor to this support is that the areas that are part of the project site are effectively protected from logging and other extractive industries that might otherwise be seeking to expand onto the land.

The Tina River Hydropower project is an outlier among AIFFP projects in terms of the generous amount of project documentation that is publicly available, which is much greater than other AIFFP projects. This may be partly due to the size of the project and the fact that it has already been in development for several years—but is also clearly due to the fact that as an ADB and World Bank funded project, it is consistent with the rules in place for these institutions regarding project disclosure.

The rationale for the project as per the documents prepared by Tina River Hydro are the desire to 'improve the standard of living for the people of Solomon Islands by delivering cheaper and cleaner power'. It is also called an

explicitly nation-building project.[114] Funding hydropower in the Solomon Islands is clearly a part of a larger Asian Development Bank strategy regarding energy, outlined in their Country Partnership Strategy (CPS) 2012-2016.[115] For example, the ADB was planning another Hydropower Plant on the island of Malaita,[116] the most populous island of the Solomon Islands, with the aim of increasing economic activity in its capital, Auki.[117]

The project appears to offer benefits to the national economy by helping to move Honiara off imported diesel energy and towards renewable energy. This should drive down the cost of electricity for the government. However, the Opposition Leader the Hon. Mr Matthew Wale has questioned whether the project will reduce the country's reliance on fossil fuels long term.[118]

It is less clear whether the project will offer improved energy access. The island of Guadalcanal accounts for only 12 per cent of the population of the Solomon Islands while already 87 per cent of installed power generation is located in Honiara.[119] The combined installed generation capacity in the outer islands is 4MW. It therefore may be the case that Tina River Hydro should be less seen as a project to improve energy access for consumers, but more as a project that will help Guadalcanal transition from fossil fuels to renewables, including reducing dependence on international oil markets.[120]

Nevertheless, the business case for financing this project via a loan rather than a grant still remains unclear. Even if it does produce cheaper and greener energy for Solomon Islands, should the project have been in loan form, given that climate mitigation for countries like this should be seen as part of the developed world's climate debt? This is particularly the case given that all indications are that the Solomon Islands faces serious economic headwinds, with real GDP projected to fall by 4.5 percent in 2022.[121] The need to pay back the foreign-currency loan financing for this project may in turn drive economic decisions about how to use the extra energy generated – for example, on export-oriented extractive projects. Given these factors, it seems more appropriate that support should have been in the form of a grant rather than a loan.

Palau Solar Plant Investment

Category: Energy
Country: Palau
Type: Loan and grant
Loan: USD$18 million (AUD$25.7 million)
Grant: USD$4 million (AUD$5.7 million)
Total: USD$22 million (AUD$31.4 million)
Breakdown: 82% loan, 18% grant
Status: Financing package signed; loan disbursed[122]

In January 2022, the AIFFP signed a financing package of USD$22 million ($AUD31.4 million) with Solar Pacific Pristine Power Inc (SPPP) to build a solar facility and battery storage system at Ngatpang on the largest island of Babeldaob in Palau.[123] SPPP is a subsidiary of Solar Pacific, and part of the Alternergy Group.[124]

The project will involve financing of a 15.3MW solar photovoltaic facility and 10.2MWac/12.9MWh battery energy storage system.[125] The solar facility will connect to the Palau Public Utilities Corporation's grid network.[126] The project is anticipated to provide up to 23,000 megawatt hours to the grid, or approximately 20% of Palau's power needs.[127] Following the Paris Agreement, Palau committed to a 45% renewable energy target by 2025 as well as a 22% reduction in its energy sector emissions below 2005 levels.[128]

The AIFFP financing includes a loan of up to USD$18 million and additional funds of up to USD$4 million to Solar Pacific Pristine Power Inc to develop the project.[129] The loan will be provided at a fixed interest rate of 4.75 per cent over 17 years.[130]

Palau is already home to a significant renewable energy project: the Armonia project, one of the largest microgrid projects in the world.[131] The Armonia project, managed by ENGIE, is a 'dispatchable solar PV project: with 35 MW of renewable energy and 45 MWh of energy storage, [which] will be coupled with the current diesel generation to transform the Palau grid into a smart, integrated system with an overall installed power of over 100 MW'.[132]

Traditional house, Papua New Guinea

The renewable energy produced by Armonia's solar component is expected to meet more than 45% of Palau's total demand for electricity and allow Palau to achieve its energy goals more than five years ahead of schedule.[133] Installation for the Armonia project began in 2018.[134] Against this backdrop, a question arises as to whether the Palau Solar Project is necessary or duplicates existing infrastructure.

In addition, it appears that there has been a wide variety of public and private donors providing solar in a relatively piecemeal fashion to Palau, including the Japan Bank for Poverty Reduction, the Asian Development Bank,[135] Masdar,[136] New Zealand Aid Programme and European Development Fund[137] and private sources: Japanese company Kyocera Corporation,[138] and US analytics company Gridmarket.[139] While there is a large focus on implementing solar and renewable energy in Palau, questions must be raised about how coordinated that focus is.

