



## INVESTMENT CONCEPT: BUILDING PACIFIC CAPACITY (BPAC)

<b>Investment Concept Title:</b> Building Pacific Capacity (BPAC)	
<b>Start date:</b> 1 June 2021	<b>End date:</b> 30 June 2025 (option to extend to 2029)
<b>Total proposed DFAT funding:</b> Base funding up to \$8 million over four years (\$16 million with +4 option) Note project and activity costs are approved separately by individual program funds.	
<b>Overall Risk Profile:</b> Medium <b>Risk</b> Medium <b>Value</b> Medium	
<b>Proposed design pathway:</b> ADAPT Trial – Design-Implement	
<b>Concept endorsed by AGB:</b> Endorsed at 11 December AGB meeting	
<b>Quality Assurance:</b> Internal review	

### A. Development Context (What is the problem?)

This investment concept (ICN) note outlines a mechanism to provide responsive, flexible implementation support for DFAT governance and stability initiatives in smaller Pacific countries. It is primarily focused on providing technical and enabling support to Kiribati, Nauru and Tuvalu. It will also provide access on an as-needs basis to other smaller Pacific island countries and posts: the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI), Palau, Niue, or Tokelau. The mechanism will provide non-ODA support to the Cook Islands, and other countries which graduate from ODA eligibility over the course of the investment. It will retain flexibility to enable other small Pacific posts to engage services. In the above countries, the mechanism will succeed the Pacific Technical Assistance Mechanism Phase 2 (PACTAM2), which finishes on 30 June 2021.

**Smaller Pacific countries face intense development challenges, while also having a constrained ability to respond.** These ‘large ocean states’ face, to varying degrees, structural barriers such as remoteness, human resource limitations, narrow economic bases, vulnerability to climate change, and few natural resources (outside of fisheries, in often vast exclusive economic zones). Three Pacific island countries that feel these challenges most keenly are Kiribati, Nauru and Tuvalu, for a combination of reasons unique to each country, yet with common themes. For example, these countries – even when compared to other smaller countries such as Tonga or those in the North Pacific – have limited uptake and opportunity for economic migration; some of the highest population densities in the world; limited prospects for subsistence; and youth population bulges.<sup>i</sup> These fundamental constraints create compounding economic challenges: for example, their public administration has limited absolute capacity due to size, but simultaneously high resourcing needs compared to their population; and government service delivery incurs high cost, but by nature has a narrow economic or taxation base to draw on.<sup>ii</sup>

### B. Strategic Intent and Rationale (Why should Australia invest?)

Australia’s interests in a stable, prosperous and secure Indo-Pacific are protected by supporting our remote neighbours. In the 2017 Foreign Policy White Paper, Australia committed to stepped-up engagement for a more resilient Pacific, and helping the Pacific respond to the region’s fundamental challenges through substantial long-term investments. This was reinforced by our commitment, in *Partnerships for Recovery*, to support the Pacific to respond to COVID-19. Smaller Pacific countries are particularly fragile, and vulnerable

to external shocks. COVID-19 has increased their isolation, and exacerbated risks to health, economic and governance prospects – and therefore threatens the region’s stability. Recognising the unique vulnerabilities of the Pacific, and the smaller countries in particular, our development assistance to Kiribati, Nauru and Tuvalu has increased in 2020-21. As well as signalling a high degree of need, this increase will build on and expand our strong and deep partnerships with these countries, ensuring Australia remains a close partner of choice.

**Improving governance outcomes underpins ongoing stability in Kiribati, Nauru and Tuvalu, and supports development efforts in other priority sectors, such as health and education.** Governments of smaller Pacific countries, supported by the Australian development program and other partners, face daunting challenges in terms of their economic geography, sustainable development paths, the reach and capacity of the state, and some are amongst the most aid-dependent countries in the world. Through their own development visions, all countries recognise governance, accountable systems, and sound public administration are fundamental to achieving development outcomes and the continued delivery of essential services. Recognising the importance of these foundations to our partners, stability is a core pillar of *Partnerships for Recovery*. Themes such as essential services, governance, and gender equality are a central feature of COVID-19 Development Response Plans for Kiribati, Nauru and Tuvalu.

