

# COVID-19 Response Package Design Framework



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**ANNEX 3: PROGRAM LOGICAL MODEL AND RESULTS CHAIN**

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## A: PACIFIC COVID-19 RESPONSE PACKAGE

Start date: November 2020

End Date: June 2022

Total proposed funding allocation: AUD250 million

Investment Concept (IC) approved by: Ewen McDonald

IC Endorsed by AGB: Yes

Quality Assurance (QA) Completed on Design:

**Independent appraisals:** Richard Bontjer (ESD), Cate Rogers (Treasury), Contracting and Aid Management Division (ACD)

**Peer reviewed by:** Principal Sector Specialist Governance, Gender Equality Branch and OTP Gender Section, Bob Warner (independent consultant, Pacific economic expert)

## B: EXECUTIVE SUMMARY

The Pacific COVID-19 Response Package (the Package) will provide AUD250 million over 2020-21 and 2021-22 to assist Pacific countries and Timor Leste in weathering the economic impacts of COVID-19 and to better position the region for recovery. The Package will cover Timor Leste, Papua New Guinea, Solomon Islands, Fiji, Vanuatu, Samoa, Tonga, Kiribati, Nauru and Tuvalu.

COVID-19 has significantly impacted on Pacific economies. The region's high dependence on open borders and the free movement of people for tourism, labour mobility and aid assistance means many countries are facing GDP contractions of between 5 to 20 per cent this year. Diminished economic activity is in turn reducing revenue streams that government budgets depend on (e.g. Fiji's government revenue is estimated to halve in the current budget year from 2018-19 levels and Vanuatu's tax revenue fell 33% per cent from the Jan-Mar quarter to the April-Jun quarter). Even if travel resumes in 2021, it is likely to be at highly suppressed levels that will not make a sizable difference to government revenues.

Pacific Governments and communities require financial assistance to weather this shock and position themselves for the adjustments that will be required over what could be a prolonged and uncertain period.

The Package will primarily provide general and targeted budget support, managed through partner government systems. In countries where this is not feasible, alternative programs that can meet the objectives of supplementing budget financing and incentivising economic policy dialogue will be used. This includes funding programs that support vulnerable people.

In many countries, the Package will support long standing economic policy reform programs Australia has in partnership with other development partners – including the World Bank, Asian Development Bank and New Zealand. Australia's key advantages in these donor groups is that we can provide financing quickly, flexibly and at a reasonable quantum to assist in meeting countries' needs. Where possible, funding from the Package will also be used to crowd in or unlock other partners' funding.

A key objective of the Package is to maintain these programs as the key mechanism through which donors jointly engage with countries on their economic management. Australia is particularly interested in seeing Pacific countries and Timor-Leste avoid fiscal crises, manage gradual adjustments to new revenue and expenditure positions, manage debt sustainably and support economic and fiscal responses that promote gender equality. Protecting social spending in health and education, will be critical to poverty alleviation, economic recovery, and sustainable long-term development.

The Package will also have focus on technical assistance to support analysis, policy development and implementation. Technical assistance will also support Australia's continued assessment of the economic situation, financing, and reform needs in the region. Australia will undertake its standard fiduciary risk assessments to ensure partner government systems can be used and that risks are adequately managed.

In a highly uncertain environment, precipitated by a global pandemic, there are numerous risks to implementation of the Package. While we expect negative economic impacts will persist, it is difficult to predict the type and magnitude of impacts that will materialise in each country. These risks will be addressed by regular monitoring of the evolving economic and fiscal situation in each country, the financing other donors are contributing, and the course of the COVID-19 pandemic.

The Package is not designed by itself to fill countries' requirements, but instead to provide much needed financing, policy guidance and confidence. As appropriate, it will leverage other sources of finance where possible. A degree of funding flexibility will be maintained to provide the ability to respond to shocks over the life of the program - including natural disaster shocks or an outbreak of COVID-19 in a country.

## C: ANALYSIS AND STRATEGIC CONTEXT

### SITUATIONAL ANALYSIS

The economic and fiscal impacts of COVID-19 in the Pacific are broader and deeper than previous shocks the region has experienced, with economic and fiscal estimates continually being revised downward. Even without a significant outbreak of COVID-19, the economic shock has the potential to wipe out over a decade of economic growth and development outcomes in many Pacific countries. The severity and nature of the economic impacts of COVID-19 has varied across Pacific island countries (PICs). These impacts depend on how exposed economies are to certain sectors, particularly tourism, or to declines in commodity prices.

PICs with the most trade exposed economies are contending with the dual impacts of enforced isolation and a substantial weakening in demand for exports (tourism, labour, oil, LNG, logs) and reduced external financial flows (remittances and foreign investment). Of Australia's key aid recipients, Papua New Guinea, Fiji, Solomon Islands, Vanuatu, Samoa, and Tonga are among the PICs most heavily impacted.

The effective halt to international tourism is having serious consequences for economic activity, employment, and government revenues. Tourism is the largest single contributor to GDP in several PICs, including Fiji and Vanuatu, and a notable share of GDP in most.

The COVID-19 economic shock is impacting government budgets, households (particularly vulnerable people) and businesses. Even with the financing requested from the international financial institutions (IFIs – specifically the IMF, World Bank and Asian Development Bank) PICs face an estimated additional fiscal gap of USD2.7 – 3.9 billion in 2020 and 2021 combined.

Textbox 1: PIC economies and Tourism

	Population	USD GDP per capita	Top tourist source countries	Tourism per cent share of GDP	Tourism per cent of total exports
<b>Fiji</b>	883,483	\$ 6,220	Australia (41%) New Zealand (23%)	38.90%	51%
<b>Palau</b>	17,907	\$ 15,859	China (43%) and Japan (21%)	45%	86%
<b>Samoa</b>	196,130	\$ 4,315	New Zealand (43%) Australia (21%)	25%	63%
<b>Solomon Islands</b>	652,858	\$ 2,127	Australia (36%) Other Asian (12.1)	7%	14%
<b>Tonga</b>	100,651	\$ 4,364	New Zealand (48%) Australia (21%)	20%	46%
<b>Vanuatu</b>	307,145	\$ 3,058	Australia (52%) New Zealand (13%)	46%	63%

Bilateral support from donors other than Australia is anticipated to total an estimated USD 450 million, however we anticipate uncertainty about pledging and planning. This means Australia's support under this package could equate to between roughly 10-30 per cent of this gap. These figures include negative impacts to revenue and growing expenditure in response to COVID-19. The figures do not include the materialisation of contingent liability risks or the need to potentially finance balance of payments, both which are sizable risks for many Pacific countries.

Further to this, debt sustainability across most Pacific countries is worsening, with many facing an increased risk of debt distress. A number of PICs were at high risk of debt distress prior to the COVID-19 shock. Some PICs have sought debt relief from bilateral lenders, in line with the G20 Debt Service Suspension Initiative (DSSI).

The COVID-19 crisis has disproportionately affected women and girls in the Pacific. Lockdown measures and unemployment are exacerbating already high rates of violence against women and girls.

Women are also overrepresented in jobs most affected by the economic shock, including in service industries. With lower overall earnings and lower-paying, informal, and precarious work, they are more vulnerable financially and for those with family obligations, have the stress and anxiety of putting food on the table and making ends meet. School closures also increase the domestic burden on women, with flow-on effects to earning capacity.

Pre-existing barriers to women's economic empowerment are magnified by the scale of the COVID-19 economic and fiscal shock. This means that strategies employed by the COVID-19 Response Package to empower women and girls will aid in the overall fiscal and economic recovery of the region.

There are reports that PICs have diverted health expenditure away from regular recurrent health priorities and reduced service delivery to try to meet the demands of managing the COVID-19 risk. Reduced health services also undermine existing health priorities including routine vaccinations, maternal and child health, and sexual and reproductive health. It is critical that donors and PICs understand the gender impacts of budget decisions, and that economic empowerment is good economic policy. Within the health and education sectors, particular outcomes need to be prioritised to protect the rights of women and girls and maximise economic recovery, including sexual and reproductive and maternal health, school grants that displace school fees and WASH in schools.

Poverty and vulnerability in the Pacific Region will worsen everywhere as a result of the economic shock from COVID-19, but the extent and transmission mechanisms will vary. The dimensions and depth of poverty are also likely to have worsened as we see reduced access to health clinics and disability services, school closures, and likely increases in gender-based violence.

## IMPACTS ON PACIFIC GOVERNMENTS AND BUDGETS

Whatever the transmission mechanism for the fiscal shock, the economic downturn of COVID-19 is manifesting for PIC governments through falling revenue, increasing demands on expenditure, and pressure on external positions and debt repayments. Many PICs were in weak fiscal positions entering into 2020 having run successive budget deficits (Fiji, PNG, Solomon Islands and Samoa) and/or limited cash reserves.

Between March and June 2020, all Pacific governments (except Nauru) introduced COVID-19 stimulus packages to provide additional funding for the health care system and support to businesses and affected households. The size of the packages ranged from 3 per cent of GDP (Solomon Islands) up to 9 per cent (Fiji). Most countries have limited capacity to undertake further fiscal stimulus.

Although the crisis is being felt across the region, fiscal impacts are different in each country. Countries that have access to trust funds or sovereign wealth funds (Kiribati, Tuvalu, Timor-Leste) or who have access to revenue streams not yet affected by the crisis (*e.g.* fishing licenses is holding) are facing less severe immediate fiscal impacts. The tourism dependent economies (Fiji, Samoa, Vanuatu) are highly impacted. PNG was facing fiscal and financing problems before the crisis and this has been accentuated by lower commodity prices and less certainty regarding the next generation of LNG investments.





## AVAILABILITY OF IFI FINANCING

The IFIs are the largest source of budget support financing to the PICs. Australia and New Zealand are substantial donors, though the quantum of budget support financing is small in comparison to the IFIs. Understanding the availability of IFI budget support financing is critical to understanding how the PICs can weather the economic and fiscal crisis brought on by the pandemic.

During 2020, PICs requested approximately USD 1.7 billion of budget support financing, of which approximately 90 per cent has been approved to date. However, assuming current policy settings of IFIs hold, this temporarily elevated level of budget support finance from the IFIs is unlikely to be sustained in 2021-22. Analysis by the DFAT Office of the Chief Economist (OCE) estimates the availability of IFI budget support financing to fall from USD 1.7bn to USD 1.3bn<sup>1</sup> in 2021-22. The decrease in financing is not a result of discretionary actions on the part of the IFIs, but due to the fact that the 2020-21 financing levels were elevated by one-off approved surges and reprioritisation.

## HORIZON OF THE CRISIS

The funding available for the Initiative was allocated on a two-year basis until the end of June 2022. The economic and fiscal crisis in the Pacific will be a much longer crisis. Most PICs will take upwards of five and possibly as long as ten years to recover from the COVID-19 induced shock.

The Package will seek to manage finance shortfalls and achieve sustainable outcomes by delivering finance through existing budget support mechanisms, supporting social protection initiatives, and establishing policy engagement. It will also focus on leveraging and coordinating with other sources of finance and donors in order to extend the benefits of the package beyond the two-year funding envelope. This approach recognises the good work already being done by DFAT's existing bilateral and regional programs and strengthens their ability to help the Pacific respond to the long-term impacts of the crisis.

