

# Moving beyond grants: questions about Australian infrastructure financing for the Pacific

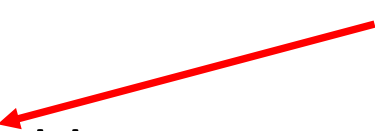

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# Australia and the Pacific and infrastructure

- PM's Townsville November speech had two new initiatives in this space:
  - Establishment of Australian Infrastructure Financing Facility for the Pacific (AIFFP)
  - Reforms to Efic (Export Finance Australia)
- These are the most significant reforms to Australian development financing in a decade, or perhaps ever.

# AIFFP

- \$1.5 billion in non-concessional loans 
- \$500 million in grants  ODA-eligible
- Untied
- Open to cofinancing
- Loans to government or private sector
- Invest in infrastructure in Pacific and TL
- Operational by July 2019

# Efic reforms

Not ODA-eligible



- Sixfold increase in callable capital from \$200 million to \$1.2 billion.
- With its current mandate, Efic has excess capital.
- New capital to finance a new overseas infrastructure mandate
  - Any infrastructure project of direct or indirect benefit to Australia.
  - Efic must maximize Australian benefits/participation
  - As per other projects, must be either commercial or sponsored under the national interest account.

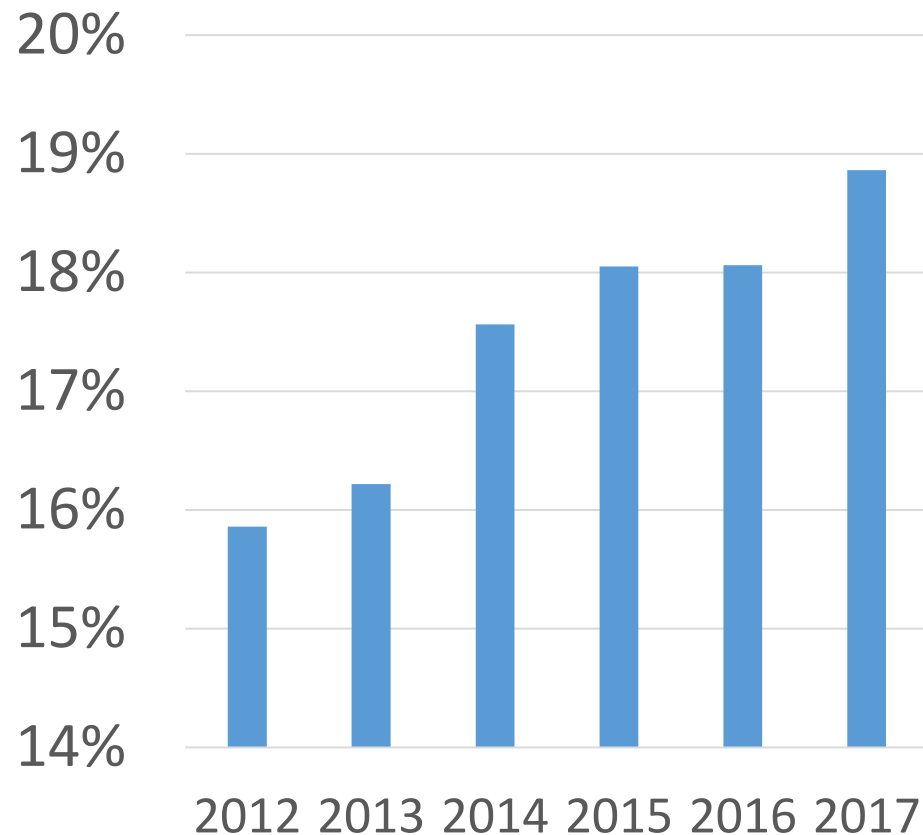
# AIFFP and EFIC?