**Due to absolute limits on capacity and specialization, the provision of technical assistance (TA) is a vital modality in smaller countries to continue to progress important mutual development priorities.** TA contributes to fundamental governance and stability, such as in-line CEO positions at public utilities, and essential roles in key central policy ministries. In smaller Pacific countries our development programs have a narrower range of partners to draw on, and we frequently rely on delivering with and through government systems that are stretched in many directions. Our development programs in Nauru, Kiribati and Tuvalu (and in other smaller countries) currently rely heavily on technical assistance to varying degrees. In Nauru, TA is a vital safeguard enabling our program to deliver through partner government systems.

**A flexible TA mechanism for Kiribati, Nauru and Tuvalu is a proven and effective model to advance Australia’s mutual interests with these smaller countries, and achieve development outcomes.** PACTAM2 is the latest iteration of a decades-long Australian initiative deploying long-term technical advisers (TA) to Pacific island countries. A rapid management review in 2017 and country-level program monitoring and evaluation demonstrate PACTAM2’s flexibility and responsiveness has been highly valued by partner governments; delivered effective development outcomes, particularly in smaller country contexts; and offers good value for money comparable to other options available to Australia. A flexible TA mechanism is increasingly relevant in the COVID-19 context, where needs are continually emerging and can change rapidly; and could also be more tailored to respond to enduring, ongoing needs of smaller Pacific countries.

**In Kiribati, Nauru and Tuvalu, our development ambition is hampered by implementation realities – the mechanism will respond to this challenge by expanding enabling and implementation support.** In delivering Australian assistance, our programs often face the same contextual challenges as our partners: low economies of scale, high delivery costs, and finite in-country capacity (including more frequent staff turnover at posts). This mechanism will build on and improve the successful PACTAM model to provide more focused, fit for purpose implementation support for our development programs in Kiribati, Nauru, Tuvalu and other smaller Pacific countries. This is a natural progression as these countries have, over time, become the primary users of PACTAM2.

**The Building Pacific Capacity (BPaC) mechanism will deepen and broaden our bilateral relationships.** This will be achieved through a more nimble and responsive development program; facilitating learning across our smaller island partnerships; identifying and leveraging partnerships with relevant government, civil society, private sector and regional institutions; and developing a pool of high quality personnel familiar with smaller Pacific countries. Advisers with deeper contextual experience and longer-term relationships will be able to offer fit-for-purpose and practical support, promote learning, and support policy dialogue. The governance model of the mechanism will be strengthened in order to ensure this valuable expertise can be drawn on

and harnessed by the Australian Government to deepen our understanding of the development context, and strengthen our programming. The mechanism will expand flexible enabling support and strategic management support to scale-up implementation options that can support post and partner development efforts. It will encourage and harness broader partnerships and networks that can provide valuable support to smaller Pacific countries. The design will include efficient and effective options to provide services such as administrative support for Australia Awards, grants management, and project-based support. Providing high quality enabling support will mean our development assistance can better respond to stability and governance priorities, and ultimately strengthen positive impacts for communities in these Pacific countries.

### C. Proposed Outcomes and Investment Options (What?)

**Goal:** The investment will provide Pacific posts in smaller countries with a broader suite of flexible, fit-for-purpose program implementation options that will more effectively support governance and stability development outcomes agreed between Australia and each partner government. It will enable small posts to have more capacity to pivot and respond flexibly to emerging needs, and deliver on COVID-19 economic and health recovery in line with respective COVID-19 Development Response Plans, and beyond.

**End of program outcomes:** Preliminary outcomes (to be refined during design) therefore cover both *effectiveness* and *efficiency*:

1. Australia's development programs in Kiribati, Nauru and Tuvalu (*and other countries, as agreed*) more effectively contribute to governance and stability development outcomes.
2. The mechanism supports enhanced partnerships between Australia and Kiribati, Nauru and Tuvalu (*and other countries, as agreed*).
3. Flexible, fit-for-purpose technical assistance and enabling services support development outcomes in participating Pacific island countries.
4. The mechanism provides efficiencies as compared to separate programs in the same countries.

**Budget:** The base cost of the investment (for management costs) is \$8 million over 4 years, with an option to extend for a further 4 years (\$16 million total if the option is taken up). The base cost will be drawn on a proportionate basis from participating programs funds, primarily Kiribati (KI1), Nauru (NA1) and Tuvalu (TV1).

