

Development finance review: harmony in a medley

by John Eyers

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A year after DFAT began its review of development finance, a [report has been released](#). Its key findings are eminently sensible, and so are its recommendations, which the government has already accepted.

This comes after reviewing four years' experience since the innovations of 2018-19 – establishing the Australian Infrastructure Financing Facility for the Pacific (AIFFP) and enlarging the function and capital of Export Finance Australia (EFA) – the concurrent (but protracted) establishment of the Emerging Markets Impact Investment Facility (EMIIF), and new partnerships in regional infrastructure finance with the US and Japan. Against this background, DFAT reports only a little on what has been learnt.

The report recommends continuing with the current medley of financing mechanisms: most prominently AIFFP and EMIIF within DFAT, EFA operating autonomously in the same portfolio, engagements with multilateral development banks (MDBs) managed by Treasury and DFAT jointly, and participation in several multi-donor entities, notably the Private Investment Development Group and the blended finance network Convergence.

But several new features are recommended:

- an advisory committee with whole-of-government participation
- an overview of the portfolio of non-grant financing commitments, with attention to risks for the commonwealth balance sheet
- public reporting on the portfolio, and
- a dedicated unit in DFAT for engaging with philanthropic organisations and impact investors.

The report says that for the near future it's not worth the cost of establishing a development finance institution (DFI) specialising in providing Australia's non-grant development finance. This can be considered again further in the future, in the light

of experience from scaled-up operation of the present medley with the additions recommended. The report's review of DFI models suggests that the most suitable for Australia would be EMIIF. Presumably, although this is not stated, this is because while giving greater support to various kinds of blended finance it would remain in-house in DFAT, responsive to strategic and foreign policy objectives (as is EFA in its operations on the National Interest Account), while being responsive also (more than EFA must be) to development objectives.

The report tells us that each mechanism currently in use is performing well against its objectives. But readers could wonder how much DFAT has learnt beyond that. The four briefing papers accompanying the report contain little beyond a beginner's guide in each area. The report notes that DFAT is engaged in a blended finance learning program, a portfolio evaluation of 12 blended finance programs, but no further information is given about the program or its first fruits.

We're left guessing about the cost-effectiveness of various mechanisms, and therefore about comparing effectiveness among DFAT's own grants, loans and investments and similar things being done by MDBs and specialist entities such as the Public-Private Infrastructure Advisory Facility (PPIAF) and G20's Global Infrastructure Facility (GIF). These were key issues in two previous reviews done for DFAT, and they have become more pressing in the current situation, additionally crowded with financing partnerships, Just Energy Transition Partnerships, a climate finance partnership with the Asian Development Bank, and DFAT's new advisory unit [Partnerships for Infrastructure](#) operating in Southeast Asia, apparently close to PPIAF, GIF and Convergence.

Reporting more of DFAT's learning about gender lens investing could be particularly instructive, since the government has already announced the enlargement of EMIIF's funding and its renaming as Australian Development Investments, and since the report suggests expanding the focus on gender equality and women's economic empowerment across all of Australia's development financing. Has getting it right in EMIIF and the Investing in Women program involved big overhead costs in design and management? How informatively, over what periods, can these programs be evaluated? What prospects are there of the MDBs becoming good enough at gender lens investing, by themselves or with DFAT co-financing? A suggestion of [fuller reporting on EMIIF](#) has already been made in a recent blog.

While the report's findings and recommendations are about doing more non-grant financing, it does not recommend how much more and by when. This circumspection is notable especially in regard to finance for climate change mitigation and adaptation in Southeast Asia, where needs are enormous and of critical importance, and Australia could do much more to support the transition to

renewable energy, as suggested by the Asia-Pacific Development, Diplomacy and Defence Dialogue.

More broadly, the report seems to reflect that the government's ambitions in development finance remain modest. The additions to present institutional arrangements noted above are ones which should probably have been made with the innovations of 2018-19. Until they are made and have their full effect in improving collaboration among departments and agencies, the scaling-up which the report recommends will depend on adding capability within DFAT. Given what has happened since the AusAID incorporation to capability within DFAT in designing, managing and improving development projects, expecting DFAT to enlarge a parallel capability in structuring and managing development finance is ambition enough.

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Link: <https://devpolicy.org/development-finance-review-harmony-in-a-medley-20230816/>