- Efic to have role in AIFFP administration
- Both potentially to engage in sovereign and non-sovereign lending

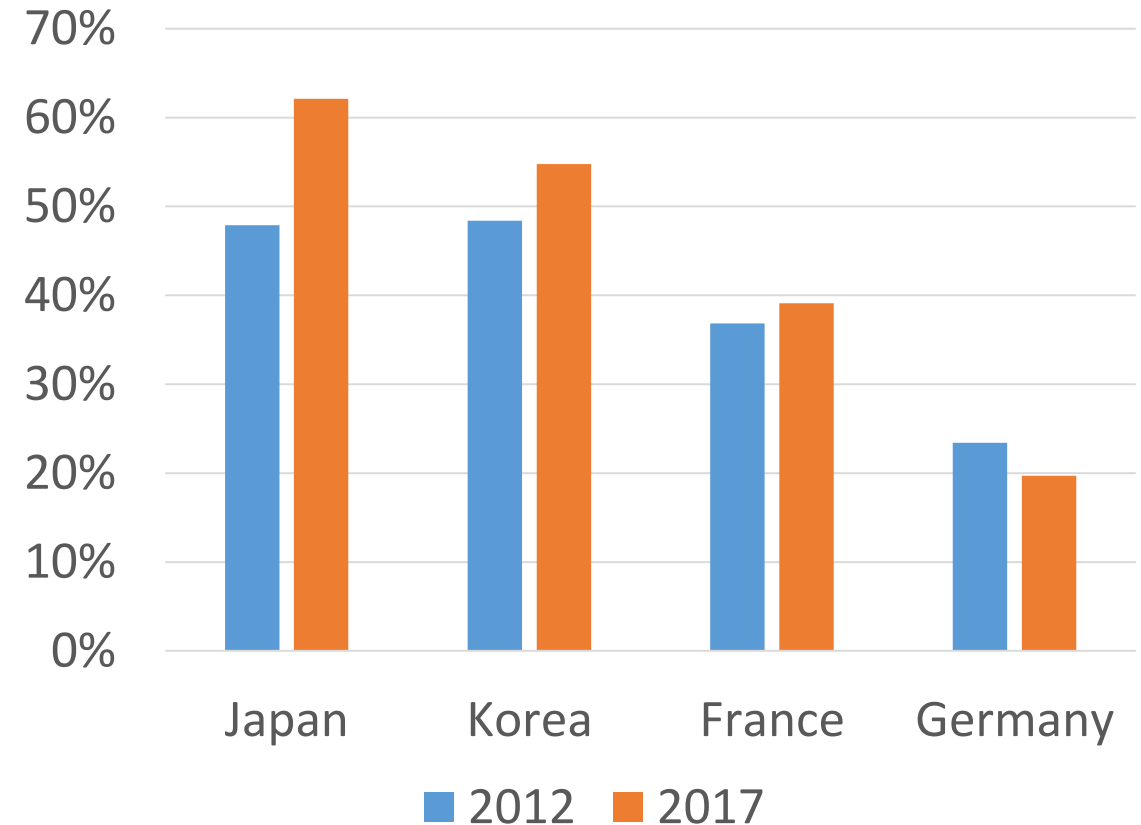
# What are other countries doing?