## IMPACTS ON VULNERABLE PEOPLE

All Pacific countries are likely to experience increased hardship and vulnerability as a result of COVID-19. The number of people living in extreme poverty in the Pacific could increase by up to 500,000, or 19 per cent of the existing population, as a result of a 10 percent contraction in consumption resulting from the impacts of COVID-19 counter-measures ([ANU/ADB analysis](#)).

As traditional resilience mechanisms come under strain, vulnerability is increasing, especially those in countries which are most economically and fiscally exposed to the COVID-19 induced shock. The largest numbers of at-risk people are in Fiji, Papua New Guinea, Solomon Islands and Vanuatu.

Given the growing fiscal gaps and budget deficits, many PIC governments will need to structurally reduce their budget expenditure. This could result in reduced funding for essential services. This would disproportionately impact the most vulnerable people, including women and girls and people living with a disability.

Many Pacific governments introduced temporary social welfare schemes for the first time (Vanuatu, Tuvalu, Kiribati) while others built on existing schemes (Fiji). Solomon Islands, PNG and Samoa did not have the state capacity to introduce any direct payments to affected households but did allow citizens to draw on their pension funds if they had them. Other PICs also put temporary measures in place to allow drawdowns on contributions made to provident or pension funds, along with loan repayment holiday schemes with commercial banks. These programs largely only benefit those working in the formal sector, and are less likely to be accessible to women, given they have lower participation in formal employment than men.

<sup>1</sup> This assumes PICs access 50 per cent of emergency IMF financing available. If PICs were to access the full amount of emergency IMF financing available this figure rises to \$US1.8bn.

In the absence of well-functioning formal social protection systems in most countries, there has been an increased reliance on traditional ‘safety nets’ in the Pacific, which include families, village communities and churches. These traditional systems are coming under increasing strain. For example, local community organisations in Fiji report that their donations have reduced while demand for their services (food parcels in particular) have increased.

Domestic and foreign remittances are an important source of supplementary income for most rural households and many urban households in the Pacific. World Bank and ADB forecasted possible declines in foreign remittances between 13 and 17 per cent in 2020. To date, this has only materialised in Kiribati, with flows to other PICs similar to 2019 levels. The extent to which this trend will continue is uncertain – there are anecdotal reports of Pacific diaspora communities in New Zealand, American and Australia making significant sacrifices in order to maintain their remittance obligations. Widespread job loss and reduced incomes in PICs is likely to have had a larger impact on the more sizeable domestic remittance market. In PNG, 31 per cent of households reported receiving decreased (domestic) remittances as a result of COVID-19 (World Bank, June 2020).

The Package will need a better understanding of the impacts of the COVID-19 crisis on vulnerable people, including women and those living with a disability. The Package will collaborate with the Office of the Chief Economist to deliver Pacific focussed poverty analysis to inform its activities.

## LESSONS FROM PAST ENGAGEMENTS

The design incorporates lessons learned from past engagements. The most recent lessons are drawn from the design and implementation of a

AUD 100 million immediate financing package for the Pacific and Timor-Leste delivered between April and June 2020. A SWOT analysis of the financing package was undertaken by OTP in May 2020 and is summarised in Textbox 2<sup>2</sup>.

<b>Textbox 2: SWOT analysis of \$100m financing package</b>	
<p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>Speed</li> <li>SES support</li> <li>Use of evidence</li> </ul>	<p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>Insufficient consultation ahead of Minister approval</li> <li>Funding and budget mismatches</li> </ul>
<p><i>Threats</i></p> <ul style="list-style-type: none"> <li>Resourcing</li> <li>Fiduciary risks</li> <li>Coherence with Departmental policy priorities</li> </ul>	<p><i>Opportunities</i></p> <ul style="list-style-type: none"> <li>Rapid design is possible</li> <li>Learn from results to inform future financing packages</li> </ul>

- The AUD100 million package was developed rapidly with strong support from Departmental SES and was strongly evidence-based, drawing on analysis of likely COVID impacts on the Pacific and Timor-Leste.

<sup>2</sup> Source: notes from informal OTP reflection exercise on \$100 million package.



- An opportunity arising from the AUD 100 million package was the ability to rapidly design response instruments that directly learn from previous experience.
- Financing needs to be sequenced and coordinated with other DFAT bilateral and regional programming including Australian Infrastructure Financing Facility for the Pacific (AIFFP) policy lending and sovereign lending instruments.
- Budget support programs work best when coordinated with other development partners, leveraging the strong coordination mechanisms already in place including at the regional level: Friends of Pacific Budget Support; and regular MFAT, DFAT, ADB and World Bank regional coordination meetings. At the country level, budget support coordination mechanisms are an ideal avenue to coordinate financing and approaches to policy dialogue. This includes, importantly, coordinating additional budget support financing under the Package with existing budget support payments and matrices, to ensure that additional burden is not placed on partner governments.
- Budget support programs are often the preferred financing modality for partner governments. This preference is strongest in countries like Samoa where the bulk of Australian aid flows through Samoan government systems.
- Budget support programs are more likely to incentivise reforms when all development partners align behind a single and concise set of reforms (policy conditionalities) that are high priorities for the Pacific government. Imposing reform priorities on Governments does not work. Partner governments need to own the reform agenda. The implication of this is to not create separate reform matrices for funding from the Package except in circumstances where an existing matrix does not exist and cannot be tied to Package funding.
- Budget support programs are more likely to result in lasting change where the policy conditionalities are supported (as appropriate) by the right type of technical assistance the recipient government requires. Technical assistance also needs to be timed appropriately to ensure that reform milestones can be sequenced and met, and the assistance needs to be delivered in a way that is technically, politically and culturally appropriate.
- There needs to be sufficient absorptive capacity in targeted PIC ministries to effectively use funds provided. Funding allocations and any associated technical assistance to support disbursement must be tailored to existing administrative systems and capacity.
- Consultation with posts, governments, IFIs and likeminded donors is critical. The design and implementation of activities needs to be directly informed by ongoing consultation.
- Communication of the intent of the Package needs to be proactive and clear, to manage expectations and highlight that the Package is time-bound.


## STRATEGIC POLICY OBJECTIVES

In line with Australia's COVID-19 development policy: *Partnerships for Recovery: Australia's COVID-19 Development Response*, Australia is committed to supporting a strong, resilient and stable Pacific. The Pacific is the worst affected region in the world from the COVID-19 shock due to its reliance on tourism and fragility when air connectivity is cut off.

Many Pacific governments do not have the fiscal means to respond to the scale of the crisis. For example, in Fiji, one of the hardest hit countries, government revenues for 2020-21 are forecast to be 50 per cent of receipts in 2018-19. Even that bleak estimate is optimistic, as it assumed international tourism commences in January 2021.

The risks flowing from the COVID-induced economic crisis in the Pacific are severe, undermining PIC resilience and threatening regional stability. The fiscal and economic crisis has the potential to undermine long-term development prospects.





It is strongly in Australia's interests to act to mitigate the worst effects of the fiscal and economic crisis. If Australia does not provide additional financing, this will worsen the fiscal and economic crisis. The provision of finance helps to decrease the probability of other crises occurring.

The Package will work in concert with and augment existing and new bilateral and regional aid programming. This includes the roll-out of funding for vaccines under the Regional COVID-19 Vaccine Access Initiative. It is also being designed in close collaboration with new programs conceived to respond to the crisis, particularly the financing package for regional airline connectivity and OTP's new investment in regional social protection.

Financing under this Package could equate to between roughly 10-30 per cent of the gap in PIC financing needs. It can go part of the way in assisting governments to provide needed stimulus to vulnerable people and the private sector; and/or to smooth Government's transition to new levels of revenue and expenditure.

In parallel, the reform dialogue component of the Package will be key – both to ensure necessary stimulus occurs and to position governments to manage the fiscal transition they will soon face. Many Pacific countries will face fiscal adjustments over many years – well beyond the two-year scope of the Package. However, the Package can incentivise governments and influence other donors as the longer-term adjustment and economic recovery policy agenda is developed. It can also fund technical assistance and analysis to inform fiscal policy and adjustment. The Package will work in partnership with Australia's other programs in this space including existing regional and bilateral economic governance programs and the new social protection technical assistance facility and the air connectivity program (also funded out of the Response Package).

## D: INVESTMENT DESCRIPTION

The Pacific COVID-19 Package is a temporary, targeted investment to help the Pacific and Timor-Leste mitigate the risk of fiscal crisis, maintain essential services, and protect the vulnerable. The Package was announced as part of the 2020/21 budget in October 2020. The budget announcement included both the Package detailed in this Design framework, in addition to a separate \$50 million program to support air connectivity.

The Package will provide grant-financed support to the budgets of nine Pacific island countries<sup>3</sup> (PICs) and Timor-Leste in response to the economic and fiscal shocks from COVID-19. Recognising that the Package will operate over two years, it will deliver assistance primarily through existing bilateral development programs. This will maximise alignment with Australia's long-term engagement, minimise the risk of displacing or diluting Australia's effort and ensure the Package can be delivered quickly to respond to the acute crisis facing the region.

Australia's *Partnerships for Recovery* recognises that effective partnerships with partner governments, NGOs and multilateral organisations are critical to an effective aid program. The Package works through PIC and Timor-Leste governments as the primary partner. This strategy was chosen in order to strengthen Australia's relationships with Pacific governments and to support their ability to continue to lead the COVID-19 response and recovery efforts in the region. Although the focus is on working through partner governments, the Package can also work with other partners, including NGOs, where appropriate and in-line with the objectives of the Package.

The Package will use existing multi-donor budget support mechanisms as the primary delivery modality (where they exist). The Package will facilitate DFAT to enhance its capabilities to allow for a deeper engagement in budget support mechanisms. This deeper engagement will be underpinned by more rigorous macro-fiscal analysis, capabilities to develop feasible policy proposals to include in matrices and support for Posts to engage in more in-depth policy dialogue.

Other modalities will be considered where budget support mechanisms do not exist – these will be determined at the country level, based on pre-existing modalities available through country programs.

It is also important to note that, the Package, while significant, is unable to meet the full financing gaps facing Pacific countries (particularly the large ones). The Package will work with the IFIs and other bilateral partners, to use package funding to crowd in financing. Australia also has other tools at its disposal to provide financing in response to the COVID crisis, including bilateral development programs and lending through the AIFFP and under the *International Monetary Agreements Act*. It will be critical that we take an integrated approach to the provision of financing, both across different sources of Australian financing where relevant, and with IFI and other bilateral sources of finance. This will maximise available development financing, ensure that financing is available when it is needed, and promote a more coordinated and efficient approach to policy dialogue.

## LOGIC AND EXPECTED OUTCOMES

The vision of the Package is to contribute to a stable, prosperous and secure Pacific in the wake of COVID-19.

*The objective of the Package is that Australia will partner with Pacific Island Countries (PICs) and Timor-Leste in responding to and recovering from COVID-19, to support health security, stability and economic recovery.*

<sup>3</sup>Papua New Guinea, Solomon Islands, Vanuatu, Fiji, Samoa, Tonga, Kiribati, Nauru and Tuvalu



In response to the COVID-19 pandemic, Australia will implement a package of funding over the next two years, designed to:

1. support vulnerable people and enable economic recovery
2. contribute to mitigating fiscal crises in eligible Pacific countries and Timor-Leste; and
3. cement Australia's status as the economic "partner of choice" for Pacific countries and Timor-Leste.