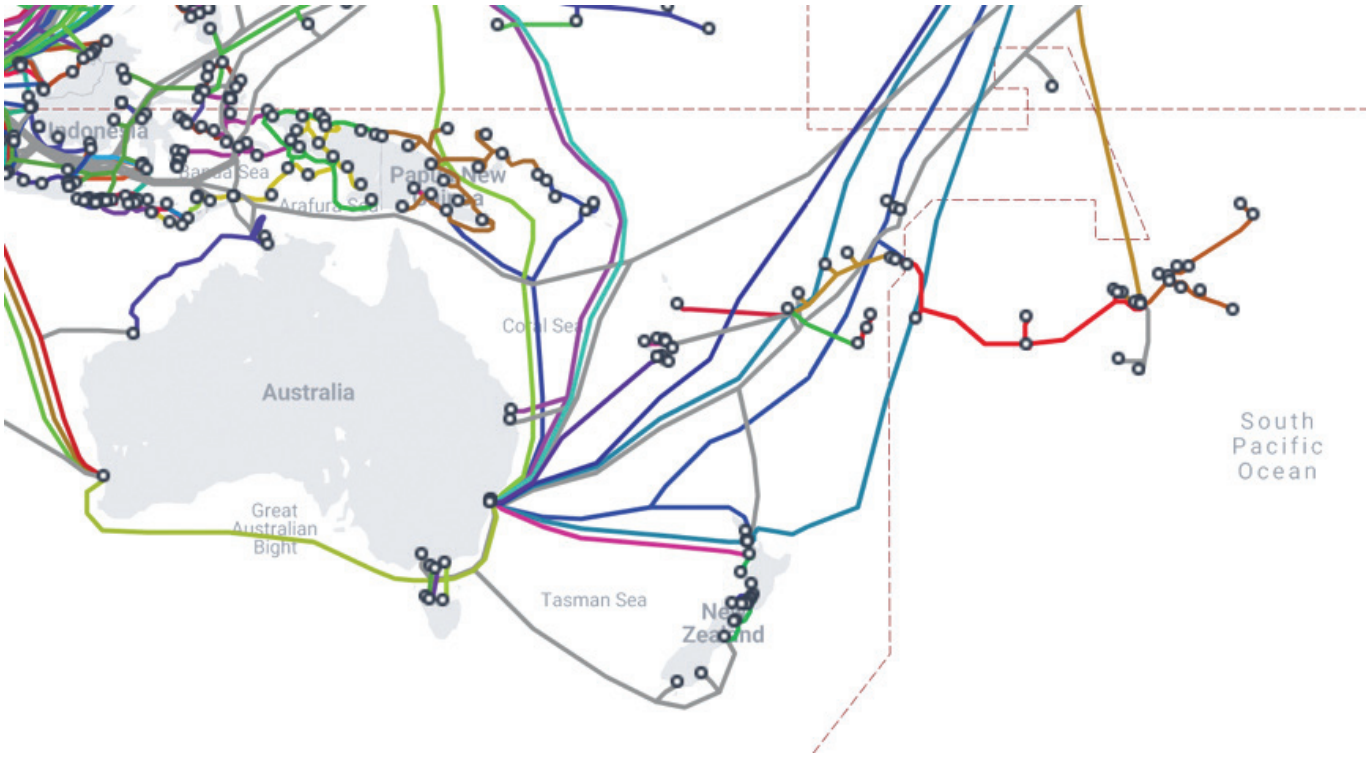
2.4 COMMUNICATIONS INFRASTRUCTURE

Communications and Geopolitics

The AIFFP has announced funding for two major undersea cable projects (Palau undersea cable and the East Micronesia undersea cable) and is financing the scoping study for a third. This interest in cables should be seen in the context of the perceived critical role that communications infrastructure is increasingly seen to play in the region.

Telecommunications in the Pacific is understood as an issue of national interest in Australia, and the role of undersea cables appears to be a key component. Undersea cables have been described as the 'cornerstone of globalisation and worldwide communication'.[140] For Australia, the value of submarine cables to the Australian economy was estimated in 2002 to be approximately $5 billion – and would be far higher today.[141] For Australians, 'about 99% of our digital connectivity to the rest of the world comes through subsea cables', with key connection points located in Sydney.[142]

While submarine cables are laid, owned and maintained by the private sector,[143] 'submarine cable locations (including landing sites) are publicly known, allowing interference by adversaries. The difficulties of interfering with cables deep underwater mean that landing stations represent a key vulnerability to data transmission security.'[144]



Australia's undersea cable network. Source: TeleGeography, Submarine Cable Map, available at: https://www.submarinecablemap.com/