## Concessional lending

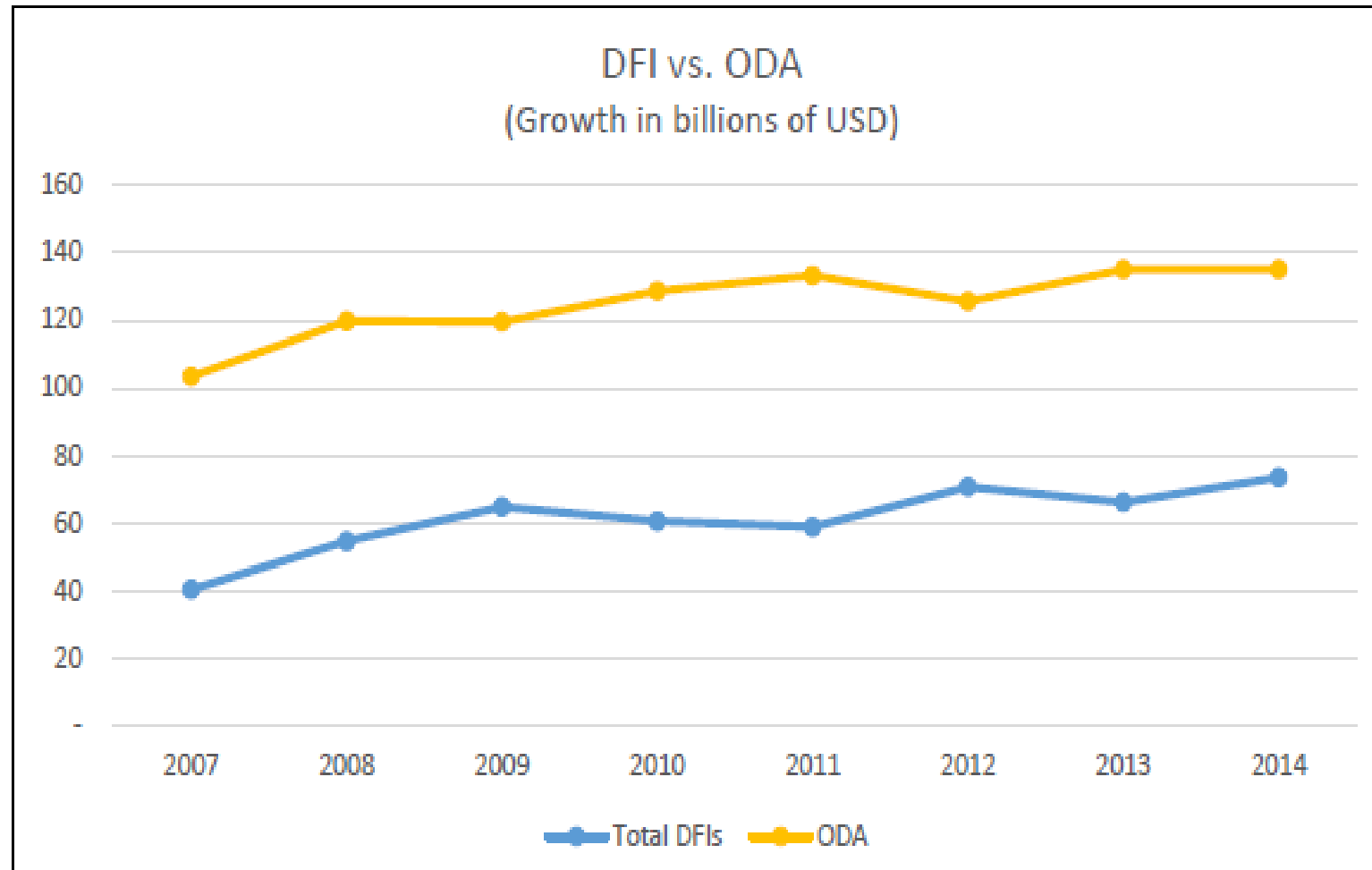
### A growing share of ODA



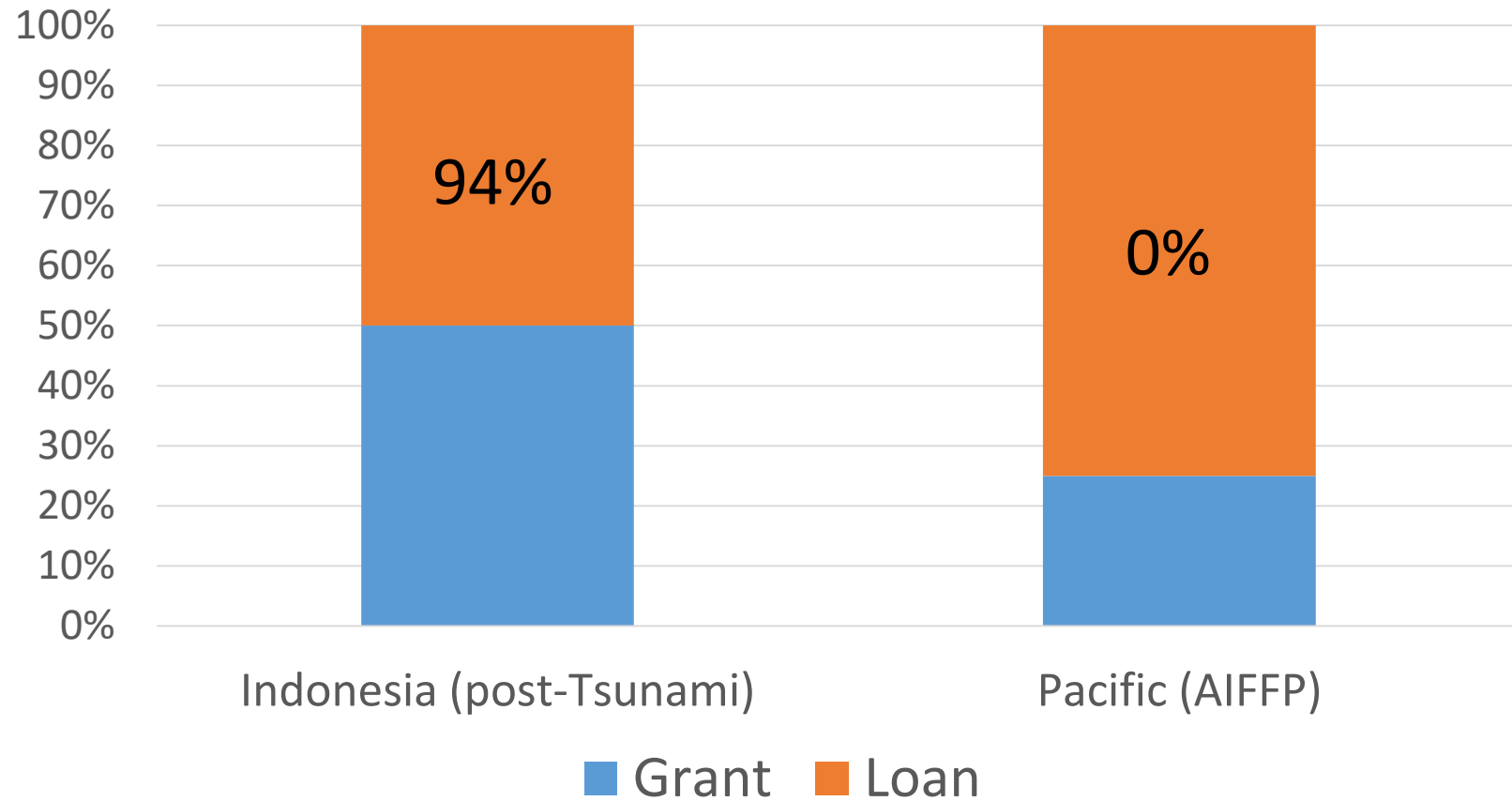
### Big in our region



What are other countries doing?  
DFIs (Development Finance Institutions)  
increasingly popular