## OVERVIEW OF PACKAGE FINANCING AND ACTIVITIES

The Package will have two dedicated financing 'windows' that support the achievement objectives:

- a. Vulnerability and Economic Recovery Window (VER-W) – with an initial allocation of AUD 80 million in FY2020/21
  - i. All countries covered by the Package would be eligible.
  - ii. Funding will target vulnerability (including through financing social protection and provision of social services) and/or promote economic recovery.
- b. Fiscal Crisis Window (FC-W) – indicative allocation of up to AUD 110 million in FY2020/21
  - i. Countries facing heightened fiscal pressures will be eligible.
  - ii. In effect, this would be a sub-set of the eligible.
- c. Flexible funding – retaining a capacity to respond to unforeseen shocks, including natural disasters.

Complementing the financing windows, the Package includes funding to *augment DFAT capabilities to engage in deeper policy dialogue and take a more comprehensive role in the negotiation of budget support policy matrices*. The Package will also take a *coordinated and long-term approach to helping the PICs and Timor-Leste maximise their development finance*. These approaches and capabilities are described in later sections.

An outline of the indicative activities for 2020-21 under both windows is provided in Annex 1.

## END OF PROGRAM OUTCOMES

The preliminary end-of-program outcomes (EOPO) for the Package are:

**EOPO 1: Inclusive economic recovery, and vulnerable people, are supported in eligible PICs and Timor-Leste**  
*If additional grant financing is provided to eligible PICs and Timor-Leste, **and** it is used to effectively contribute to financing social service delivery and projects by governments or other organisations, **then** some targeted PIC populations will be made less vulnerable and economic recovery will be enabled.*

**Policy dialogue opportunities:** this funding will enable Australia to have important conversations with PICs to shape social policy choices and priorities by Pacific governments, and resource inclusive social services or protection systems and related policy priorities. Immediate support is to mitigate the worst impacts of the crisis. The dialogue will also focus on how PICs can increase resilience to future shocks and crises.

**EOPO 2: Australian support helps to maximise development finance and shock contingencies to mitigate fiscal shortfalls resulting from the COVID-19 crisis**

*If budget support is made available to Pacific governments in eligible PICs facing severe fiscal crises **and** it is used to reduce the scale of deficits **and** provide a contingency for future shocks **and** Australia works to crowd in development finance from IFIs and other development partners, **then** the scale of fiscal crisis will be reduced.*

**Policy dialogue opportunities:** Policy dialogue under the Fiscal Crisis Window will focus on opportunities to promote more sustainable financing strategies and increasing Australia's economic and fiscal policy influence with Pacific governments. The timing of disbursements will coincide with partner country budget processes, where possible, to ensure that reforms or conditions are reflected in budgets prior to funds being disbursed. We will work in joint donor coordination mechanisms wherever possible.

## WHAT WOULD SUCCESS LOOK LIKE?

The Package will be successful if, alongside Australia's other contributions in the Pacific,<sup>4</sup> we provide financing and technical assistance and engage in policy dialogue that helps prevent economic and/or fiscal in Pacific island countries in the next two years and also results in positive perceptions, stakeholder feedback and media coverage of Australia and its development cooperation.

The Package will assist PIC and Timor-Leste governments more sustainably finance their budgets, support essential service delivery and financing of essential imports.

Using a coordinated approach, the Package should maximise development finance available for PICs and Timor Leste – crowding in financing from the IFIs and bilateral partners. This approach should combine policy dialogue with technical assistance to work with partner governments to make the best possible policy choices to avoid economic and fiscal crisis.

Other success measures will include new or more effective measures being put in place to support the most vulnerable people in the region, and maintenance of key services –for example, teachers and health workers paid and continuing to deliver services.

This is also an opportunity to cement Australia's status as a partner that delivers for its neighbours in times of need.

## COUNTRY ANNEXES

The details of the Package's investment in each country will be documented and agreed via country specific annexes to this design. The Country Annexes will be agreed jointly by OTP and Pacific Posts, in line with the governance arrangements set out in Section E and reviewed by a Strategic Review Panel (SRP). The Country Annexes for each country will be finalised in the first quarter of 2021. It may be necessary to adjust Country Annexes during 2021 and 2022 depending on the changing economic, fiscal and social context.

The Country Annex will include information relating to program as well as establishing communications and gender equality and social inclusion (GESI) strategies. Annexes will include analysis of current and planned loans by Australia (loans under the IMA act for example) ensuring that our assistance is looked at holistically.

Country Annexes will be quality assured via a Strategic Review Panel (SRP) that will be established in early 2021. The Country Annex will also include detail on consultations held with partner countries.

<sup>4</sup> Including Australia's immediate COVID-19 financial support package, as well as our long-standing bilateral development programs, Australia's loan financing instruments and our support to the international financing institutions (IFIs), globally and specifically in the region.



## Vulnerability and Economic Recovery Window (VER-W)

The VER-W will provide grant finance to all PICs eligible for funding from the Package and Timor-Leste. The VER-W will focus on the provision of direct finance that:

- a) Helps partner governments, through targeted budget support, to maintain expenditure on key social/public services (including basic education and primary health services);
- b) Supports social protection programs (where these exist) that target vulnerable populations, including unemployed, elderly, people with disabilities and people with low incomes;
- c) Provides a stimulus to economic activity, including through targeted government programs in productive sectors and community grant programs; or
- d) Where mechanisms are not available to provide support through partner government systems, support to existing bilateral programs that meet the criteria of alleviating expenditure pressures in priority social sectors, social protection initiatives or economic stimulus programs.

VER-W activities and modalities will be agreed with each country program as per the governance arrangements set out in Section E. The Country Annex will outline the rationale, expected outcomes, risks and monitoring arrangements for the selected activities under the VER-W.

VER-W funding will be allocated based on a set of criteria. Similar criteria are used in the Fiscal Crisis Window (below), albeit with some important differences. The allocation methodology for VER-W uses a three-step process, and will use where possible existing data series:

- **Part 1 – Assessment of economic and fiscal impacts, and fiduciary need.**
- **Part 2 – Capacity of partner systems and development programs** to use the funds reliably and within a reasonable timeframe
- **Part 3 – Other key factors** such as country size, population, and strategic priority (2019 aid allocation used as the proxy), as well as contributions from other donors

## Fiscal Crisis Window (FC-W)

The FC-W will provide grant finance to countries facing acute fiscal crises during 2020-21 and 2021-22. There will be a clear set of criteria to determine countries' eligibility and how this is communicated internally in DFAT and to external stakeholders (governments, development partners).

The eligibility criteria for the FC-W is based on three sequential tests. Countries must pass each of these in turn in order to be eligible.

The tests are:

- **Test 1: Fiscal impact and financing need:** The country's budget (revenue and expenditure) has been negatively impacted by COVID-19 and the country does not have a readily available and high quality source of funding (such as cash reserves and/or an accessible trust fund) to fund this shortfall.
- **Test 2: Macro-fiscal management:** The country is maintaining a sustainable macro-fiscal framework (in so far as possible).
- **Test 3: Absorptive capacity:** Australia is able to manage fiduciary risks attached to the disbursement of funds (principally grant budget support or an alternative which provides for "indirect" budget support). In addition, can the governments (and/or the Australian mechanism if required) use the funds reliably and in a reasonable timeframe.

Each country will be regularly re-assessed based on updated analysis for FCW funding consideration.





OTP Economics will prepare and keep updated an “Eligibility Assessment to the Fiscal Crisis Window”. This assessment is not included in the Design Framework as it will be continually updated throughout the two years. The Assessment will be informed by policy dialogue, consultations with IFIs and an ongoing analytical work program (especially the Country Economic and Fiscal Assessments) – see Section F for further details.

## MODALITIES UNDER BOTH FUNDING WINDOWS

The Package will use general budget support as the primary modality. Where a general budget support arrangement does not exist or cannot be used because the fiduciary risk is too high (see Risk section for further commentary), then other modalities can be used.

Fiscal Crisis Window funding should use existing functional general budget support modalities, where these exist.

If general budget support is not able to be used, other options include earmarked or sector budget support (this could include to SOEs). Funding can be earmarked to particular initiatives or spending items – for example social protection programs or specific spending items like teacher salaries. However, fungibility risks and expectations for future funding need to be managed in these cases.

Where neither of the above modalities can be used then VER-W funding can use other modalities that have similar characteristics to budget support or ones that deliver economic stimulus. For example, community level infrastructure or supporting vulnerable people via NGOs.

The Design does leave open the option of using the full range of modalities available to bilateral programming – however the strong preference will be to use the modalities listed above in priority order.

## FUNDING FLEXIBILITY

The Package is operating in a highly uncertain context. The timing of the roll out of an effective vaccine is still highly uncertain and the likely length and depth of the crisis for PICs is still unknown. Additionally, while some countries may not currently be eligible for finance under the Fiscal Crisis Window, this could change if they experience a COVID-19 outbreak or a natural disaster (cyclone season is November – May), or if unexpected expenditure pressures emerge (for example, if governments are called to pay for contingent liabilities).

While there are limits to how responsive the Package can be to the uncertainties faced, we will build in a degree of funding flexibility, by leaving some funding unallocated in order to respond to unforeseen developments.

The current funding profile of the Package is for the majority of funds to be disbursed in FY2020-21. It will be important to assess whether this frontloaded profile remains appropriate as we move towards the end of FY2020-21. OTP will closely monitor the fiscal and economic situation facing PICs and the need to utilise unallocated funds this financial year, particularly under the FC-W. Should there be a strong rationale for doing so, we will explore the possibility of reallocating funds to FY2021-22.

A key risk going forward for the region (and for Australia’s engagement therein) is that COVID-19 has eroded what buffers many countries had to respond to shocks. Given the inevitability of regular shocks, particularly natural disasters, the region faces an extended period of vulnerability. While maintaining some funding flexibility and possibly shifting funds to next financial year will build in some capacity for the Package to respond to subsequent shocks, such options will be limited. Australia and other development partners will need to work with the region to manage increased economic and fiscal vulnerabilities over the medium term.

## TECHNICAL ASSISTANCE

The Response Package will procure technical assistance (TA) to support DFAT (posts and Canberra) to effectively manage the Package and provide advice to Pacific governments to support reforms. This TA will be delivered primarily through two channels:

- 1) Existing bilateral and regional programs: For example, TA under existing bilateral economic governance programs or the ADB administered Private Sector Development Initiative (regional). Posts could redeploy existing TA resources if appropriate, or if additional funding is required this can be drawn on out of the Package; and
- 2) A centrally procured Support Unit (refer to Sections F & G for further details), funded out of the Package. The Support Unit would initially assist the Economic Policy and Programming Section (EPS) design and implement the Package. The Support Unit would then transition into providing tailored advice as requested to OTP, Posts, and Pacific Governments. Further TA options will be explored for the second year.