Securing Australia's telecommunications and undersea cables appears to have been core to a number of Australian government decisions made in recent years. One example is the Coral Sea Cable, which connects Port Moresby in PNG, and Honiara in the Solomon Islands to Sydney.[145] Running for 4,700 kilometres, the Coral Sea Cable also includes a 730km submarine cable system connecting Honiara with Auki (Malaita Island), Noro (New Georgia Island) and Taro Island.[146]

In 2018, the Australian government signed a deal to pay for the majority of the AU$200 million project. Australia contributed approximately two thirds to the project, with the Papua New Guinea and Solomon Islands governments jointly contributing up to one third of project costs.[147] Australia's contribution was funded with ODA.[148] This deal is widely understood to have been done to prevent the Chinese company Huawei Marine's involvement in the cable, which 'would have seen Chinese hardware connecting to the backbone of Australia's domestic internet infrastructure'.[149]

The Australian Government awarded telecommunications company Vocus Communications a $136.6 million contract to build the Coral Sea Cable System.[150] Vocus is Australia's fourth largest telecommunications company. ABC reported that 'DFAT awarded the scoping study contract through a limited tender, a process where only one or more potential suppliers are approached to apply'.[151] Notably, Vocus had donated $44,000 to the Liberal Party of Australia in 2013, and a further $50,000 in 2016.[152] Vocus subsequently gave donations to the Labor Party in 2018-19.[153] At the time, the Chief Executive of the Australian Council for International Development (ACFID), Marc Purcell, said that the combination of the donations and the limited tender were 'not a good look'.[154]

The 2021 purchase of Digicel Pacific by Telstra demonstrates the Australian government commitment to securing communications infrastructure interests in the Pacific. Digicel, is a 'dominant player'[155] in six Pacific countries: Fiji, Papua New Guinea, Vanuatu, Samoa, Tonga and Nauru,[156] it provided mobile phone services, as well as internet, pay-TV, and a free-to-air TV channel in PNG.[157]

In 2021, it was reported that China Mobile showed an interest in purchasing Digicel. China Mobile is 'the biggest telecoms operator in China' and previously Huawei struck a '$6 billion agreement to build the majority of China Mobile's 5G base stations'.[158] The Australian government approached Telstra to provide technical advice in relation to Digicel Pacific, and subsequently Telstra considered acquiring the business with financial and strategic risk management support from the Government.[159] Telstra subsequently contributed US$270 million to the US$1.6 billion purchase price, with Export Finance Australia providing the remaining US$1.33 billion.[160] Telstra will own 100 per cent of the ordinary equity. Digicel Pacific also uses the Coral Sea Cable.[161]

Palau Submarine Cable Branch System Project (PC2)

Category: Undersea cable
Country: Palau
Type: Loan and grant
Loan: USD$8.85 million (AUD$12.6 million)
Grant: USD$1.5 million grant (AUD$2.1 million), plus additional bilateral grant of AUD$800,000
Loan/grant breakdown: 81% loan, 19% grant (including bilateral grant)
Total finance package: USD$10.95 million (AUD$15.5 million)
Status: Funded

Located more than 12,000 km from the United States, the nation of Palau, situated just north of Indonesia, remains geopolitically significant. Palau's history has been connected to the United States for decades, and it did not become a sovereign state until 1994. Following World War II, three major island groups in the Pacific were combined into a United Nations trusteeship that was administered by the United States: the Marianas, the Marshalls and the Carolines (which included present-day Palau).[162] Palau became a republic in 1981 and a sovereign state in 1994, but signed a 50-year Compact of Free Association with the United States.[163]

'Free association' gave the republic 'full internal self-government and substantial authority in foreign affairs, but vested the United States with full responsibility and authority for their defense for a number of years'[164]. As Shaun Cameron wrote for the Lowy Institute: 'For the United States, Palau represents a securing of the "North Pacific pathway" that connects Hawaii and Guam, and a block on China's Belt and Road Initiative across the Pacific.'[165] Palau was visited by US Secretary of Defense in 2020,[166] and in December 2021, Australian Minister for Foreign Affairs, Senator the Hon. Marise Payne visited Palau, and opened a new embassy there: 'a further demonstration of Australia's expanding diplomatic presence in the Pacific'.[167]

In December 2017, Palau was connected to the Southeast Asia-United States fiber optic submarine cable that also connects Guam to Indonesia and the Philippines, funded with a loan provided by the Asian Development Bank. The connection 'increased available bandwidth by around 7 times, providing more than half of the population with internet connectivity'.[168] The US, Japan and Australia decided to invest in another cable, the Palau Cable 2 project, citing a lack of redundancy for its first cable.[169] The Hon. Tommy E. Remengesau Jr, President of the Republic of Palau, said that the second internet cable remains 'a priority for national resilience'.[170]