Note there are two separate components of mechanism costs:

- *Management costs* up to \$2 million per year: this forms the base cost of the investment. It will fund retained functions and multi-country enabling support, such as M&E. Financial and policy approval for these components will be completed jointly by Canberra and posts.
- *Throughput funding*: specific project-based and activity funding requested by bilateral programs in line with country-level priorities and outcomes (as determined in each country program's strategic documents and sector designs). Financial and policy approval for these components will be the responsibility of each bilateral program area (unless required to be jointly with Canberra as per APG), and does not form part of the overall investment commitment. Depending on utilisation, it is estimated that the mechanism might manage up to \$8 million per year of bilateral projects requested by program funds.

In total the mechanism could be expected to manage funding of up to \$40 million over four years (\$2 million in management costs, \$8 million of activity funding per year).

Estimates for the new mechanism are based on:

- Increased management costs commensurate with expanded services and increased strategic oversight and thematic support (outlined in section D). It remains value for money given the high cost and complexities of delivery in smaller country contexts, expected strategic and development benefits from consolidating and strengthening our investments, and the recognised need for increased implementation support to deliver ambitious, scaled-up development outcomes.

- Increased utilisation reflecting greater scope and flexibility of services, and tailored support for smaller Pacific country contexts. It is possible that utilisation could increase beyond this estimate if small post and program area demand increases.

**Supporting smaller Pacific countries:** Our development programs in these contexts need strategic, responsive support given the relative challenges and diversity of program portfolios, in-country resourcing, and available implementation options.

Over the period of PACTAM2, larger bilateral programs (such as Fiji and the Solomon Islands) increasingly preferred other mechanisms to engage TA, including their own country facilities. Utilisation trended downwards from 2015, however has remained steady since 2017, with reduced use from the Solomon Islands program offset by increased use from smaller bilateral programs (under \$25 million), which are now the primary users of PACTAM2.<sup>iii</sup> As at July 2020, of the 32 active PACTAM advisers, 81 per cent (26 advisers) were deployed to Kiribati, Nauru, Tuvalu or the North Pacific (Nauru 12; Kiribati 5; Tuvalu 5; FSM 3; RMI 1). The remaining six advisers were in Samoa and Tonga (1 Samoa; 5 Tonga); these posts are also moving toward country-level models that are expected to be preferred to PACTAM.

The shift in PACTAM2 utilisation by smaller posts is driven by two key factors. Firstly, the need for and relevance of in-country TA and in-line advisers in these capacity-constrained contexts to deliver development outcomes, and underpin core government functions in areas of identified need. Secondly, human resourcing constraints at posts (see Table 1). A-based staff in these locations oversee diverse portfolios with challenging implementation conditions. The most remote posts have more frequent turnover of posted staff than other Pacific posts, such as Apia and Nuku'alofa, and longer absences from post due to poorer connectivity and lack of local services. Flexible posting conditions are important to attract and retain quality staff. However, lack of continuity makes it harder and more time consuming to plan, design and implement programs: a four-year investment could change hands upwards of six times from planning to completion.

Kiribati, Nauru and Tuvalu are priorities as they present particular scale and resourcing challenges. Nauru and Kiribati are the largest Pacific programs delivered by Australia-based staff on posting cycles as short as 12 months. Following devolution from Suva post in February 2020, Tuvalu is the largest program delivered by a single-person post. COVID-19 highlighted how fragile our footprint can be as borders and connectivity decreased, which severely impacted our in-country resources and ability to rotate or supplement staff. The Nauru program relies the most heavily on PACTAM TA to deliver its support: for example, PACTAM advisers comprise the majority of Australia's investment in public financial management (the remainder is an annual contribution to the Nauru Trust Fund).