### Taking a coordinated and long-term approach to helping the PICs and Timor-Leste maximise their development finance

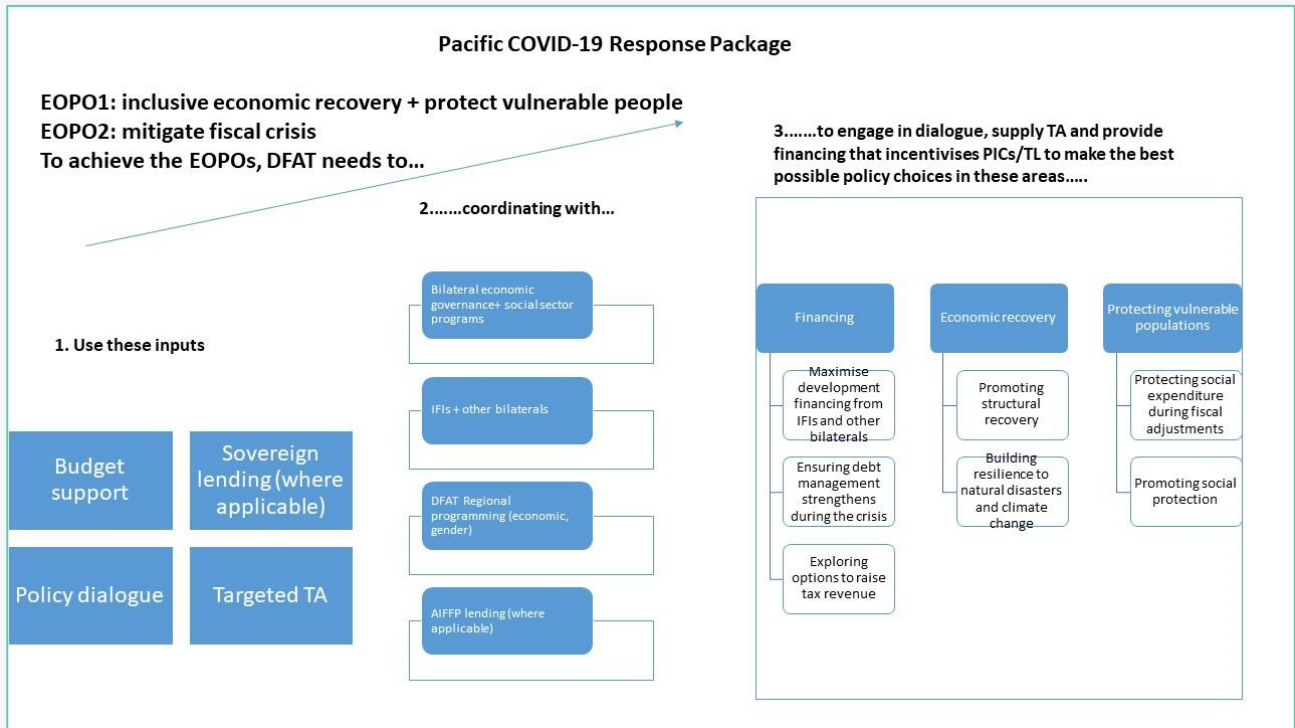
Australian grant-financed budget support in the Pacific is not offered in isolation. Whilst COVID-19 is an unprecedented economic shock, long-term recovery ultimately rests on a combination of the available development financing and the policy choices made by PIC governments. The Package seeks to work with PIC and Timor-Leste governments to help them maximise their development financing and to make the best possible policy choices to promote sustainable fiscal policy, economic recovery and to protect vulnerable people.

To achieve this, the Response seeks to offer more than just financing. The Package will seek to increase the quantum of available development financing by:

- Crowding in financing from other development partners, especially the IFIs.
- Working with PIC governments to promote economic recovery, support low-income households, efficient and effective public spending and debt management, including and an eventual return to a sustainable fiscal position.
- Where possible, promoting increased and/or more effective domestic resource mobilisation.

The Package will work in tandem with DFAT bilateral and regional programming and in coordination with other development partners, to engage PIC and Timor-Leste governments in policy dialogue and conditions for financing, where appropriate. Dialogue and policy conditions will incentivise partner governments to make the best possible policy choices to mitigate the risk of fiscal crisis, support vulnerable populations and social services (Figure 1).

The dialogue will also reinforce long-term priorities, such as building resilience to climate change and shocks. Building resilience to shocks is an important component of the policy-based lending and grants of the MDBs and features in every multi-donor budget support policy matrix. The Package, by reinforcing the general budget support programs mechanisms, will therefore support this focus on long-term resilience to shocks and climate change. The Package will also look for opportunities to support social protection initiatives, including coordinating with Australia's new regional Partnerships for Social Protection initiative. More robust and effective formal social protection systems will boost resilience to future shocks.



## Thematic priorities

Where appropriate, other aid modalities will be used to support programming under the first window. These modalities will have the broad aim to support vulnerable people and foster economic recovery. Initiatives may include supporting community level infrastructure as economic stimulus; supporting nascent social protection programs; and directing support to the most vulnerable via community or NGO programs.

For example, the Package may allocate a small proportion of funding to regional or thematic priorities. This funding may support research activities or fund organisations who can assist PIC and Timor-Leste governments improve the policy choices they make to support economic recovery or to protect vulnerable people.

## E: GOVERNANCE ARRANGEMENTS

The governance arrangements for the Package seek to balance efficient decision-making with the size and risk of funding allocations in particular countries. This section deals with delegations and decision makers for each point in the process of spending money from the Package, along with consultation and oversight arrangements.

### *Delegation and decision making*

The roles of each actor in the process is described below:

The **Minister for Foreign Affairs and Trade** has already approved the concept and strategy for the Package. The Minister will approve all funding allocations under the Package

**Country Annexes** to this design will be drafted jointly by OTP (EPS/LMB/POD) and country programs (desks and posts). Country annexes will include detail on how much funding will be provided through both funding windows and what it will be used for. The level of detail in each Country Annex will be commensurate with the level of funding for that country

**Country annexes will be approved jointly by Posts, OTP Bilateral Division and Pacific Operations and Development Division.** Following DFAT's normal financial delegations, for those country plans providing AUD 25 million of funding or greater, signoff will be done jointly by the First Assistant Secretary of Pacific Bilateral Division, the First Assistant Secretary of Pacific Operations and Development Division, and the relevant HOM. Where country plans provide for less than AUD 25 million in funding, signoff will be done at the Assistant Secretary level for the relevant bilateral branch, the Pacific Economic Growth and Labour Mobility Branch and the relevant HOM.

#### *Governance arrangements*

The Aid Governance Board (AGB) will be the main senior oversight and reference body for the Package. Given the level of funding and risk profile of the investment, the AGB approved the concept note for the Package. In its submission to the AGB, OTP suggested 6-monthly formal updates to the AGB. The AGB agreed to this but requested more frequent oral updates. It is anticipated that updates to the AGB will be provided on a quarterly basis, alternating between oral updates and more formal updates.

Before each update to the AGB, OTP will convene a COVID-19 Response Package Strategic Review Panel (SRP) meeting. The SRP will be composed of Assistant Secretary / Directors from across DFAT. The SRP will be responsible for providing strategic oversight and direction as well as reviewing both the Country Annexes and decisions around the use of the flexible funding allocations.

## PROGRAM MANAGEMENT

At the country level, we are proposing semi-structured, frequent (e.g. monthly) consultations with posts to discuss progress on the Package and to highlight any emerging issues or risks. OTP Economics is also planning regular discussions with posts on broader economic and fiscal issues, tied in with regular updates to the Country Economic and Fiscal Assessments. Once the Package is up and running, it would make sense to combine these discussions, which would feed into regular reporting to the AGB, senior management and, where required, updates to the country annexes.

Further down at the program level in country, a range of governance arrangements will be utilised, depending on the funding mechanism involved. For example, for countries with existing budget support programs, and where these are utilised to deliver financing from the Package, existing governance arrangements attached to these programs will be used. Other existing arrangements within programs like reference groups and steering committees will be used to monitor Package funding that is channelled through these programs. It is likely workloads at Post will increase. OTP will encourage staffing supplementation where necessary.

Treasury will be consulted on design and implementation through existing regular communication channels between Treasury and OTP.

## WORKING WITH PARTNER GOVERNMENT SYSTEMS

The Package will prioritise working through partner government systems wherever possible. The FC-W funding will all be delivered as budget support through partner government systems. The VER-W will use a mix of budget support and aid modalities in some instances. The VER-W may also use NGOs or other program modalities (e.g. contractors) that are already established and allow the rapid disbursement of funds, in line with the Package objectives, with the minimum possible risks.

OTP will work closely with ACD (Environmental, Safeguards, Public Financial Management and Aid Risk Section) throughout the implementation of the Package. OTP will rely on ACD advice regarding fiduciary risks of using partner government systems and appropriate mitigation measures.

Assessments of National Systems (ANS) will be used to assess fiduciary risks and appropriate mitigation measures

Fiduciary risk management will be a central focus during implantation of the Package. Where risks are high, we will work with ACD and through the SRP to assess options for mitigating risk to ensure OTP senior management has visibility of residual risks and can make informed spending decisions.

Where required, in consultation with ACD, we will consider developing or undertaking new ANS and/or fiduciary risk assessments. We will carefully consider the implications of undertaking new assessments on timely delivery of funds, balanced against the need to deliver on Package objectives and manage risks effectively.

## F: IMPLEMENTATION PLAN

### CRITICAL STEPS TO OPERATIONALISE THE PACKAGE

The steps needed to operationalise the Package are outlined below. *Approve the Design Framework* that will set the parameters for operation of the Package.

- Hold further *discussions with partner governments* on both funding windows to ensure that planned financing is factored into partner government budgets as early as possible.
- Establish a Support Unit to provide technical advice to DFAT (Canberra and posts) as well as to effectively manage the package and provide advice to Pacific governments in delivering associated reforms.
- *Develop Country annexes to the design framework*: these will set out the details of proposed investments under one or both Windows.
- *Recruit Technical Assistance to support program implementation*: A pool of advisors will be available to support implementation of the Package. This will include fiscal, economic and program advice at the country level and regional levels (see section G below for more information).
- *Finalise a workplan for 2021 and program management arrangements*.

### FUNCTIONS NEEDED TO SUPPORT IMPLEMENTATION OF THE PACKAGE

The proposed delivery approach is for DFAT Canberra (OTP), with consultation between Pacific Bilateral (PBD) and Operations and Development Divisions (POD), to manage the Package in close collaboration with PIC and Timor-Leste posts. Two distinct functions are needed to successfully implement the package:

#### 1. Project management

Within POD, responsibility for developing, project managing and monitoring the performance of the Package will rest with the Economic Policy and Programming Section (EPS/LMB/POD).

#### 2. Analytical and advisory services

OTP economics will lead on analysis and advice to inform Package implementation. OTP economics will be supported by OCE and by contracted economists and public finance experts recruited under the Support Unit.

## ANALYTICAL AND ADVISORY WORK PROGRAM TO SUPPORT THE PACKAGE

To support the implementation of the package DFAT will work with Pacific governments, other development partners and organisations to on key economic, social, and fiscal issues, such as:

- Developing relevant and feasible reform/budget support programs and assessing their implementation.
- Monitoring of macro-fiscal and balance of payment developments, state owned enterprises and financial sector soundness that may impact on sustainability and the impact of the Program.
- Budget analysis focused on GESI, as required with our partners, to understand the impacts of changes in PIC budgets.
- In the second year of the budget, analysis to support the assessment of PIC economic and fiscal recovery beyond the timeframe of the Package, to inform future policy and programming.

### G: BUDGET AND PROCUREMENT ARRANGEMENTS

#### BUDGET

The direct financing component of the Package has a budget of AUD250 million of administered funding over two years (FY20-21/FY21-22) as part of the 2020-21 Department of Foreign Affairs and Trade Budget.