The project partner is the Belau Submarine Cable Corporation (BSCC), a state-owned enterprise, the sole shareholder of which is the Government of Palau.[171] The Japanese company NEC will be the supplier for cable as well as the Echo subsea cable system, to which the cable will connect.[172] This will be the first project to be delivered under the Trilateral Partnership for Infrastructure Investment in the Indo-Pacific between the United States, Australia and Japan.[173] The project is a $30 million multi-donor effort on behalf of these three countries.[174]

AIFFP has committed to a loan of USD$8.85 million (AUD$12.6 million) in two tranches:

- Tranche 1 – USD$1.7 million (approximately AUD$2.5 million) on repayment terms of 1.836 per cent over 10 years; and
- Tranche 2 – USD$7.1 million (approximately AUD$10.1 million) on repayment terms of 2.55 per cent over 19 years.[175]

Japan has also given two loans of $4 million each – one from the Japanese Bank for International Cooperation and one from Mitsui bank.[176] USAID provided a grant of $3 million.[177] The AIFFP loans were approved by the Minister in December 2020.[178]

In response to a question on notice, DFAT has indicated that an Initial Environmental Examination, including an Environmental and Social Management plan was completed by the project proponent and that the AIFFP has reviewed this.[179]

East Micronesia Cable

Category: Undersea cable
Country: Federated States of Micronesia, Kiribati and Nauru
Type: Grant
Amount: Under negotiation
Status: Grant documents have been signed

The East Micronesia Cable project, which was announced in December 2021, is a partnership between Australia, the United States and Japan to provide funding to build a new undersea cable.[180] The project aims to provide 100,000 people across three countries with faster, more high-quality internet access.

As with the Palau cable, commentary about the East Micronesia cable has been connected to concerns of US and its Indo-Pacific allies that cables laid by China could 'compromise regional security'.[181] Previously, the World Bank was leading a project to develop an East Micronesia Cable system to improve communications in the island nations of Nauru, Kiribati and Federated States of Micronesia (FSM), by 'providing underwater infrastructure with a far greater data capacity than satellites'.[182] A bid for the USD $72.6 million project was submitted by the former Huawei Marine Networks, (now called HMN Technologies and majority owned by Shanghai-listed Hengtong Optic-Electric Co Ltd).[183]

The project reached a stalemate due to reported security concerns over HMN Tech's bid. The project's planned connection to a sensitive cable leading to Guam, a US territory with substantial military assets, heightened those security concerns.[184] Subsequently, in December 2021, it was announced that the AIFFP was partnering with Japan and the US to provide 'financing and implementation support to the Federated States of Micronesia (FSM), Kiribati and Nauru to improve internet connectivity to these three Pacific nations, by providing funding to build a new undersea cable'.[185]

The proposed new East Micronesia Cable will connect Kosrae (FSM), Nauru, and Tarawa (Kiribati) with the existing HANTRU-1 cable at Pohnpei (FSM), providing internet connectivity through a submarine cable for the first time.[186] HANTRU-1 is a cable system that 'runs between FSM and Guam and was funded by the US Army'.[187] The project will be delivered on behalf of Pacific governments via the national state-owned telecommunications operators.[188]

Funding from Australia will be provided entirely as a grant as is consistent with MDB practices for these countries.[189]

Front End Engineering Design (FEED)

Country: Timor Leste
Type: Grant
Amount: AUD$1.5 million

The AIFFP has also put seed funding into a third undersea cable project, this time involving Timor Leste, one of the few countries in the world not connected to an undersea cable. This AUD$1.5 million investment to complete a Front End Engineering Design (FEED) is much smaller in scope that the AIFFP's other cable projects. It was limited to scoping various cable design options, route options and technical and engineering requirements, in developing a telecommunications cable project in Timor Leste.[190]

The intention of the Timorese Government appears to be to connect the proposed cable to Australian company Vocus' North West Cable System (linking Darwin and Port Hedland).[191]

In July 2021, that the Timor Leste government launched an international public tender for the project.[192] Then, in June 2022, the government signed an agreement with Alcatel Submarine Network for the implementation of the project, then announced as the Submarine Cable (TLSSC) project.[193]

In addition, Inligo Networks, a company based just outside of Melbourne, is planning to start construction of its ACC1 – Asia Connect Cable this year, an 18,000km subsea route from Singapore, through Indonesia's Java Sea, to the United States. The ACC1 will link five sites in Indonesia; Dili (Timor Leste); Darwin; Tokyo, as well as Guam and the west coast of the US.[194] It is unclear whether these two projects will be in competition with each other.

2.5 WATER/CLIMATE CHANGE ADAPTATION

Nadi Flood Alleviation Project

Category: Water
Country: Fiji
Type: Grant
Amount: Up to AUD$5 million
Status: Scoping and data collection phase

The Nadi Flood Alleviation Project aims to reduce the effects of natural disasters on the commercial centre of Nadi town and on the Nadi flood plain.[195] The AIFFP will finance up to AUD$5 million as a grant for essential catchment management and upstream flood mitigation work for the Nadi Flood Alleviation Project in Fiji. Since 1991, there have been 26 major floods in the Nadi catchment.