**Table 1: Smaller Pacific countries by Australian ODA allocation and post resourcing**

	2020-21 bilateral ODA	Posting conditions	A-based (estimated development FTE)
<i>Samoa</i>	<i>\$27.0 million</i>	<i>3 years</i>	
<b>Nauru</b>	<b>\$25.5 million</b>	<b>1yr + 6 months + 6 months</b>	<b>2.0</b>
<b>Kiribati</b>	<b>\$24.2 million</b>	<b>1yr + 6 months + 6 months</b>	<b>3.5</b>
<i>Tonga</i>	<i>\$20.1 million</i>	<i>3 years</i>	
<b>Tuvalu</b>	<b>\$8.4 million</b>	<b>1yr + 1yr + 1yr</b>	<b>0.5 (HOM Funafuti)</b>
FSM	\$5.0 million	2-4 years	0.75
RMI		1yr + 1yr + 1yr	Majuro opening 2021
Palau*		1yr + 1yr + 1yr	0.4 (HOM Koror)
Niue	\$1.4 million	1yr + 6 months + 6 months	0.5 (HOM Alofi)
Tokelau	\$0.4 million	N/A (no post)	N/A (Wellington/CBR managed)
Cook Islands	<i>Non-ODA: \$2 million</i>	1yr + 1yr + 1yr	0.5 (HOM Rarotonga)

\*Note Palau's potential ODA graduation.

**Governance and stability priorities:** Australia's portfolio of governance and stability investments differ in each context. Contributing activities span public financial management, economic governance, policy reform, law and justice, infrastructure, gender equality, disability inclusion, climate resilience, security, and support for the continued delivery of education, health and public utilities. In Nauru, Kiribati and Tuvalu there are limited opportunities to narrow our focus, given we are the largest development partner, and there are relatively few others. Given the multi-sectoral scope of Australian support to stability and governance partnerships, continued ability to respond flexibly across sectors will be maintained.

A governance and stability mandate focuses the mechanism on the key gaps where posts may not have broad programming or partner options, while providing sufficient flexibility to respond to future needs. Under PACTAM2, advisers work in diverse sectors including health, education, governance and infrastructure. The new mechanism will need to have access to a broad range of partnerships and networks in order to be able to provide support in any new and emerging areas. Program areas and posts will be able to draw on enabling support from the mechanism for activities that are in line with partner government priorities, Australian interests, and country-level governance and stability designs, goals and outcomes.

#### **D. Implementation Arrangements and Delivery Approach (How will DFAT deliver it and engage?)**

External factors – including COVID-19, opening of new, single A-based posts, the devolution of the development program to Funafuti, and growing development programs to the Pacific – have prompted a reassessment of the support our smaller posts need. Continuing the status quo has an opportunity cost as it does not address a range of broader issues with delivering Australia's development program in smaller country contexts. Possible arrangements to deliver TA, capacity building, focused projects and enabling support include:

- *Posts directly engage and manage TA:* existing and future advisers (and a range of other enabling activities) are directly managed by posts rather than a managing contractor. While this removes management costs, it is highly resource-intensive (FTE commitment at post would outstrip existing A-based and LES) and risks programs not being delivered. It is particularly unviable at small posts.
- *Continue PACTAM in its current form alongside bilateral sector programs (status quo):* PACTAM2, delivered by a managing contractor, has been effective and efficient in delivering demand-driven, partner government-owned TA. It is also cost effective and efficient. However, the model also has weaknesses. Its remit is narrow, and there are lost opportunities to broaden efficiencies and economies of scale. The breadth of sectoral deployments has made it challenging to develop strategic coherence across TA, which has been exacerbated by post resourcing constraints, suggesting that the mechanism could provide enhanced support to manage this risk. In addition, without addressing more fundamental challenges, decreasing utilisation of a PACTAM model could undermine value for money and effectiveness.
- *Sector- or country-specific mechanisms:* It is possible for each bilateral country program area to plan, design and implement a consolidated facility/mechanism of the type that is now preferred in larger programs (such as Fiji and the Solomon Islands). The remoteness, scale and resource constraints of relevant posts would make this option challenging, and offers more limited opportunity for efficiencies. It would require separate FTE commitments at each post (at least 1.0 plus DHOM/HOM management) and Canberra-based SES oversight for each facility. With higher management requirements to respond to facility-related risks, it would be harder for posted staff on short posting cycles to provide sufficient oversight. Expected outcomes such as enhanced partnerships, shared regional learning and economies of scale would be undermined. Sector-based mechanisms or facilities across the countries remain an option, and one being explored for education and health across Kiribati, Nauru and Tuvalu. The mechanism will provide useful lessons on delivering programs across multiple countries that can inform planning for other sector-based approaches. The user-pays approach provides the most sensible mechanism for a mechanism providing services to much smaller country programs (\$5 million and under).
- *Preferred option:* Design a new mechanism or facility to provide enabling support, including TA, to development programs in identified smaller Pacific countries and small posts. This option builds on the