### H: MONITORING AND EVALUATION

Aside from the delivery of funding, the Package aims to deepen Australia's engagement with fiscal and economic policymaking in the PICs and Timor-Leste. Budget support and other aid modalities will be used to foster policy dialogue and work with governments to promote good practice policy making in the response to and recovery from the pandemic.

The approach to performance assessment recognises that there are common economic, governmental and social challenges across the region but that each country is different, has had different impacts as a result of the pandemic and consequently, has unique economic and social needs for COVID-19 response and recovery.

Assessing the difference that budget support makes is complex. Australia is one of several countries providing such support, and it is a small proportion of the total development finance available to PICs and Timor-Leste. Except in the smallest economies, national governments and their citizens make much larger contributions via the tax base.

However, comparing selected national data before and after the pandemic, and before and after Australian budget support, provides a consistent and credible body of evidence that can inform on-going relationships, support adaptive management, and provide accountability to the people of targeted PICs and Australia. This approach is being used to measure performance for the AUD 100 million COVID-19 Response Package

disseminated in early 2020 and aligning with it for this additional investment allows time series data to be used to assess performance and contribution.

The investment design recognises the need for accountability, linkages with the initial AUD 100 million response package, and alignment with performance measures set out in existing COVID-19 Development Recovery Plans.

## PERFORMANCE ASSESSMENT FRAMEWORK

Responding to this context, the Pacific COVID-19 Response Package will use a Performance Assessment Framework (PAF) to assess the overall Package. The PAF will assess the quality and performance of the aggregate investment by identifying common measures for cross-cutting macro-economic and social protection themes as well as country-specific results using measures aligned with national recovery/social protection objectives.

The PAF will use a combination of macro-fiscal data able to be collected via published information from PIC governments and program data from aid investments used as the modality to distribute financing. It is proposed that this data be collected by a combination of internal DFAT resources (OTP, OCE) and contracted resources to collect and analyse data. The resulting information would be reported to the Office of the Pacific and Australian posts and will be used by DFAT to adjust the delivery of the program as new issues emerge and existing issues are resolved.

See **Annex 2** for examples of indicators proposed to be used in the PAF, drawn primarily from COVID Development Response Plans. Using this approach, a complete framework will be designed and operationalised within three months of the approval of this design. Annex 9 provides an outline of the program logic underpinning this approach.

The PAF will maintain continuity with the PAF used in the AUD 100 million Package. This approach allows for continuity in collection, analysis and reporting of performance data across the two packages. This is important because of the strong links between the two packages and the anticipated need to communicate results from both Packages simultaneously and provide a combined narrative.


## MONITORING AND EVALUATION

Detailed Monitoring and Evaluation would be conducted at the investment level for each modality used to disburse funding. Selected data from detailed M&E will be collected to inform the PAF.

Simple and efficient measures – making use of existing time series macro-economic data (e.g. budget outturn and World Bank/IMF data); building on monitoring data collected to assess performance of the AUD100 million response investment; linking to tier-2 monitoring data collected by posts and programs under national COVID-19 Development Response Plans. This will be complemented by information from existing bilateral economic governance programs in most countries. Lessons learned from initial monitoring of the AUD100 million response investment (expected to be identified in early 2021) will be used to refine the measures use for assessing performance of the Response Package.

An M&E expert will be engaged through the Support Unit to identify, collect and interpret the measures set out above. This will inform performance management activities as well as the program reporting.

Case studies to highlight the human impact of Australian support – using purposefully designed national and regional case studies to demonstrate the contribution Australian support has made to the Pacific as well as specific groups (vulnerable people, small and medium-sized enterprises (SME), public service delivery) impacted by the pandemic. These case studies would be conducted at the end of the first year to focus on leading results (e.g. to identify who is receiving immediate support to help with recovery from the economic and social impacts of the pandemic) and after 3 years to focus on lagging results (e.g. how policy reforms and



earlier investments have helped households and SMEs, as well as how governments changed public finance management processes in the post-COVID-19 context).

Short and medium-term time horizons – because the investment timeframe is 2 years it is important to assess progress and leading indicators of results in the first year (to answer questions about “what was the investment used to deliver”) and complementing that with medium-term measurement of performance and lagging indicators (to answer questions about the impact on expenditure as well the extent that Australian budget support encouraged IFIs and other donors to crowd-in their funds).

Clear links to first package and COVID-19 Development Response Plans – wherever possible measures from the AUD 100 million COVID-19 Response Package will be continued to demonstrate the results from Australia’s total support. Similarly, links to tier-2 monitoring data collected by posts and programs under national COVID-19 Development Response Plans (CDRPs) will be made where useful. In part this approach will help answer the question: Is the portfolio impact greater than the sum of the parts?

Qualitative measurement of relationship quality – in the medium-term conduct a survey of key influencers in each partner country to measure any changes in bilateral relationships and perceptions of Australia as a “friend in times of need”.



# I: SUSTAINABILITY, PRIVATE SECTOR ENGAGEMENT, GENDER EQUALITY AND SOCIAL INCLUSION

## SUSTAINABILITY

The Package provides financing for a two-year period. As noted in the Situation Analysis and the Risk Register, the COVID-19 induced economic shock will last much longer than two years – it will be a minimum of five years before Pacific economies and budgets return to ‘normal’ – and even then this will be a "new normal" of likely structurally lower revenues and economic growth. Sustainability in this context for the Package therefore means engaging with PIC and Timor-Leste governments in a manner that helps them find a sustainable long-term pathway for economic growth and their fiscal positions.

The Package will apply the following strategies to encourage sustainability:

- Supplying financing so that PIC governments budgets can be made more sustainable in the short-term.
- Engaging in policy dialogue, especially around expenditure priorities in the context of likely lower revenues, to work with PIC governments to make budgets more sustainable in the long-term.
- Using partner government systems as the primary modality, creating opportunities to influence and improve how a partner country’s resources are allocated and disbursed<sup>5</sup>, not just financing under the Package.
- Ensuring that initiatives funded under the VER-W window are either: time-bound (*e.g.* stimulus measures); or if ongoing, then Package financing is applied in a manner that encourages sustainability. The latter could involve either substituting for government financing in the short-term so that services can continue whilst partner governments are experiencing a temporary shock to income. Or it could involve contributing to a long-term shift in policies such as establishing social protection schemes and finding sustainable financing strategies for them.
- Ensuring that policy reforms/matrices under budget support programs are grounded in solid political economy analysis. This will assist in managing potential efficiency and effectiveness losses from policy reforms not ultimately being entrenched with long-term impact.

## GENDER EQUALITY AND SOCIAL INCLUSION

The Package’s approach to gender equality and social inclusion will be two-fold – seeking to incentivise gender outcomes and bolster the gender focus in budget support operations, while also mainstreaming it in individual activities funded through the VER-W at the country level. Consistent with the (internal) *Pacific Economic Recovery and Growth Framework*, the Package will have a focus on consultation and country level dialogue with representative groups, including relevant women’s representative groups and organisations representing people with disabilities.

<sup>5</sup> DFAT (2019) “Assessing and Using Partner Government Systems for Public Financial Management and Procurement” <https://www.dfat.gov.au/sites/default/files/assessing-using-pgs-for-pfm.pdf>.

## Gender priorities in policy dialogue and reform matrices

The Package will invest in analysis to support gender priorities in policy dialogue and to enable the inclusion of gender-sensitive reforms in policy matrices. This analysis will focus especially on supplementary budgets, stimulus packages and other policy measures that are being implemented in the Pacific to respond to the economic shock caused by COVID-19.

Analysis will be undertaken by a combination of: a) a gender economist contracted directly by the Package as part of the Support Unit; and b) existing DFAT program partners, such as Pacific Women. Wherever possible, the program's preference is for this analysis to be completed by existing DFAT program partners and made public. This information can then assist civil society organisations (CSOs) and other actors to inform their own dialogue with PIC and Timor-Leste governments.

The purpose of this analysis is to: firstly, give DFAT officers the information they need to advocate for gender priorities in policy dialogue; and secondly, enable DFAT to work with PIC governments to include gender-sensitive reforms in policy matrices.

Ministries of Finance/Treasuries are the key counterparts for budget support. However, policy reform matrices are typically focused on central agency reforms. Gender sensitive reforms will similarly need to be central agency focused. The most important reforms will focus on expenditure allocations in the context of PIC and Timor-Leste fiscal adjustment. As PIC budgets adjust to structurally lower levels of expenditure and revenue it will be critical for DFAT to work with PICs to ensure that programs and spending critical for women and girls are protected to the greatest extent possible and that economic responses enable gender equality. In this context, the analysis described above is critical so that DFAT can understand how expenditure adjustments are impacting on women and girls and subsequently design policy matrices that seek to address these issues.

## INVESTMENT ACTIVITIES FUNDED UNDER THE PACKAGE

Investment activities funded under the package will each contain their own strategies with respect to mainstreaming gender. For example, if the Package contributes funding to support the building of local infrastructure as a stimulus measure under the VER-W, the modality used to disburse this investment will have its own gender strategy and performance measures that monitor this strategy. In some cases, the Package PAF will use performance measures collected at the investment level to inform monitoring for the Package.

## SUPPORT FOR DISABILITY

In addition to applying a GESI lens to budget support operations, a number of programs under the VER-W will directly benefit people living with a disability or help prevent disabilities from occurring for – for example through the provision of water, sanitation and hygiene services in marginalised communities. These programs will be identified through the country annexes and the Performance Assessment Framework will report on the programs that stand to benefit those with a disability.

EPS will develop a Gender Equality and Social Inclusion Implementation Strategy early in 2021.

## PRIVATE SECTOR

The Package engages partner governments as the primary partner. This is because governments are the key actor in the region with the financing and delivery mechanisms to affect the broadest possible change. The Package will not use the private sector as a delivery modality. The aims of the Package are to support



economic and fiscal recovery and the private sector is a major driver of and beneficiary of this. In some cases, there may be an opportunity to support government-led economic recovery initiatives that target the private sector (e.g. insurance).

## **J: RISK MANAGEMENT AND SAFEGUARDS**

A central theme in the risks outlined below is the need to act quickly, in an environment characterised by tremendous uncertainty regarding the length and depth of the COVID-19 crisis. These risks can be mitigated to some extent but not avoided. These risks also need to be contrasted against *the risks of not acting* – the overall objective of the Package being to mitigate, to the extent possible, the risk of economic and fiscal collapse in the PICs and Timor-Leste.

Insufficient funding: Given the likely overwhelming needs of our PIC partner countries there is a significant risk that the Fund will be unable to meet the demands and expectations of our partner countries. The key strategy to mitigate against this risk is for the Package to dedicate time and resources to crowding-in and working in concert with financing from the IFIs and other bilateral development partners.

Limited opportunities for policy dialogue: One of the desired outcomes of the Package is strengthened policy dialogue with PIC partner countries. In countries with existing and well-functioning mechanisms for constructive policy dialogue (such as in Samoa, Tonga and Fiji) implementation of the Package can serve to further strengthen these channels. However, in other countries, similar mechanisms either do not exist or are not currently an effective vehicle policy dialogue.

Mitigating this risk involves close engagement with posts, IFIs and NZ MFAT to identify where existing budget support operations are not working well or do not exist, and what options can realistically be pursued to engage with governments on policy. Engagement with donor-partners may defray political risks and economise effort. Even where policy dialogue is working well, pursuing an enhanced dialogue on gender equality and social inclusion with partners may be difficult.

