Canada creates a bilateral Development Finance Institution: will Australia follow suit?

By Robin Davies
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Some will recall the transparency wobble last year when the Australian government announced its 2014-15 aid budget but declined at first to issue the "Blue Book" that, since time immemorial, has detailed the allocation of Australia's aid. Observers of Canadian aid must wish for such small problems. Canada's just-released 2015 budget, like its 2014 budget, simply does not state how much aid Canada will provide in the year ahead, let alone detail how it will be spent. The general understanding is that Canada will extend its five-year "freeze" on aid, though DAC statistics depict more of a melt than a freeze.

Canada's budget did, however, contain one specific announcement relevant for international development: the creation of a bilateral Development Finance Institution (DFI), to be housed in Export Development Canada and known as the Development Finance Initiative. Bilateral DFIs finance or insure investments by their host countries' firms in risky developing country environments, and (unlike institutions such as Australia's Export Finance and Insurance Corporation, EFIC) have both international development and market development objectives. They are mostly self-financing once a certain level of capitalisation has been achieved. Canada was, until now, alone among G7 countries in not having one. Its minister for international development, Christian Paradis, has for some months been emitting strong hints that the Canadian government might be about to change that.

DFIs are built on a range of different models. The relationships between DFIs and aid programs, agencies and budgets are highly variable across countries, and usually murky. Various experts [pdf] have tried to figure out how much government support for, and how much of the financing provided by, DFIs is counted as Official Development Assistance (ODA), and have concluded that it is simply hard to know. Some DFIs, like the US's OPIC, seem to have no ODA inputs or outputs; others, like the UK's CDC, do. In general, if ODA is in the picture, it takes the form of capital subscriptions to a DFI (used to raise funds in the financial markets), technical assistance provided by the DFI, grant funds placed at the disposal of the DFI to soften the terms of loans, or equity purchases net of sales. Depending on the outcome of current DAC discussions [pdf] about according ODA recognition to equity financing and guarantees, a higher proportion of DFI transactions could in future appear in

ODA accounts.

In financially straitened times, the spruiking of a new DFI by Canada's international development minister rather implies that the costs involved in setting up and running the institution will as far as possible be sheeted home to Canada's at-best-frozen aid budget. And that raises the question whether the Australian government might be thinking of following Canada down this path, as it has followed Canada down other paths. It has been suggested in media reports, for example this one, that Australia is considering the establishment of a DFI. Foreign minister Julie Bishop said the following last year in announcing $140 million in funding for 'innovative development solutions'.

> *Other initial investments will establish and deepen partnerships to unlock new sources of financing for priority development projects in Australia's region. This will include partnerships to address constraints to private sector investment, such as funding for early stage project development, assistance with arranging private debt and equity, as well as guarantees and insurance to offset risks.*

As noted here, none of the innovation funding so far allocated to various specific initiatives answers the last part of the commitment above. A DFI would.

Working out how to finance, run and regulate such a body, and even where to put it, would be a complex, messy exercise. Were Australia to follow Canada's suit, whether in the 2015-16 budget or at some later point, this would not necessarily be a bad thing—but it would carry some risks. For example, giving EFIC the job would confuse export promotion and economic development objectives. More generally, if substantial amounts of ODA were likely to be involved, much up-front effort would need to be invested in ensuring the institution was built to deliver development impacts, and that it was held to account for doing so, rather than allowing it to pour money into low-risk, high-profit investments or provide windfalls to private actors.

About the author/s

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Robin Davies was appointed Head of the Indo-Pacific Centre for Health Security at the Australian Department of Foreign Affairs and Trade in September 2017. Previously, from 2013, he was the Associate Director of the Development Policy Centre and from mid-2014, concurrently an Honorary Professor at the Crawford School at ANU.