success of PACTAM2 and its predecessors while providing broader, additional support where needed. This would be expected to increase costs (in proportion to the services provided) and increase management resourcing, expected to be 0.5-0.8 FTE in PZB + Director/AS oversight (0.1 FTE). Increased centralised management is offset by increased value for money through greater economies of scale, and more streamlined administrative processes for multiple enabling services, currently either managed directly by post or through multiple programs. It is expected to have no net impact on FTE requirements at posts, with benefits expected in streamlining processes, additional implementation and technical support offset by an increased role for posts in strategic country-level mechanism management. Efficient enabling support will support development outcomes in participating Pacific island countries and free up post resources to engage at the strategic level. As a number of our Pacific development programs are growing (with increased budget allocations and higher expectations of the outcomes to be delivered in the Pacific Step-up context), it is appropriate to invest more in managing contractor-provided services that would increase available development expertise and implementation options at post, bolster the capacity to respond to emerging needs, and mitigate against the risk of overwhelming partner government systems.

#### Elements to continue from PACTAM2

- **User-pays model:** In the first phase of PACTAM the Pacific regional program funded management costs, while bilateral program funds funded costs for advisers engaged in their country program. In PACTAM2, management costs were also shared proportionately across bilateral program funds. This model provides the most flexibility for bilateral programs, incentivises good contractor performance, and mitigates the risk of changes to Australian ODA levels. It can also enable flexibility in future to provide services to other smaller country programs, improving overall efficiencies for Australia's development assistance.
- **Providing TA that is demand-driven and, if working in-line, has strong buy-in from partner governments:** This is a proven model. TA is often essential for partner government capacity, and many advisers have achieved development outcomes that far outweigh the relatively modest investment. However importantly, the new mechanism will provide a broader range of advisory and other inputs (see below – new elements) and strengthen and tailor performance management processes.

#### Elements to strengthen

- **Strategic oversight, monitoring and evaluation:** PACTAM2's outcomes are process-oriented, with development contributions captured through monitoring outcomes and goals at the project, sector and country level. This is logical and consistent with the lean profile of PACTAM2; but has had mixed success in smaller country contexts, including due to fundamental M&E and data challenges, such as limited available sectoral data. In order to be more effective and tailored to the smaller Pacific countries, the new managing contractor will scale up support to program areas and posts on strategic issues, TA performance management, and monitoring, evaluation and learning. Relieving administrative burden for DFAT staff will also contribute to strengthened strategic management.
- **More flexible advisory inputs:** A recommendation of the PACTAM Management review.<sup>iv</sup> Program areas and posts, with limited human resources and wide sectoral coverage, identify a need for ongoing, more flexible advisory inputs beyond the framework offered by PACTAM. This could include advisory or research inputs for post and program areas which support country or regional development objectives; engagement of teams for specific projects or activities; and remote advisory options, drawing on lessons learned in COVID-19. Currently posts draw on a wide range of mechanisms to engage TA where it does not fit within PACTAM parameters. Having a single point of contact to engage advisers and support capacity building/training would streamline processes for posted staff; provide efficiencies in high-cost delivery settings; and enable more fit for purpose advisory inputs by developing a resource pool familiar with the constraints and context of smaller island countries. Flexibility of performance management processes would also enable TA to be more responsive to both DFAT and partner needs.
- **Administrative arrangements:** Current arrangements broadly involve a deed of standing offer, with service orders completed for each adviser's recruitment and placement; and the adviser's mobilisation and ongoing support (two separate services orders). There is scope to streamline administrative

arrangements, including to enable more flexible TA. For example, developing a tailored, fit-for-purpose service order (or sectoral service order) for each post or sectoral area at post, with services then requested via streamlined tasking notes.