Given the timeframes the Package is working to, it is also important to have realistic expectations on the extent of influence that Australia will be able to exert on policy dialogue as part of the Package. It is also important to consider the Package in the context of our longer-term agenda on policy engagement in the region. The Package can play an important role to support and enhance this agenda, particularly if supported by quality economic, fiscal and policy analysis.

Limited timeframes for design and implementation: The Package has been designed and will be implemented rapidly, presenting performance and quality risks. The primary mitigation measure is to utilise existing funding mechanism and programs, which include tried and tested management processes, where possible. Such funding mechanisms and programs are being identified through the country consultation process. OTP are also taking steps to mitigate this risk by engaging additional human resources, including seconding internal resources from elsewhere in DFAT, consulting with internal and external stakeholders, and utilising contracted expert peer reviewers. Supplementary resources will also be engaged during implementation, including contracted project management resources under the support unit.

Funding profile: There is a large degree of uncertainty surrounding the nature of the fiscal crises facing PICs, and these are driven by a range of external factors (natural disasters, travel resumption, COVID outbreaks, supply of non-Australian financing). This creates a risk that funds will be over-allocated too early, and the Package will lack ability to provide finance when it is needed. In response, the Package design has built-in flexibility including unprogrammed funding in case of unforeseen developments. Other options include managing funds across multiple fiscal years for PICs – noting that many PICs operate a calendar year budget – as well as utilising options for PICs to spend funds over multiple fiscal years, where possible and where

risks can be managed. The analytical work program and policy dialogue are both essential to manage this risk – ensuring that funding decisions are based off the best available data and information.

## IMPLEMENTATION RISKS

Fiduciary risks: There are fiduciary risks from using partner government systems to deliver budget support grants.

Most countries have existing ANS that will be used to inform investment decisions and risk management. Funds will be subject to audit provisions and, where practical to do so, funds will be earmarked for specific purposes allowing these funds to be more accurately tracked.

Additional mitigation measures that will be considered in implementing the Package include: 1) using an exchange of letters to record how funds will be used – this can then be used as the basis of implementation monitoring; 2) agreement to undertake post-crisis audits; 3) mobilising remote technical support from Canberra or engaging local technical assistance where feasible to assist Posts in implementation (e.g. public financial management expertise); and 4) taking a country-by-country approach that acknowledges the very different risks faced within each country's public financial management system. DFAT will ensure appropriate fiduciary risk assessments are in place prior to the first disbursement.

Staffing Risks: Although funding will be provided through existing modalities, additional funding will none-the-less increase workloads at Posts. The Support Unit is the major mitigation measure in response to this risk. Post and Canberra will be able to draw of a range of expertise to help with design, review and reform dialogue. Funding will also be available to fund existing programs and technical advisors for Package design and implementation.

## ENVIRONMENTAL AND SOCIAL SAFEGUARDS

Environment, resettlement, climate change, disaster resilience and child protection safeguards will be addressed at the investment level, using pre-existing screening tools and mitigation measures embedded within the aid investments that will be used to disburse Package financing. For funding disbursed through budget support we anticipate these types of risks will be minimal.

**Climate change and disaster resilience:** The risk rating for the impact of climate and non-climatic hazards on the achievement of intended results is medium. The main impact is that a cyclone or other natural disaster could adversely impact on PIC fiscal positions, economic recovery and on vulnerable populations. Over the Package's two-year implementation period it is highly likely that the Pacific will suffer a natural disaster. Already, TC Yasa has affected Fiji (in December 2020). Further natural disasters are likely and will affect governments' ability to manage fiscal responses at the same time as navigating the COVID-19 economic shock. While the Package is not a disaster response facility, the risk of additional fiscal and economic shocks from natural disasters needs to be considered. Potential impacts of a natural disaster shock include the Package's funding profile potentially being adjusted to deal with the immediate consequences (e.g., frontloading financing under the Package), weakened or limited policy dialogue with PIC partner governments as they deal with crisis and partner governments having a significantly more challenging path back to fiscal sustainability. The Package will deal with this risk by retaining a degree of funding flexibility and ability to adjust the timing of its financing, but emphasising that the Package is focussed on mitigating the fiscal and economic impacts of COVID-19 and does not displace the need for traditional humanitarian responses.

**Gender, disability and social inclusion:** The risk rating for the impact of gender, disability and social inclusion requirements on the achievement of intended results is medium. The proposed approach to mainstreaming



gender was detailed in Section H. An important risk is that approaches to mainstreaming gender and social inclusion may not be able to be implemented in some countries. The most likely factor causing this risk is reluctance from PIC governments to discuss or implement measures that would benefit women and girls. Posts confidence and ability to successfully execute gender, disability and social inclusion outcomes through policy dialogue is also a risk.

## ANNEX 1: INDICATIVE COUNTRY ALLOCATIONS AND ACTIVITIES 2020-21

### FIJI

The Asian Development Bank (ADB) is estimating a 19.8 per cent contraction in GDP in 2020, with the 2021 forecast contingent on the timing of international borders opening. Widespread job losses have occurred, and the risks of business bankruptcy will increase in 2021. A budget deficit of 20.2 per cent GDP or AUD 1.4 billion is expected in 2020-21 with revenue falling 50 per cent from 2018-19 levels.

**VER-W:** AUD20 million (FY20-21) - Sector budget support to the Ministry for Women, Children and Poverty Alleviation to fund social protection payments. The Ministry of Economy has requested immediate disbursement.

**FC-W:** AUD35 million (FY20-21) - General budget support to Ministry of Economy with disbursement linked to USD145 million World Bank development policy operation which includes policy reforms in three areas: private sector led recovery; reforms to social protection and climate change resilience; debt and fiscal management.

### KIRIBATI

ADB estimates GDP growth of 0.6 per cent in 2020. Fishing licence revenue is holding up this year but is expected to contract next year. Budget risks are mostly on the expenditure side, due to expensive 2020 election promises.

**VER-W:** AUD3 million (FY20-21) - Budget support to be provided through the World Bank-led economic reform program. Australia will leverage its contribution to participate in the review and implementation of social protection programs and suggest options for improving their efficiency.

**FC-W:** Nil proposed - Kiribati does not currently meet the criteria for funding under the FC-W.

### NAURU

ADB estimates that GDP will contract by 1.7 per cent in 2020. Nauru is currently in a healthy fiscal position having achieved AUD27.4 million surplus in 2019-20 due to higher than anticipated revenues from fishing licenses and the Regional Processing Centre. From July 2021, Nauru's fiscal position will decline.

**VER-W:** Deferral to FY21-22 – Propose Nauru's FY20-21 allocation under the VER-W be deferred, given current healthy fiscal position, and to align with a forthcoming new budget support operation with ADB and New Zealand. T. VER-W funding allocations will be determined after the future of the Regional Processing Centre is known and it becomes clear where Nauru's budgetary, fiscal and social priorities will lie.

**FC-W:** Nil proposed - Nauru does not currently meet the criteria for funding under the FC-W.

## PAPUA NEW GUINEA

ADB estimates PNG's GDP will contract by 2.9 per cent in 2020. Government revenue fell by 16 per cent 2020. In 2021, a budget deficit of 7.3 per cent of GDP is forecast, with an AUD 900 million financing gap in the 2021 budget.

**VER-W:** AUD15 million (FY20-21) – Proposing that funds are allocated towards basic education and social cash transfers to address nutrition/stunting, with additional options in water, sanitation and hygiene (WaSH), health, livelihoods and responding to gender-based violence also being explored.

**FC-W:** TBC [AUD20-40 million FY20-21 indicative] - While Papua New Guinea will likely require support under the FC-W, the quantum of funding and mechanism for providing funds are still under consideration. Managing fiduciary risks is a challenge, and we are exploring opportunities to use FC-W funds to engage on PNG's fiscal and economic policies.

## SAMOA

ADB estimates that GDP will contract by 5 per cent in 2020 and a further 9.7 per cent in 2021. Tourism and remittances made up 30 per cent and 17 per cent of pre-COVID GDP respectively. The IMF is projecting a FY20/21 budget deficit of AUD28.6 million (2.3 per cent of GDP).

**VER-W:** AUD5 million (FY20-21) - Funding to Australia's existing budget support program, linked to a multi-donor policy matrix, which seeks to improve social protection systems.

**FC-W:** TBC [AUD5 million FY20-21 indicative] - Samoa is being considered for an allocation of AUD5 million following the April 2021 election, assuming a deterioration in the Government of Samoa's budget projections (these are currently optimistic; post assesses this is in part due to the upcoming election). Samoa may have further needs in FY21-22.

## SOLOMON ISLANDS

ADB estimates a GDP contraction of 6.0 per cent in 2020, returning to GDP growth of 1.0 per cent in 2021. Budget information is limited but cash balances are extremely low (the IMF estimates 0.3 months of expenditure) and debts are being accumulated across most Ministries. The fiscal outlook is negative, with the budget deficit expected to widen to 4.0 per cent of GDP.

**VER-W:** AUD10 million (FY20-21) – To be allocated across DFAT's Solomon Water Program (to maintain the delivery of water and sanitation services to 4,400 households), Solomon Airlines (with a focus on flight safety) and school grants including WASH.

**FC-W:** TBC [AUD20 million FY20-21 indicative] - Although Solomon Islands meets the eligibility criteria for funding under the FC-W, reporting from Post suggests fiscal governance has deteriorated. Fiduciary risks

need to be further considered, along with engagement with Solomon Islands government on its fiscal strategy and policies.

## TIMOR-LESTE

ADB estimates that (non-oil) GDP will contract by 6.3 per cent in 2020. Domestic (non-oil) revenue has been negatively impacted but the effect is relatively small due to the Petroleum Fund providing the majority of budget financing.

**VER-W:** AUD10 million (FY20-21) - Allocated across the National Program for Village Development (PNDS) which provides community infrastructure and the “Bolsa da Mãe” program (BdM) which provides a set amount of cash to specific vulnerable populations, particularly women-headed households.

**FC-W:** Nil proposed - Timor-Leste does not currently meet the criteria for funding under the FC-W.

## TONGA

ADB estimates a 3 per cent GDP contraction in 2020 and a further 8 per cent contraction in 2021. Remittances and tourism make up 38 per cent and 23 per cent of GDP respectively. The nature of the fiscal problem will become clearer following the completion of an IMF mission in early December – at present it seems that Tonga can meet its FY2020-21 financing needs.

**VER-W:** AUD5 million (FY20-21) - DFAT will use the funding to supplement Tongan social cash transfers and/or to align with the World Bank Emergency or regular Development Policy Operation.

**FC-W:** TBC [FC contribution likely to be deferred to 20-21] - DFAT’s preferred modality is to align the FC-W funds with the World Bank’s Development Policy Operations (DPO).

## TUVALU

ADB estimates 2 per cent GDP growth. Fishing licence revenue is holding up but is expected to contract next year.

**VER-W:** Deferral to FY21-22 - Proposing to defer Tuvalu’s FY20-21 allocation under the VER-W to FY21-22, given economic and fiscal position this year, as well as to align with the World Bank Development Policy Operation.

**FC-W:** Nil proposed - Tuvalu does not currently meet the criteria for funding under the FC-W. The Tuvalu Trust Fund is sufficient to finance any COVID-induced fiscal deterioration.

