



Does Australia need a development finance institution?

Development finance institutions (DFIs) are standalone financing institutions used by development partners to invest predominantly in private sector development projects. DFIs are typically incorporated under their own legislation and manage their own staffing and balance sheet, drawing on the backing of a government guarantee or capital injection.

Australia has long considered whether it should create an Australian owned DFI.

However, the more pertinent issue is whether Australia is building the right functional capability to address the development challenges in our region rather than the institutional form or structure that houses that capability.

The Review found that these existing development finance mechanisms are achieving results and were addressing gaps in both the Pacific and Southeast Asia. This is in the context of recent and significant growth in Australia's development finance mechanisms, including establishing the \$4 billion Australian Infrastructure Financing Facility for the Pacific; providing \$3.45 billion in budget support loans to Indonesia and Papua New Guinea; establishing the \$140 million Australian Climate Finance Partnership; and establishing Australian Development Investments (out of the Emerging Markets Impact Investment Fund) and capitalising it up to \$250 million.

The Review found that creating a new Australian DFI would not generate material benefits for Australia that clearly outweighed potential costs. While Australia could establish a DFI built out of its existing mechanisms, it would impose significant complexity given the breadth of objectives and financing approaches. Establishing a new structure bringing these together would be administratively complex and costly, incur risks and delays, and divert attention from the urgent need to deliver development finance in the Indo-Pacific.

The Review found opportunities to improve Australia's development finance approach. Implementing Review recommendations will allow Australia to continue to sensibly evolve existing mechanisms, expand their scale and enhance their capabilities, and draw learnings from operating development mechanisms at a scale commensurate with DFIs.

Australia's financing mechanisms should continue to work closely to collaborate with DFIs in the region. Australia's development financing approach allows it to retain flexibility and capitalise on the experience and networks it has already built in the region and avoid duplicating the mechanisms of others, including existing DFIs.

Australia retains a pathway to establish a DFI over the medium term, should the limits of the current development finance architecture be reached. There may be benefits to establishing an Australian DFI in the future as the scale and sophistication of Australia's development finance increases. Australia will periodically reassess the case for deeper structural changes to our development finance to ensure it remains fit for purpose.