#### Potential new elements

- **Provide standardised administrative services for civil society and other grants management (Direct Aid Program), and Australia Awards administration<sup>v</sup>:** These administrative functions are a common enabling support need across Pacific small posts. Consolidation would reduce the management burden at posts to separately contract individual providers, and provide economies of scale not otherwise available in remote, smaller-country contexts. Services would be provided on an opt-in basis for posts.
- **Support for short-term training/education mobilisation across multiple countries:** Program areas have identified a gap for services to deliver short-term training and education courses to smaller Pacific country participants, in Australia, third countries, or within the sub-region. In many cases these opportunities have not been explored, as even small delegations would be significant drain on partner governments; however, pooling opportunities across multiple participating countries could minimise disruption, promote shared learning, and contribute to development objectives. This program could provide a mechanism for stretched posts to implement and support intense logistical activities like these.
- **Project management:** Human resourcing constraints and broad sectoral span limit the ability of posts to pro-actively drive and monitor coherent projects that respond to Australia and partners' priorities. This is exacerbated by the nature of smaller Pacific island countries, which often require implementation through multiple, small-scale local projects, rather than consolidated, larger investments that could overwhelm partner systems. In response the mechanism could provide project-specific services, such as small-scale procurement of goods, contract management, partner engagement, and oversight, M&E and reporting.
- **Provide support for strategy development and implementation; technical sectoral support; and/or cross-cutting priorities:** There would be significant benefits in pooling long-term advisory, strategic and technical support across participating programs. Benefits would be expected both in efficiency and in development effectiveness, including enabling access to advisers with deep knowledge and existing relationships. The following areas have been identified as possible common needs for additional retained managing contractor support (on an opt-in basis):
  - Strategy development, strategic support services (e.g. secretariat functions), and supporting research, reporting or planning
  - Technical sectoral support in areas of commonality, such as governance and public financial management; and key areas for potential revenue and growth, such as fisheries, tourism and regulation of deep sea mining
  - Gender programming and mainstreaming support (in consultation with the new regional gender program design, underway)
  - Disability inclusion support
  - Monitoring, evaluation, research and learning (including designs, evaluations and reviews of other programs within the broader portfolio)
  - Administrative support for program risk management and safeguards.
- **Stronger role in brokering and harnessing partnerships and networks:** Central to providing flexible support to smaller Pacific countries, and responding to capacity constraints, the mechanism should broker and sustain a broad range of partnerships and networks to be able to respond to emerging needs. This should also be focused on developing strong, long-term linkages between smaller Pacific countries and Australian institutions to more effectively share learning.
- **Flexible tasking options for ad-hoc activities:** Program areas, posts and partner governments may identify other needs in response to new or unique issues. The mechanism should have the ability to respond to

ad-hoc requests where it is in line with governance and stability priorities. Examples might include small-scale infrastructure projects, or procurement and delivery of essential items to one or multiple countries.

- **Ability to deliver non-ODA (Departmental) funding:** Cooks Island graduated from the DAC List of Official Development Assistance recipients in 2020. Australia has allocated \$8 million over four years for Cook Islands following its graduation from ODA eligibility (\$2 million per year over four years from 2020-21). Palau is scheduled to graduate in 2022, and other countries may graduate over the investment period. There is a need for the mechanism to deliver non-ODA funded activities to relevant countries.

**Governance arrangements** for the new mechanism will be established commensurate with the scope of services agreed in the design. As compared to PACTAM2, both DFAT (led by the geographic division) and the managing contractor will play a stronger role in providing strategic oversight and direction to the mechanism, including AS-led strategic meetings and regular EL2-led operational and strategic guidance. There will be systematic connection between in-country governance mechanisms and overarching mechanism governance. Governance will be supported by the mechanism, such as through secretariat and administrative support. Management contracts and any centralised, retained functions would be overseen by the geographic area (PZB).

Posts would continue to oversee in-country elements, building on existing governance mechanisms (that may be strengthened through support from the mechanism, as agreed by each post). The connection between posts and TA and other services will be strengthened to ensure more systematic coordination of development efforts. This assumes that similar resourcing continues at posts, and continued dedicated resourcing (with sufficient development capability) is available in PZB.

Partner governments will continue to have a strong role in identifying, selecting and managing in-line advisory positions. Partners' specific roles in other mechanism services will be determined through the design. All activities will be in line with mutually-agreed development priorities, as outlined in *COVID-19 Development Response Plans* and any subsequent strategies.

