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

Stephen Howes and Matthew Dornan
Development Policy Centre
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
- Untied
- Open to cofinancing
- Loans to government or private sector
- Invest in infrastructure in Pacific and TL
- Operational by July 2019

Not ODA-eligible

ODA-eligible
Efic reforms

- 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.

Not ODA-eligible
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

- Indonesia (post-Tsunami): 94% Grant, 0% Loan
- Pacific (AIFFP): 0% Grant, 100% Loan
Issues: the Pacific awash in money

Past disbursements

Future commitments

Commitments
Issues: Growing Pacific debt distress

No. of countries by debt rating

- No risk rating provided
- Low risk
- Moderate risk
- High risk
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

stephen.howes@anu.edu.au