According to the AIFFP, the Nadi Flood Alleviation Project is 'the Government of Fiji's top major infrastructure priority'.[196] The funding will support the Government of Fiji with 'critical assessments in the upper Nadi catchment, including assessments of watershed conditions to assist the development of flood models, which can inform land management practices and assist with disaster preparedness and management'.[197]

As at the last public update, the project was in the scoping and data collection phase.[198] A media release that announced AIFFP support mentioned that the investment 'complements' work by the Government of Japan and ADB', although what this means was not explained.[199]

Although this would seem to be a worthy project in light of the need for climate change adaptation support in Fiji, questions must be asked as to why only $5 million was provided for this flood mitigation project, which is described as the Government of Fiji's 'top major infrastructure priority', and yet $68.4 million (more than ten times that amount) was provided to Nadi Airports project, which had already completed a major renovation in 2018.

Oil palm plantations, East New Britain, PNG

III. ANALYSIS

3.1 TO WHAT EXTENT ARE AIFFP PROJECTS MOTIVATED BY GEOPOLITICAL CONSIDERATIONS?

There is no question that several of the AIFFP projects are being driven by geopolitical considerations, including seeking to establish Australian influence in the Pacific as a counter to Chinese influence. It appears clear that the funding of undersea cables is driven by geopolitical concerns, with Australia not keen to have its undersea cables network compromised via crucial connecting points at Sydney or Guam. While the funding committed to date for undersea cables through AIFFP has been relatively small (AUD $17 million), financing for the East Micronesia cable is likely to be more than double this.[200]

Although the communications infrastructure projects are the ones with the most explicit geopolitical motivations, some of the transport and energy sector projects, such as the PNG Ports Infrastructure Investment Program and the PNG electrification projects, also seem to have a geopolitical motive. Here, the geopolitical considerations are less obvious, but they can be inferred from general happenings around the Pacific:

- PNG Ports: In 2015, Darwin Port was vested by 99-year lease to Landbridge, an Australian subsidiary of a privately owned Chinese company, a move which was criticised by the opposition and some academics from a security perspective.[201] In 2020, Chinese interest focused on Daru Island, less than 200 kilometres from Australia. Recently, a leaked draft agreement of a security deal between China and the Solomon Islands suggested that Chinese military presence would be permitted in the Solomon Islands – a first for the South Pacific.[202] Investing in port infrastructure in Australia's closest neighbour in the Pacific, PNG, makes geopolitical sense as a buffer to Chinese interest which is a growing concern to the Australian Government.
- The Electrification Partnership may at least be partly to provide alternative support to increasing electricity in PNG, and an alternative to the Ramu grid rather than the Chinese Ramu-2 Hydropower Project.

Should this matter? There is no question that the use of aid as a geopolitical tool is as old as international aid itself. And in the context of increased competition in the Pacific between China and its Western antagonists (including Australia) some sort of geopolitical rationale in the program was unavoidable.

The real question is not will geopolitical motivations be present, but whether or not geopolitics will distort the entire program by trumping other concerns that should perhaps be more forefront in the mind of policymakers and diplomats. It is notable in this context that Palau, the Federated States of Micronesia and Kiribati will receive funding for undersea cables – but no infrastructure funding for projects on their land, and nothing related to the energy transition or climate change adaptation.

Given that these projects draw on scarce ODA financing for their grant components, projects that primarily address geostrategic rather than development concerns are drawing funds away from poverty alleviation initiatives.

"The real question is not will geopolitical motivations be present, but whether or not geopolitics will distort the entire program by trumping other concerns that should perhaps be more forefront in the mind of policymakers and diplomats.

3.2 IS A MIXED GRANT/LOAN PROGRAM LIKE THE AIFFP SUITABLE FOR THE PACIFIC?

One of the major critiques that has been raised about the AIFFP is the propensity for a mixed grant/loan program to lead to increased debt distress in a region that is already facing severe debt challenges. As a recent Jubilee Australia/ Caritas Oceania report has explained:

> Pacific Island countries are currently facing looming debt burdens, with existing debt challenges exacerbated by the COVID 19 pandemic and the Russia-Ukraine war. Many Pacific Island countries went into the pandemic at elevated risk of debt distress. COVID-19 led to border closures and limited international movement, dramatically reducing revenues from tourism. Weak global demand for some resource exports over the period also led to a reduction in export income. At the same time, public health measures to contain and address the COVID-19 pandemic and economic stimulus to support the economy placed additional stress on national budgets. More recently, Russia's war in the Ukraine has hit the global economy hard, driving up the price of commodities such as oil and gas, wheat and fertilisers, which is in turn increasing the cost of imports for Pacific Island nations. High global inflation rates have also led central banks to increase interest rates, increasing debt servicing costs for low- and middle-income countries.[203]

Certainly, the AIFFP is taking some steps to reduce the risk of debt distress. As mentioned earlier, the decision to only give grants to sovereigns or state-owned enterprises in countries which the World Bank and IMF jointly assess as being at a high risk of debt distress (the Federated States of Micronesia, the Republic of the Marshall Islands, Tonga, Kiribati, Samoa, Nauru and Tuvalu) is a sensible move.