VANUATU



ADB estimates that GDP will contract by 9.8 per cent in 2020. At the halfway point in the budget cycle, there is a AUD45 million surplus (equivalent to 3.5 per cent of GDP) (a rise in citizenship sales early in 2020 contributed to government income). This excludes donor financing of an additional AUD38 million, making the total surplus 5.8 per cent of GDP.

**VER-W:** AUD10 million (FY20-21) – Allocated across activities including: cash vouchers provided through Oxfam (akin to a social protection program), a local stimulus package, including infrastructure, and supporting the Vanuatu Tourism Office to develop a tourism recovery marketing plan.

**FC-W:** Nil - DFAT does not propose an FC-W allocation at present due to Vanuatu's comparatively strong fiscal position. This will need to be monitored closely as there are significant downside risks to Vanuatu's current revenue focus on selling citizenship.

## ANNEX 2: PERFORMANCE ASSESSMENT FRAMEWORK

### PAF OVERVIEW

This Performance Assessment Framework is designed to meet DFAT information needs, specifically:

- **DFAT's accountability needs:** recording how the portfolio of budget support and other investments, policy dialogue and relationship-enhancement performance, recognising links with the AUD100 million package of support from Australia in response to the outbreak of the pandemic in early 2020 as well as other bilateral and regional programs.
- **DFAT's communication needs:** regular short, engaging, human-interest stories appropriate for Ministerial briefings and social media communications; synthesised targeted information suitable for internal communication (e.g. one-page cables); briefing for non-participating third parties (e.g. bilateral discussions), and occasional more detailed communication products, such as case studies and video presentations.
- **DFAT's learning needs:** periodic synthesised information indicating what is working, what is not working, and significant changes in the context that might affect results. This should include ensuring that any macro-economic or fiscal data collected can be used by DFAT for other analysis and advice.

It seeks to provide guidance on three topics:

1. Evaluative questions
2. Assumptions underpinning the Pacific COVID-19 Response Package logic and summary results chain
3. Provide a selection of possible indicators in the Performance Assessment Framework that DFAT and partner governments can use as a shared body of credible evidence for policy dialogue and mutual accountability.

### EVALUATIVE QUESTIONS

At the end of the two-year Response Package implementation period DFAT and its partners will want to be able to answer the following evaluative questions, ideally as part of a rapid impact assessment:

- How was Australia engaged by partner governments and others to support vulnerable people and enable economic recovery in PICs and Timor-Leste?
- How was Australia engaged by eligible partner governments to mitigate fiscal crises?
- What evidence is there of change in perceptions of and attitudes towards Australia as a “friend in times of need?” To what extent is Australia confirmed as the preferred economic partner in times of need for Pacific countries and Timor-Leste?
- What difference did budget support from Australia make?
  - Is the spending intended in the country annexes implemented as planned?
  - Did targeted governments spend the budget support in FY20/21? If not, why not?
  - Were additional requests for economic support from targeted countries received by Australia? If so, how much, when, for what?
  - To what extent did IFI and other donors crowd-in development finance?
  - Did the Package leverage resources from Partner Governments? If so, how much, when, for what?
  - Did the Package incentivise reform or avoid poor choices? If so, when and what examples?
  - Is there alignment between PIC FY20/21 budget expectations for Australian support?
- What did delivery partners do differently as a result of country annexes under the Response Package?

- What did other donors and MDPs do differently as a result of the Response Package?
- Who benefited from budget and other support provided by the Response Package? In particular, how did women, youth and vulnerable people benefit?
- To what extent did the Package contribute to addressing gender equality in eligible countries?
- What might have happened to individuals (sex disaggregated), communities, households and businesses if Australia had not provided budget and other recovery support through the Response Package?

## ASSUMPTIONS

Assumptions for the Response Package logic and summary results chain, reflected in the Performance Assessment Framework, include:

- Australian budget support for vulnerability and economic recovery is used to finance social service delivery – education, health, social protection in partner countries. Financing is also used for other discrete investments that support the same goals, where the option of budget support is not available.
- Australian budget support to mitigate fiscal crises is used to sustainably finance deficits, reduce debt and finance essential imports in eligible partner countries.
- Australia leverages assistance through the Response Package to provide tailored and demand-driven policy and technical advice for partners.
- Australia and its partners collaborate to develop indicators for a shared body of credible evidence to inform mutual accountability and policy dialogue.
- Given the rapid, fluid nature of the pandemic and unknowns about the virus and its epidemiology as well as the timing of any vaccine or therapy being rolled out in partner countries, the investment needs to be flexible across geographies and activities – so adaptive management informed by monitoring data and national social and economic data is needed.
- Three broad contributions are assumed to form the results chain:
  - **Recovery** – where inclusive economic recovery, and vulnerable people, are supported in eligible countries
  - **Resilience** – where eligible country development finance is coordinated and optimised including crowded-in financing from IFIs and bilateral partners
  - **Relationship** – progress towards the goal of Australia’s relationships and reputation as an economic partner of choice being enhanced with targeted countries.
- For this contribution to targeted countries, budget support is designed to support, inform and influence good practice public finance management – the timing of disbursement aims to align with national budget processes so that policy dialogue and good practice policy advice can be reflected in budget documents ahead of funds being released. This enhances mutual accountability.
- Budget support complements activities financed by partner country supplementary and normal budgets and existing regional and national programs as well as investments by other donors) and multilateral agencies including IMF, World Bank, ADB and UN agencies (e.g. WHO and UNDP).
- The social and economic impacts of measures to contain COVID-19 will shock partner country economies and their different foundations including tourism (e.g. Fiji, Vanuatu); remittances (e.g. Tonga); exports and imports with air and sea freight (e.g. all partner countries); and domestic service sector performance (e.g. all partner countries); resulting in reduced revenue and increased expenditure during the FY20/21 and FY21/22 budget periods.
- Budget support and technical assistance is tailored to existing administrative systems and capacity
- National statistical agencies and public sector reporting (e.g. HIS, EIS, budget outturn) can be used as a shared body of evidence (i.e. is sufficiently timely, accurate, coherent, disaggregated and publicly available).
- Targeted country institutions have the absorptive capacity to effectively use budget support.

- Substitution or other forms of market distortion will not occur in the budget allocations of targeted countries as a result of budget support – the funds will be allocated where they can be used to support vulnerable people, enable economic recovery and contribute to mitigating fiscal crises.
- Technical assistance can be delivered work remotely using on existing relationships and/or people implementing technical assistance are able to travel and enter countries, and work in a functional environment.
- Australian posts continue to operate in partner PICs and Timor-Leste.
- DFAT personnel (particularly LES) will be able to travel on a limited basis to COVID-19-affected areas to engage with partner country decision-makers and oversee development assistance.

The proposed performance assessment approach uses existing data to reduce transaction costs associated with Australian support. Key performance indicators proposed are collected in most targeted PICs by central finance agencies (*e.g.* Department of Treasury and Finance) and sector agencies (*e.g.* Ministry of Health). In most cases Australia supports the data collection and reporting functions, and already uses national budget outturn and Health Information System (HIS) data. The approach to collecting, storing, and using macro-fiscal data will seek wherever possible to also contribute to building DFAT's capability to use this data on an ongoing basis, not just for the purposes of this Response Package.

The measures set out in the following COVID-19 Pacific Response Package – Performance Assessment Framework complement measures used to assess performance of the first tranche of Australian budget support and are aligned with monitoring indicators common to the ten CDRPs.

In addition, case studies of policy dialogue leading to policy reform and the difference the Package has made to households, and people within households including Pacific island men, women, youth and their families, as well as private sector enterprises can be conducted in the medium-term around the following themes:

- Examples of strengthened governance systems (including in emergency preparedness and response).
- Examples of policy and technical advice on stimulus measures and longer-term economic recovery.
- Evidence of strengthened and effective coordination during disaster responses (including across CSOs and Government).
- Examples of Australian-funded technical advice in stimulus measures and longer-term economic recovery policy and planning, including for infrastructure.
- Examples of Australian policy and technical advice supporting partner countries to meet policy triggers for concessional financing from IFIs and implement budget reform including PFM and SOE.
- Examples of partnering with the private sector and other partners to ensure supply lines are open/maintained.
- Examples of economic response and recovery measures that specifically target the vulnerable, women and youth.
- Examples of partner governments adopting responsible and evidence-informed fiscal and economic measures that support inclusive growth and resilience.



# DFAT COVID-19 PACIFIC RESPONSE PACKAGE – PERFORMANCE ASSESSMENT FRAMEWORK

In addition to indicators from existing programs used to deliver the Response Package, and assessment of government relations by DFAT, a selection of some or all of the following key performance indicators may be used to monitor the contribution made by the package, provide a shared body of evidence and support policy dialogue and mutual accountability. Each targeted country will have different needs and priorities for recovery, resilience (if eligible) and relationships but the difference Australian budget support contributes to these outcomes can be monitored with a shared and credible body of evidence selected from one or more of the indicators set out in this Performance Assessment Framework. Wherever relevant the framework uses measures already identified in country [COVID-19 Response Plans](#).

	<b>INDICATOR</b>	<b>DATA SOURCE</b> How will it be measured?	<b>FREQUENCY</b> How often will it be measured?	<b>RESPONSIBLE</b> Who will measure it?	<b>REPORTING</b> Where will it be reported?
<b>Outcome 1:</b> Inclusive economic recovery, and vulnerable people, are supported in eligible countries	<ul style="list-style-type: none"> <li>Total number of men and women estimated to have benefited from programs and services maintained with Package budget support</li> <li>Number of vulnerable women, men, girls, and boys provided with emergency assistance in a crisis</li> <li>Number and total value of new infrastructure projects announced and attributable to Package</li> <li>Number of households planned to benefit from improved infrastructure attributable to Package</li> <li>Number of people immunised with Australian support</li> </ul>	<ul style="list-style-type: none"> <li>Collated from national and program monitoring sources including EMIS, HIS, budget outturn data and supplementary budget data</li> <li>Collated from national and program monitoring sources including NDMA</li> <li>National budget papers and infrastructure agency and annual work plans</li> <li>National budget papers and infrastructure project benefit – cost analyses</li> <li>Collated from national HIS with existing program, WHO, UNICEF &amp; NGO monitoring systems</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>Annual</li> <li>Annual</li> <li>Annual</li> <li>6 monthly</li> </ul>	Collated by contracted resource servicing monitoring needs for the entire portfolio financed by the Response Package and drawing on information from eligible country budget outturn and social service delivery (e.g. budget papers, EMIS, HIS) as well as existing program and NGO monitoring systems	Semi-annual progress report starting with baseline semester report at the end of Y21S1
Women, youth, vulnerable and isolated groups in eligible countries access and use social protection and inclusive recovery support interventions	<ul style="list-style-type: none"> <li>Number of households benefitting from improved infrastructure attributable to Package 8/</li> <li>Number of entrepreneurs (M/F) provided with financial and/or business development support services 8/</li> <li>Number of micro, small and medium enterprises accessing</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure project &amp; NGO monitoring systems</li> <li>Collated from national and program monitoring sources</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>Annual</li> </ul>		