**Coordination:** The mechanism will leverage, and closely coordinate with, a number of other internal and external processes and policies:

- *Education support for Kiribati, Nauru and Tuvalu:* A separate team will be completing conception and designs for education sector support in Kiribati, Nauru and Tuvalu. This will include bilateral programs and consideration of education support that could be delivered across the three countries to improve efficiency and effectiveness. In particular, Australia Awards administration and short course delivery will need to be closely coordinated with this process.
- *Regional gender program transition:* The next 18 months will see a transition period for regional gender support. A new design process is underway for the next phase of support beyond *Pacific Women Shaping Pacific Development*. Posts in smaller Pacific countries have noted a reliance on existing regional support through *Pacific Women*. This mechanism's design will be closely coordinated with the gender design process to ensure the needs of Pacific small posts are met and to share learning between the processes.
- *Bilateral design and program planning:* The design will engage closely with posts to ensure that future programs can be supported through the mechanism if required. This could include support for design processes if identified as a need by posts. Key design processes include a new public financial management support program in Nauru, and pipeline planning for new programming in the North Pacific, Cook Islands and Niue.
- *Regional mechanisms and shared learning:* The design and mechanism should leverage Pacific regional frameworks and agencies such as the Pacific Financial Technical Assistance Centre (PFTAC), Pacific Institutional Linkages Program (PILP) and Pacific Regional Infrastructure Facility (PRIF). It should link closely with other regional, Australian-supported programs including the PACER Plus Implementation Unit and Australia Infrastructure Financing Facility for the Pacific (AIFFP). In line with partner government priorities, the mechanism should promote and enable shared learning across similar country contexts, including within and across Micronesia (Kiribati, Nauru, and US Compact States FSM, Palau and RMI), Polynesia, and Realm countries.



- *Collaboration with other partners:* New Zealand (MFAT) currently fund a PACTAM2 adviser in Kiribati through a delegated cooperation arrangement (DCA) with DFAT, and will be an important partner in all countries, including potentially providing co-funding opportunities to support more joint development efforts. Other key partners in governance and stability include the World Bank and ADB; the European Union; and the US, Japan and Taiwan.

## E. Risks

A Risk and Safeguard Assessment has been completed. The investment has been assessed as **medium** risk based on flexible delivery of TA. The scope of other enabling services will be determined progressively (responsive design), therefore the design will establish a process that will ensure ongoing identification and management of risk, and appropriate safeguard screening to ensure child protection, displacement, indigenous peoples and asbestos requirements are met.

Key strategic risks for the investment are:

- **Program implementation risks:** there are a range of implementation risks, the most significant of which include the impact of COVID-19 and other health and security concerns; poor performance of advisers and activities; and fraud by advisers or other partners to the program. These risks are common to Australia's development programs and can be appropriately managed at the program level.
- **Strategic drift and/or poor alignment with country or partner government development objectives:** As a flexible mechanism servicing multiple countries, not managed directly by posts, and allowing more flexibility for tasking, there is a risk that implementation could lose focus on country and partner priorities, and/or experience strategic drift. Both risks will require sufficiently robust policy dialogue with partner governments, country-level designs, strategic DFAT FTE commitment, and mechanism governance arrangements to respond. The additional strategic and M&E support to be provided by the mechanism, as well as higher resourcing commitment and oversight from the geographic area, is also expected to mitigate these risks.
- **Poor contractor performance, with heightened impact due to concentration:** Expanding the mechanism's scope will concentrate services under one managing contractor in multiple countries. Poor contractor performance would therefore have a negative impact across multiple programs and countries. The mechanism design minimises this risk, as maintaining a user-pays model with narrow base costs will incentivise good contractor performance. In addition, parallel work on sector-based facilities (e.g. in education in Kiribati, Nauru and Tuvalu) will provide alternatives to deliver programs in those countries (the larger of the proposed cohort).
- **Low utilisation:** The user-pays model leads to the risk that the mechanism has low utilisation and becomes unviable and not cost effective (for either DFAT or the managing contractor). This could result from a range of factors including perceived or actual poor performance, posts having low awareness of services available, political decisions leading to reallocated ODA (across countries or sectors), limited ability to travel (e.g. due to COVID-19 restrictions or lack of flights), or limited engagement from partner governments. The design will work closely with posts to identify future needs and will retain flexibility to pivot in response to policy, program or implementation settings, including remote delivery options.
- **Efficiency gains are not realised:** Australia's development programs in smaller Pacific countries operate in high-cost delivery environments. Even with the consolidation proposed under this design, economies of scale may still be insufficient to provide value for money. In line with the facilities guidance note, a value for money analysis will be conducted as part of the design. However it should be noted that efficiency will also be considered in terms of the ability to better share lessons, access fit-for-purpose and practical advice and support, and enable strengthened collaboration across participating countries.
- **Risks related to facility design:** As currently configured, PACTAM2 is not considered a facility<sup>vi</sup>, however the expansion of services, flexible and responsive design, and incorporation of development outcomes under the new mechanism may mean the new program has similar risks to a facility, including those identified above such as concentration and lack of strategic coherence. Appropriate quality assurance and