Even then, the wisdom of setting up a mixed grants and loans program should be questioned. Debt pushes countries – especially small, resource constrained island states towards an unsustainable model of resource extraction. And with interest rates on the rise, even concessional lending may become a burden.

For the other seven nations considered, the design of the AIFFP means that concessional finance (i.e. a mix of grants and loans) will be needed for the remaining countries.

A concern here is what types of projects will the AIFFP be forced to support in the non-grant AIFFP countries in order to continue the pipeline of projects. As is discussed in section 3.4, this may turn out to mean projects that are pushing a potentially destructive model of development on Pacific nations. And as section 3.5 discusses, it also severely limits the ability of the AIFFP to address climate change adaptation and resilience needs.

The pressure to find loan-worthy projects will only increase with the expansion of the loan component from $1.5 to $3 billion. This puts further pressure on the AIFFP to find 'bankable' projects.

[t]he wisdom of setting up a mixed grants and loans program should be questioned. Debt pushes countries – especially small, resource constrained island states towards an unsustainable model of resource extraction. And with interest rates on the rise, even concessional lending may become a burden.

Kulukulu Village, Sigatoka, Fiji

3.3 IS THE AIFFP DOING SUFFICIENT PROJECT DISCLOSURE?

As was noted in the introduction, the AIFFP has transparency as one of its operating principles. Additionally, the AIFFP has claimed that projects considered for investment are screened to identify opportunities to strengthen development impacts. The AIFFP purports to adhere to the following screening process:

- project preparation includes a detailed assessment of potential development impacts;
- project designs integrate recommendations made in these assessments;
- loan and grant documentation, as well as other partnership agreements, translate the development impact components of designs into deliverables; and,
- project monitoring and evaluation frameworks include measurable input, output and
- outcome indicators to monitor progress in these areas.[204]

These screening procedures may well be in place. However, at present, none of these documents are currently being disclosed publicly. It is therefore impossible to assess the robustness of these processes and impossible at present to hold the institution to account for the decisions it makes.

Indeed, much of the specific financial information for this report was found in answers to questions on notice through Senate Estimates. Some information and context was also gathered from an in person briefing with AIFFP staff.

The transparency issue is important especially in relation to social and environmental impacts for proposed projects. It is here that the lack of transparency for AIFFP projects can be compared to the disclosure that is routinely adopted by multilateral development banks such as the World Bank and the ADB. We have seen, for example, how much more material is available about projects also co-financed by ADB, such as the Tina River Hydro Project, as compared to the other AIFFP projects discussed in this report. Although there are still questions that need to be raised about that project, there is no doubt that the increased amount of project documentation has helped give civil society a deeper sense of the potential issues relating to that project.

Given that many of the projects contain a significant loan component, it is also very important the business case for these projects be publicly released — as was discussed in the previous section. This will look very different depending on whether the loan is to private sector or a sovereign borrower.

Jubilee Australia also has concerns about whether independent peer reviews of some of the large projects are being done and if so, whether the findings of these peer reviews are being adhered to. Further, historically a lack of transparency in development programs has been strongly associated with an increased likelihood of funds being misappropriated or mis-used.

In summary, the lack of disclosure of project document and assessment makes it hard, if not impossible, for affected communities to assess the risks and benefits of AIFFP projects. It also makes it very challenging for civil society organisations in Australia and in Pacific nations to assess the AIFFP.

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3.4 IS THE FOCUS ON INFRASTRUCTURE AND BANKABLE PROJECTS LEADING TO DISTORTED DEVELOPMENT OUTCOMES?

So far, the vast majority of financing committed by the AIFFP (by dollar value) is going to transport infrastructure – indeed around 80% ($868 million of a total of around $1.05 billion).[205] All of the largest projects by dollar value are in PNG and Fiji.

The design of the AIFFP means that most projects, especially the larger ones by dollar value, will need to have a significant proportion of loan finance. This means that they will need (a) not be sovereign loans to countries that are facing debt distress; and (b) have sufficient commercial prospects that they can deliver a return on investment mostly in hard currency in order to repay loans.