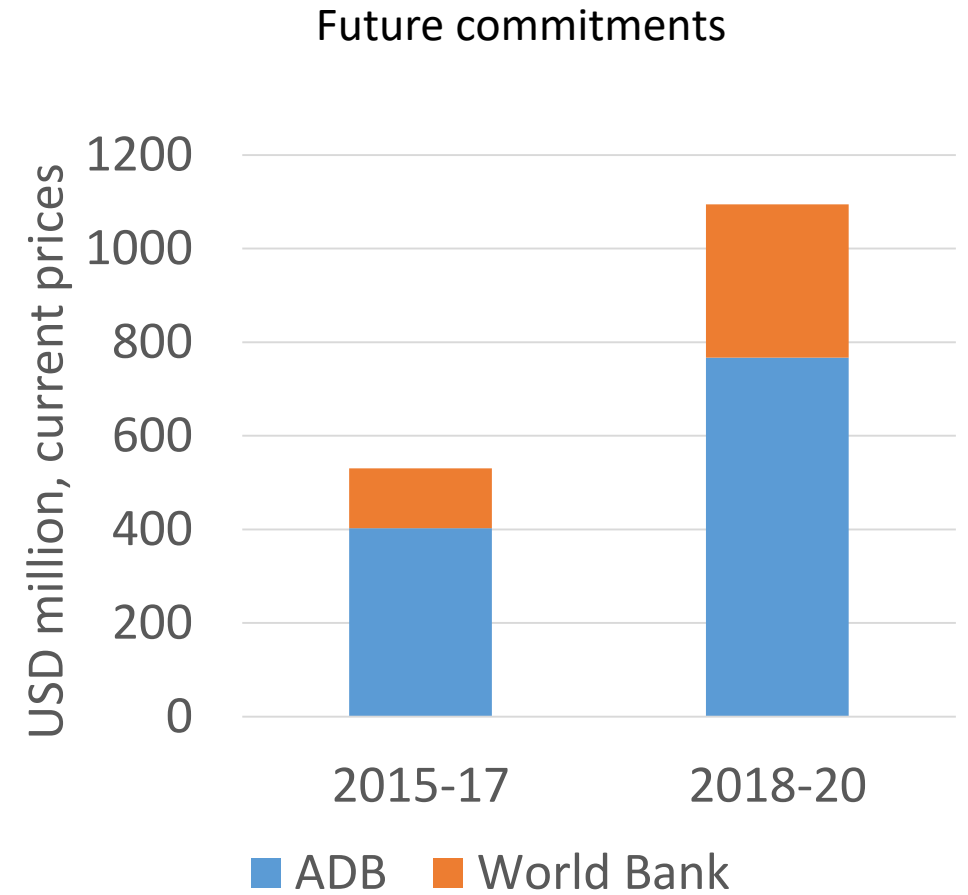
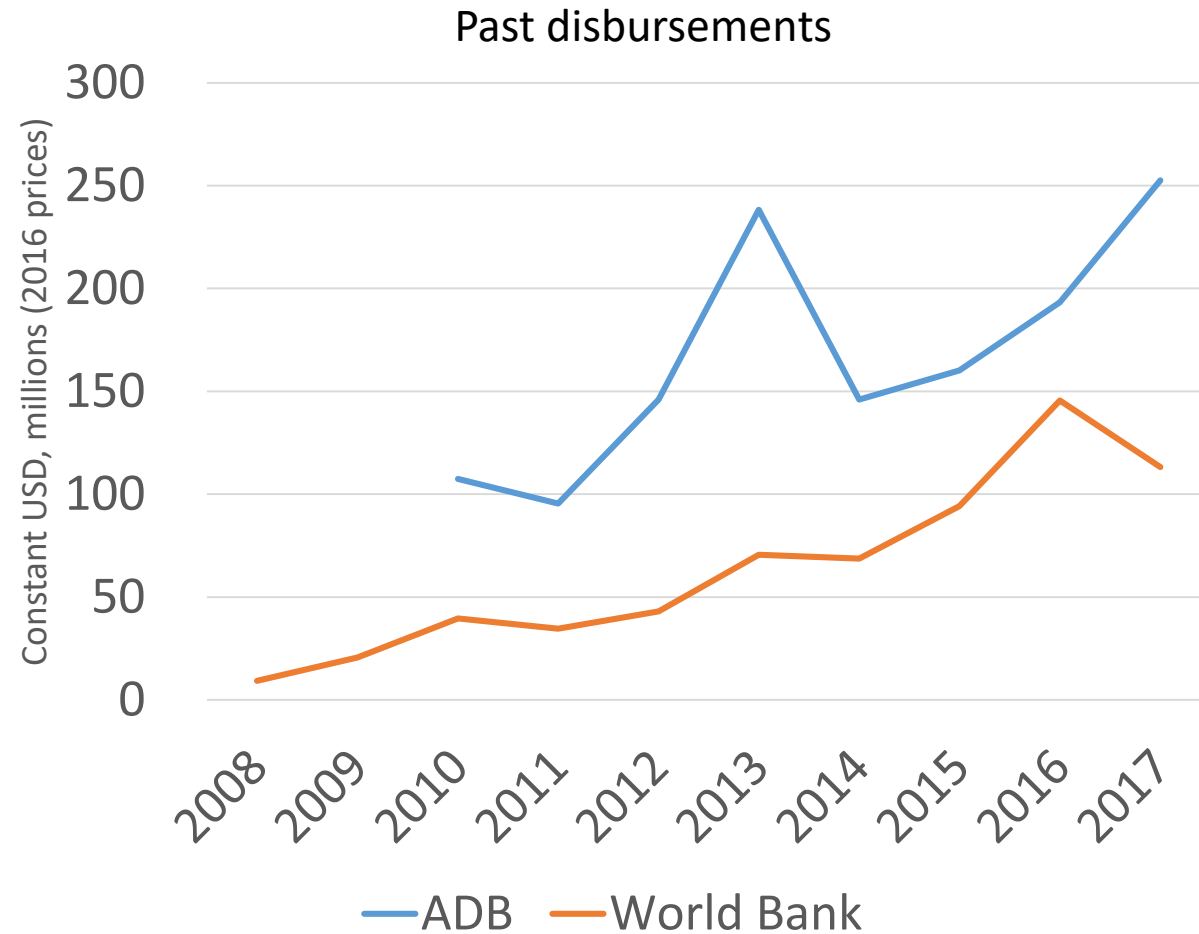