risk management will be incorporated into the design and design process. This will include consideration of the Facilities Performance Assessment Framework (PAF), and incorporation of lessons learned from DFAT facility design and management.

- **Gap in service between PACTAM2 and new design:** PACTAM2 will conclude 30 June 2021, allowing only around 7 months to procure, contract and mobilise a service provider. The design-implement pathway will allow continuity for existing PACTAM2 TA in participating countries, with a provider expected to come online and deliver limited activities (TA only) from Q2 2021, while simultaneously overseeing the design process. Where TA has been recruited through an open recruitment process, they will be novated to the new mechanism prior to 30 June 2021.

## F. What are the next steps?

The mechanism will go to market as a **Design-Implement through the ADAPT pathway**, based on this concept note and using the existing PACTAM2 Scope of Services as a starting point for initial TA services. Where possible, existing PACTAM2 advisers will be novated to the new mechanism.

The design to strengthen and add to the scope of services will be **DFAT-led**. The contractor (under DFAT direction) will appoint a team leader for the design. DFAT will contribute an officer to the design team and will be responsible for seeking all necessary approvals and quality assurance. The team will require experience in design, governance, and resource-constrained contexts, preferably smaller Pacific countries. Additional technical inputs will be included in the team to ensure coverage across gender and social inclusion; M&E; economic governance and PFM; risk management and safeguards; and value for money assessments. Design costs are estimated at \$100,000 to \$200,000. It is expected that the majority of consultations will be conducted remotely, with some domestic and international travel if conditions allow.

Following approval of the concept note, the next steps are:

- Concept and statement of requirements go to market for a Design-Implement contract (Q1 2021)
- Industry briefing and consultation (Q1 2021)
- Contractor engaged, design commences, TA services are delivered (Q2 2021).

### Quality Processes

In line with the Aid Programming Guide:

- The Investment concept note (ICN) was
  - quality assured by a DFAT reference group (comprised of participating posts, ACD, and other sectoral areas);
  - endorsed by the AGB; and
  - approved by AS PZB (financial delegate for management costs), in consultation with posts.
- After contracting, for the design:
  - the internal DFAT reference group will provide ongoing advice on the design process;
  - the final design document will be independently appraised and peer reviewed;
  - the design team will consult with ACD to determine if the design will be included on the list of facilities; and
  - the design document will be approved by AS PZB, in consultation with posts.

Note the relevant financial delegate for the design process is based on estimated base/management costs (\$16 million), while the design quality assurance pathway is based on the total estimated value of the investment (\$80 million). Participating bilateral program funds will be responsible for seeking relevant policy and financial approvals for user-pays commitments on bilateral designs and funding throughput for the mechanism.

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<sup>i</sup> Curtain R and Dornan M 2019. [A pressure release valve? Migration and climate change in Kiribati, Nauru and Tuvalu.](#) Development Policy Centre.

<sup>ii</sup> Janes L 2019. Economic disadvantages of Small Island Developing States. DFID Discussion Paper.

<sup>iii</sup> Rapid Management Review PACTAM Phase 2, May 2017, p.7. Adviser numbers have remained at similar levels since the review despite Solomon Islands no longer having any active PACTAM advisers.

<sup>iv</sup> Ibid p.19. The review recommended DFAT consider utilising PACTAM2 for DFAT's own advisory needs, and identified it was largely within the scope of the existing mechanism.

<sup>v</sup> In the priority countries, Australia Awards are currently administered: Kiribati, directly by post; Nauru, by a managing contractor; and Tuvalu, by the Fiji Facility.

<sup>vi</sup> PACTAM2 is not included on the list of DFAT facilities.