It makes sense in this context that most of the largest AIFFP projects will either be to PNG or to Fiji (the states with the largest GDPs) and that they will be skewed towards large infrastructure—including large transport infrastructure. This is because large transport infrastructure is likely to provide the sort of projects that can be bankable. As Jubilee Australia, ActionAid and Oxfam Australia reflected in a recent submission regarding the review of the Australian Aid program about the AIFFP:

> There are also challenges associated with identifying appropriate projects in the Pacific for loan financing, particularly where this is directed at the private sector. As well as offering sovereign loans, the AIFFP has the option of lending directly to the private sector using a market pricing approach. However, this requires a pipeline of private sector projects that have sufficient commercial prospects, will deliver a return on investment, are not in countries facing debt distress, and meet AIFFP's development and national interest criteria. This is challenging in the Pacific context. There is a risk that AIFFP's mandate to spend its loan allocation despite these challenges may lead it to finance projects that promote an extractive model of development (for example, projects that facilitate the extraction of minerals, oil and gas or palm oil), when that model does not deliver long-term poverty alleviation benefits and exacerbates the climate crisis.[206]

Serious questions remain. What exactly is the business case for these loan-heavy mega-projects in the transport and energy sector? Which industries/sectors in PNG, Fiji, and the Solomon Islands are they meant to support? Is the port development supposed to help with commodities trades? If so, which commodities? What will be the overall impact on the PNG economy? What will be the impact on the 85 to 90% of PNG's population that lives in rural areas and whose livelihoods are based on a subsistence economy? Which communities and sectors will the roads be servicing and how will they enhance community development?

Although details about the projects are scant, key transport projects such as the PNG ports upgrade and the PNG roads are both potentially associated with the extraction of mineral and forest resources, and with the expansion of agricultural monocultures, which is a driver of deforestation. Until further information is made available about these projects, it remains to be demonstrated that they are not going to be associated with the sort of resource extraction that has historically been demonstrated not serve the larger PNG economy, and that does harm to local ecosystems and local communities, not to mention planetary climate stability.

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3.5 CAN THE AIFFP PROVIDE ADEQUATE FINANCING FOR CLIMATE CHANGE ADAPTATION?

There is no question that Pacific Island nations need more finance for climate adaptation. The Pacific Islands region, as is well known, is at the forefront of the global climate crisis. Rising sea levels and erosion, extreme weather events including cyclones, king tides and tropical storms, are causing havoc in many communities. Ocean acidification affects marine life on which many Pacific Islanders depend, and the Pacific has seen the beginning of forced migration due to climate change.[207] Coastal erosion in the Solomons Islands has been so severe that it is literally 'stripping away at coconut plantations and even graveyards'.[208] The atoll states of Kiribati and Tuvalu 'may become entirely uninhabitable within the next 50 years'.[209]

Some of the financing of the AIFFP has gone to climate change mitigation efforts, i.e. to help improve Pacific nations in the decarbonisation of their economy — for example the Tina River Hydropower project and the PNG solar project are both renewable energy projects. Projects that help Pacific nations with their decarbonisation and energy transition are important; especially as the world moves away from fossil fuels, energy systems that rely on such fuels for energy are going to get more expensive and more obsolete.

The AIFFP steps towards renewable energy are therefore welcome, but this only addresses a small part of the challenge. Financing is urgently needed for infrastructure that can help Pacific nations and communities adapt to climate change. The most important impacts of climate change in the Pacific on infrastructure have been described as coastal inundation, more extreme weather and changes in precipitation.[210] At a basic level, these impact upon a wide range of infrastructure, incorporating energy, water, transport, and buildings.[211] However interdependencies also arise between infrastructure types, which creates wider socioeconomic impact. Financing for climate change adaptation is financing for climate resilience—and it is sorely needed if Pacific nations are going to be able to face the challenges ahead.

The operation of the AIFFP thus far indicates that climate resilience has received the least amount in funding or announcing funding: a meagre 'up to' AUD$5 million for the Nadi Flood Alleviation project. This is likely to change in future. In the October 2022 mini-budget, the development of the Pacific Climate Infrastructure Financing Partnership was announced, to be implemented by the AIFFP. It is intended to: 'increase support for medium and large-scale climate-related infrastructure projects that mitigate, adapt, and build resilience to the impacts of climate change' and 'green existing or future AIFFP investments by integrating climate-smart enhancements'.[212]

What this facility will look like in practice remains to be seen. The facility will be aligned with the Pacific Islands Forum's *Framework for Resilient Development in the Pacific* and the AIFFP has indicated it will consult broadly on it.[213] It is also positive to see the focus on adaptation as well as mitigation infrastructure, given the region's adaptation needs.

However, the question remains, is the AIFFP the right mechanism to deliver climate adaptation funding in the Pacific? Climate change adaptation and resilience projects are very unlikely to be 'bankable', and the design of the AIFFP means that most projects in most countries need to be exactly that. To date, AIFFP financing has only been available for large-scale infrastructure and not for the kinds of infrastructure likely to help the most vulnerable communities adapt to climate change.