	<b>INDICATOR</b>	<b>DATA SOURCE</b> How will it be measured?	<b>FREQUENCY</b> How often will it be measured?	<b>RESPONSIBLE</b> Who will measure it?	<b>REPORTING</b> Where will it be reported?
	financial assistance attributable to Package 8/ <ul style="list-style-type: none"> <li>Number of households, and the people within households reached with new or improved social protection programs, including remote communities 8/</li> <li>ICT uptake (measured in Gbps) and impact (measured in \$/Mb data)</li> </ul>	<ul style="list-style-type: none"> <li>Collated from national and program monitoring sources as well as budget outturn data and supplementary budget data</li> <li>Collated from national and program monitoring sources including EMIS, HIS, budget outturn data and supplementary budget data</li> <li>UNESCAP, OECD and national telecommunications, IT regulator and chief information officer data</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>6-monthly</li> <li>Annual</li> </ul>		
Multi-sector and donor coordination agencies adopt necessary changes in eligible countries preparing for recovery from COVID-19 pandemic and its socio-economic impacts	<ul style="list-style-type: none"> <li>Number (and nature) of instances of improved social protection-related policies and/or measures</li> <li>Number (and nature) of instances of improved economic growth policies and/or measures</li> </ul>	<ul style="list-style-type: none"> <li>Collated from national and program monitoring sources including EMIS, HIS, budget outturn data and supplementary data</li> <li>DFAT and central budget agency records</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>Annual</li> </ul>		
Public agencies from eligible countries implement assigned functions & actions needed for key industry support and providing people with economic opportunities	<ul style="list-style-type: none"> <li>Disbursement for targeted programs to support labour mobility workers including number of participants</li> <li>Number of additional women, men and children reached with social protection programs attributable to Package 8/</li> <li>Number of targeted households accessing and using support 8/</li> </ul>	<ul style="list-style-type: none"> <li>Collated from national and program monitoring sources as well as budget outturn data</li> <li>Collated from national and program monitoring sources including EMIS, HIS, budget outturn data and supplementary budget data</li> <li>Existing program &amp; NGO monitoring systems</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>6-monthly</li> <li>6-monthly</li> </ul>		
<b>Outcome 2:</b> Eligible country development and shock contingency finance is coordinated and optimised including crowded-in financing from IFIs and bilateral partners	<ul style="list-style-type: none"> <li>Value of funds leveraged or crowded-in from IFIs</li> <li>Number of formal budget policy dialogue events and number of attributable budget policy changes implemented</li> <li>Australian budget support as a percentage of donor and/ or supplementary budget</li> </ul>	<ul style="list-style-type: none"> <li>National financial and treasury data</li> <li>DFAT and central budget agency records</li> <li>National budget papers and revenue/ expenditure data</li> </ul>	<ul style="list-style-type: none"> <li>6 monthly</li> <li>6-monthly</li> <li>Annual</li> </ul>	Collated by contracted resource servicing monitoring needs for the entire portfolio financed by the Response Package and drawing on information from eligible country budget outturn and social service	Semi-annual progress report starting with baseline semester report at the end of Y21S1

	<b>INDICATOR</b>	<b>DATA SOURCE</b> How will it be measured?	<b>FREQUENCY</b> How often will it be measured?	<b>RESPONSIBLE</b> Who will measure it?	<b>REPORTING</b> Where will it be reported?
	expenditure in response to COVID-19	(including from any supplementary budgets)		delivery (e.g. budget papers, EMIS, HIS) as well as existing program and NGO monitoring systems	
Central agencies from eligible countries commit to good practice budget & debt policies and implement their planned functions and actions	<ul style="list-style-type: none"> <li>Number of fiscal and economic reforms adopted by partner governments that support inclusive growth and resilience</li> </ul>	<ul style="list-style-type: none"> <li>DFAT and central budget agency records</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> </ul>		
FY21 and FY22 budget outturn (actuals) demonstrate sustainable debt financing, planned loan repayments, provisions for new shocks and progress towards inclusive economic recovery	<ul style="list-style-type: none"> <li>Variance from planned macroeconomic stability and other PFM milestones</li> <li>Public expenditure allocation to institutions with functions relevant to economic recovery and support for vulnerable groups <u>8/</u></li> <li>Year-on-year change in public revenue and expenditure <u>8/</u></li> </ul>	<ul style="list-style-type: none"> <li>National budget papers and revenue/ expenditure data (including any supplementary budgets)</li> <li>National budget papers and revenue/ expenditure data (including any supplementary budgets)</li> <li>National budget outturn (including supplementary budgets) data</li> <li>x</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>Annual</li> <li>Annual</li> </ul>		
Public sector actors from Australia, IFIs, bilateral partners & eligible countries collaborate on development finance optimisation and coordinated packages tailored to needs of each eligible country	<ul style="list-style-type: none"> <li>Proportion of ODA and OOF managed with effective donor coordination and planning and/or integrated donor financing</li> <li>Stakeholder perspectives on Australian contribution</li> </ul>	<ul style="list-style-type: none"> <li>DFAT and central donor-coordination/development finance agency records</li> <li>Cables, media coverage of +ve and -ve perceptions</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>Annual</li> </ul>		
Timely provision of quality policy dialogue and technical assistance	<ul style="list-style-type: none"> <li>Number of Australian TA days <u>8/</u></li> <li>Proportion of Package TA from Australia or Australians <u>8/</u></li> <li>Quality assessment of Australian TA <u>8/</u></li> </ul>	<ul style="list-style-type: none"> <li>Existing program &amp; NGO monitoring systems</li> <li>Existing program &amp; NGO monitoring systems</li> <li>Perception survey/case studies in eligible countries</li> </ul>	<ul style="list-style-type: none"> <li>6-monthly</li> <li>6-monthly</li> <li>Annual</li> </ul>	Collated by contracted resource servicing monitoring needs for the entire portfolio financed by the Response Package and drawing on information from eligible country	Semi-annual progress report starting with baseline semester report in Y21S1
Timely disbursement of budget support	<ul style="list-style-type: none"> <li>Australian budget support as per cent public revenue <u>8/</u></li> <li>Total Australian budget support as per cent supplementary and/or donor budget expenditure in response to COVID-19 pandemic <u>8/</u></li> </ul>	<ul style="list-style-type: none"> <li>AidWorks and National Budget Outturn data</li> <li>AidWorks and National Budget Outturn data</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>Annual</li> </ul>	budget outturn and social service delivery (e.g. EMIS, HIS) as well as existing program and NGO monitoring systems	

## ANNEX 3: Program logical model and Results chain

	INDICATOR	DATA SOURCE How will it be measured?	FREQUENCY How often will it be measured?	RESPONSIBLE Who will measure it?	REPORTING Where will it be reported?
	<ul style="list-style-type: none"> <li>• Australian budget support as per cent public expenditure (excluding PPG debt repayments) §/</li> <li>• Quality assessment of Australian budget support §/</li> <li>• Time taken to disburse budget support after exchange of letters §/</li> </ul>	<ul style="list-style-type: none"> <li>• AidWorks and National Budget Outturn data</li> <li>• IMF Article IV Consultations</li> <li>• AidWorks and other DFAT records</li> </ul>	<ul style="list-style-type: none"> <li>• 6-monthly</li> <li>• Annual/biennial</li> <li>• 6-monthly</li> </ul>		

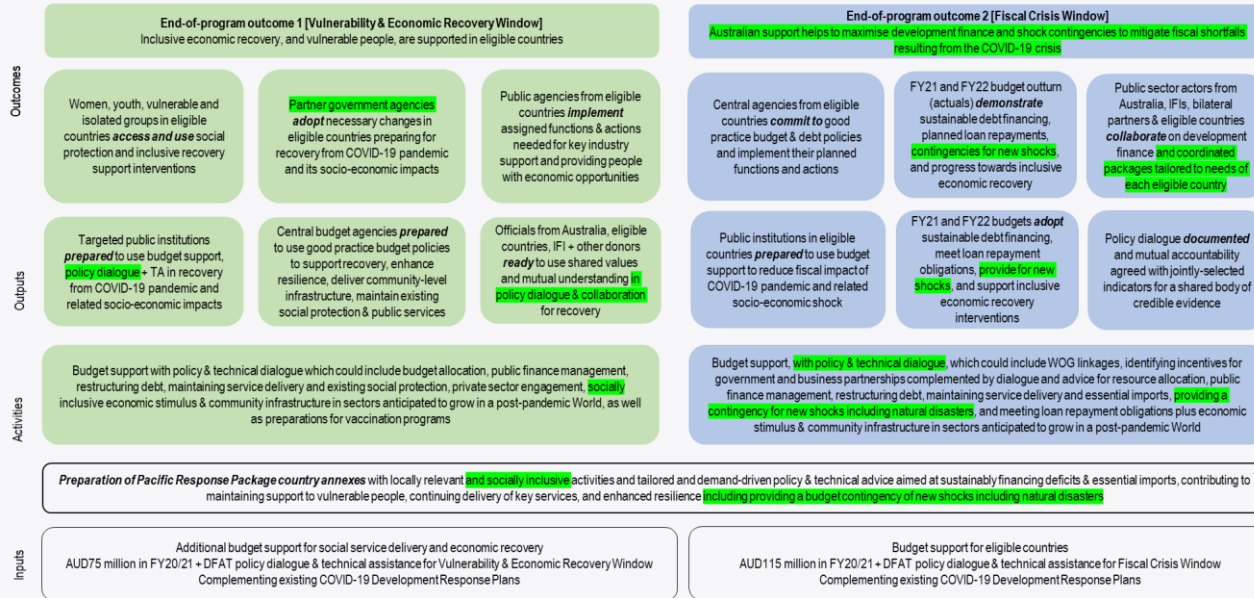
### Notes:

1. **Baseline** – existing time series data wherever possible, monitor data for 2019 [baseline] to 2023.
2. **Shared and credible body of evidence** - wherever possible monitor changes using national data (e.g. existing budget outturn and supplementary budget reports, health information system (HIS) records, and donor coordination data) and align with recently negotiated and mutually agreed COVID-19 Development Response Plans.
3. **Disaggregation** – to the extent that is useful and practical, disaggregate by region (province, island, districts) and beneficiary group (e.g. women, men, youth, isolated communities, ethnic minorities, and/or people with disability)
4. **Contribution** – focus on contributions made by Australia rather than narrow attribution, include the portfolio of Australian budget support including the AUD100 million response package in Y20S1 and identify any policy changes that Australian dialogue has contributed to.
5. **Quality** – to the extent that is useful and practical, assess the quality of policy dialogue, economic diplomacy, and support (e.g. quality of technical assistance, timeliness of disbursement).
6. **Quality of activities** – professional judgement about adequacy of preparation for recovery from social and economic shocks can be assessed against international good practice such as IMF guidance on minimising the size of social and economic impacts is adopted by targeted PICs and Timor Lester – <https://www.imf.org/en/Publications/SPROLLS/covid19-special-notes>
7. **Principles underpinning the Performance Assessment framework**– for each partner country select indicators that do not burden partners with additional measurement; are aligned with existing measures in recently completed COVID-19 Development Response Plans; are as simple as possible to credibly assess performance; are useful and timely; are performance-focused; and assess progress towards outcomes and contribution to the strategic intent.
8. **Indicator linked to first tranche of budget support** – indicators that provide a time series of data covering pre-pandemic, first tranche of budget support Y20S1, and the new package.



**COVID-19 Pacific Response Package– High-Level Logic Model**

**Strategic intent:** Contribute to a stable, prosperous and secure Pacific in the wake of COVID-19 in which Australia's relationships and reputation with PICs as an economic partner of choice are enhanced



COVID-19 Pacific Response Package – Schematic Results Chain