# Issues: reliance on non-concessional loans



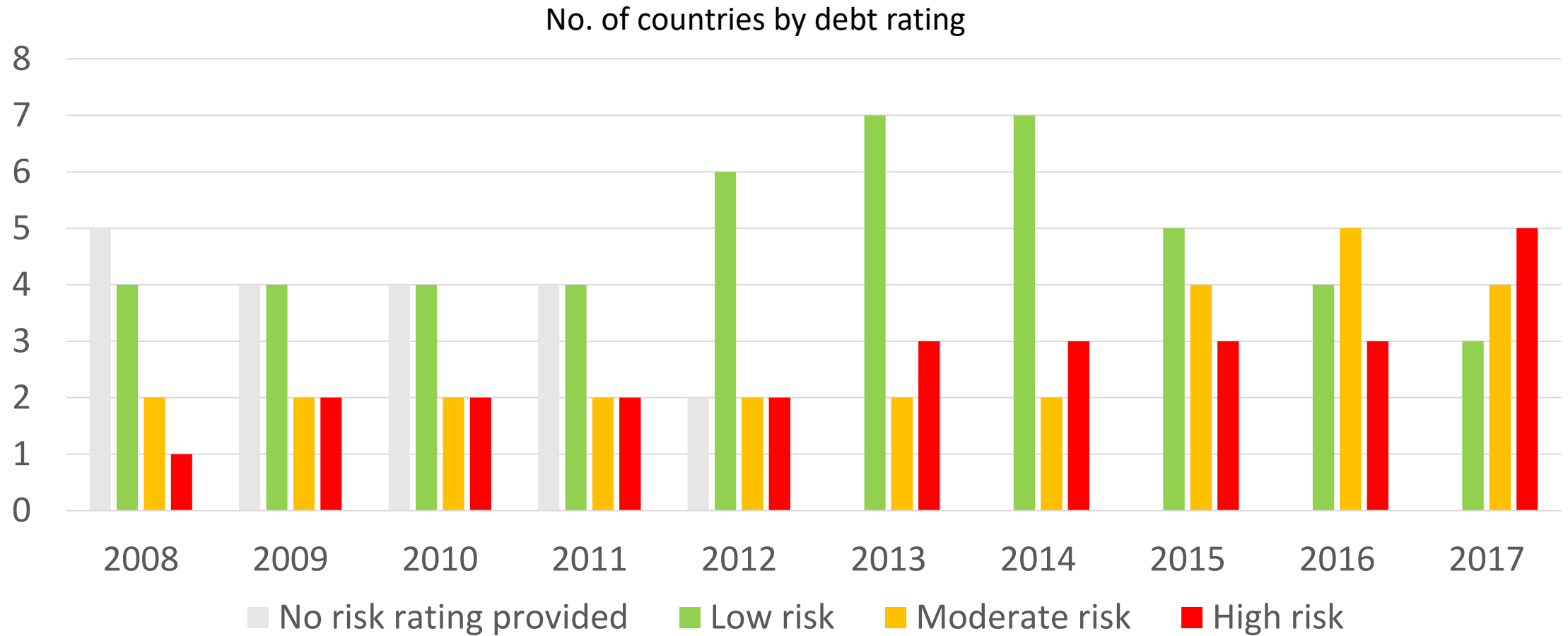


# Issues: the Pacific awash in money



*Commitments*

# Issues: Growing Pacific debt distress



# Other AIFFP issues

- Worsening the neglect of maintenance
- **Neglect of policy reform**
- Local content and skills transfer
- Lack of transparency
- Dealing with corruption, and environmental and social impacts
- Institutional home
- Duration of the initiative.
- Where will the (grant) money come from?

# Efic issues

- Supply-side led
- Inability of Efic to deal with policy reform
- Australia's interests put first
- Overly complex architecture

# Conclusion

- The model Australia is putting in place departs from international precedent.
  - No other country provides non-export-credit, non-concessional infrastructure financing to developing country governments.
  - No other OECD country gives export credit such a central role in infrastructure financing support – emerging donors do (India, China).
- There has been no debate and discussion.
- We can do better.

# Recommendations: AIFFP

- Make AIFFP concessional
  - Consistent with international practice
  - Don't treat the Pacific worse than Indonesia
- Commit to making loans only when the policy environment is sound
- Review performance after five years before deciding to replenish

# Recommendations: Efic

- Don't give Efic an infrastructure mandate as part of our development effort.
- Instead do what Canada did: mandate Efic to create a DFI to grow the private sector in our region, including in infrastructure and other sectors.
- But, if the government persists with going down the Efic route:
  - Require Efic to certify that the policy framework is sound prior to lending.
  - Drop the requirement of maximising Australian participation.

Thank you

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