This contrasts with the Pacific Islands Forum (PIF)'s own Pacific Resilience Facility, which focuses on low-quantum community-level disaster resilience measures. Projects envisaged to be funded by the PRF include community halls and shelters, jetties, sea navigation aids, ICT, early-warning systems, enhancing ecosystem resilience (ie: nature-based solutions), and small-scale community water and energy projects designed to withstand the impacts of climate change.[214] As the Prospectus for that Facility notes:

> Pacific Island countries, the Pacific private sector, and communities, acknowledged and identified the challenges involved with securing finance for small-scale/low quantum disaster preparedness projects. Analysis of regional climate finance and development support flows further confirmed that community-level investments have, to date, not been widely supported and financed by development partners.[215]

Given that the PIF has identified the need for more local-level financing, it is unclear why so much budget funding is directed towards the AIFFP which invests in similar large infrastructure to the ADB and other multilateral development banks, rather than a more targeted facility like the PRF.

CONCLUSION AND RECOMMENDATIONS

The AIFFP, now a $4 billion facility, is over three years old and has committed around a quarter of its grant and loan allocation for infrastructure in the Asia Pacific region. It is therefore timely to question whether it is achieving development objectives in the region, and whether it should continue to be a significant component of Australia's aid program.

As the above analysis has shown, while the AIFFP has invested in several projects that have the potential to yield economic benefits, it is clear that the selection of some AIFFP projects is being driven by geopolitical considerations, including seeking to establish Australian influence in the Pacific as a counter to Chinese influence. The AIFFP is falling well short when it comes to public disclosure of project documents and its stated commitment to transparency, especially when it comes to the business case for projects and for social and environmental impacts.

At present it is hard to assess whether the AIFFP will increase debt distress to those nations who are receiving concessional loans, but this remains a risk in a region facing increasing debt levels. The AIFFP's set up, including its need to provide finance mostly through loans, results in it pushing most of its financing to 'bankable' projects. This risks pushing the AIFFP towards financing development projects that are extractive in nature and not of benefit to the people of the recipient countries. This particularly plays out in the climate area, where it is questionable whether the AIFFP will be able to support meaningful climate adaptation for vulnerable communities, arguably the most pressing financial need facing the Pacific today.

Recommendation 1: Halt further expansion of AIFFP

The Government should halt any further expansion of the AIFFP until a substantive review and evaluation of its development impacts is undertaken, considering whether its projects are helping broad-based and inclusive development, poverty alleviation and the capacity to meet the needs of Pacific nations on climate change, or whether in contrast projects are pushing an extractive model of development.

This review should include participation from civil society groups in Australia and the Pacific.

Should this review not find evidence of contribution to inclusive development and poverty alleviation, the AIFFP should be redesigned to ensure it can achieve this.

Recommendation 2: Disclosure

The AIFFP should take the following steps to improve its disclosure and transparency:

- It should take the same approach to disclosure as the multilateral development banks such as the ADB and the World Bank when it comes to social and environmental assessments;
- For projects with a loan component to a private entity or a state-owned enterprise, a business case should be released that demonstrates the rationale by which revenues will be raised to repay the loan;
- For projects that lend to sovereign borrowers, it should disclose how the project is going to increase GDP and explain how that AIFFP funds will not increase debt distress for recipient countries;
- The AIFFP should include a detailed annual report.

Recommendation 3: Aid Program

- If the AIFFP is continued in any way, funding for the program should be additional to the aid budget, and should not take any funds away from the aid budget.


Honiara, Solomon Islands

APPENDIX A: INTEREST RATES

Table: Interest rates for loans for projects announced by the AIFFP

Project	Loan amount (AUD)	Loan amount (USD)	Interest rate type	Interest rate	Tenor
Palau Solar Plant Investment	$25.7 million	$18.0 million	Fixed	4.75 per cent	17 years
Palau Submarine Cable Branch System	Tranche 1: $2.5 million	Tranche 1: $1.75 million	Fixed	1.836 per cent	10 years
	Tranche 2: $10.2 million	Tranche 2: $7.1 million	Fixed	2.55 per cent	19 years
Papua New Guinea Laitim Hauslain Project	$73.6 million	$51.5 million	Floating	LIBOR + 0.8 per cent	24 years
Papua New Guinea Ports Infrastructure Investment Program	$521.4 million	$365.0 million	Floating	LIBOR + 0.8 per cent	24 years
Wau and Sepik Highways	$61.6 million	$43.1 million	Floating	LIBOR + 0.8 per cent	23 years
Tina River Hydropower Transmission System	$15.1 million	$10.6 million	Fixed	3.05 per cent	24 years
Airports Fiji	$6.5 million	$10 million (FJD)	Fixed	4.25 per cent	5 years
Fiji Transport Infrastructure Restoration Project	$57.1 million	$40.0 million	Floating	SOFR + 0.93 per cent	15 years (3 year grace period)

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