



Australian Government

Department of Foreign Affairs and Trade



DFAT SUBMISSION TO THE INDEPENDENT REVIEW OF EXPORT FINANCE AUSTRALIA'S OVERSEAS INFRASTRUCTURE FINANCING POWERS

July 2021

STRATEGIC ENVIRONMENT

The 2017 Foreign Policy White Paper recognised the Indo-Pacific's infrastructure needs are 'massive and wide-ranging' and that infrastructure development was being used not just for commercial advantage but to build strategic influence. It affirmed that Australia has an interest in ensuring infrastructure is developed in a way that conforms with the principles we support.

Australia supports all investment in regional infrastructure that is transparent and non-discriminatory, promotes fair and open competition, upholds robust standards, including environmental and social safeguards, meets genuine needs, and avoids unsustainable debt burdens.

Australia wants to help ensure Indo-Pacific countries have access to a range of sources of infrastructure financing and can make well-informed investment choices. Infrastructure development can drive prosperity and stability, enable the movement of people and goods and better connect the growing markets of our region. It will also play an important role in supporting economic recovery post-COVID.

The Australian Government provided Export Finance Australia (EFA) with its overseas infrastructure financing powers as part of a package of measures to step up Australia's engagement in the Pacific and the broader region, enhancing Australia's regional commitment, especially to infrastructure. The powers enable EFA to better support quality infrastructure projects in the Indo-Pacific that are inclusive and resilient.

ADVANCING THE GOVERNMENT'S INFRASTRUCTURE AGENDA

EFA's infrastructure financing powers complement a broader Australian Government focus on infrastructure in the Indo-Pacific and come at a time of increased international focus on infrastructure issues. EFA has provided valuable support to actions by the Department of Foreign Affairs and Trade to advance the Government's international agenda on infrastructure. Examples include:


- AUD2 billion Australian Infrastructure Financing Facility for the Pacific (AIFFP)
 - EFA provides support to, and is the lender of record for, the AIFFP. While the operation of the AIFFP is outside the scope of this review, EFA and the AIFFP coordinate in identifying potential projects and how best to finance them.
- AUD141 million Partnerships for Infrastructure (P4I) initiative in Southeast Asia
 - The initiative is working with partner countries to share expertise in planning, procuring and managing new and existing infrastructure assets to generate inclusive, sustainable growth. EFA is exploring how its new powers can support the initiative, including in relation to potential project pipelines.

- Infrastructure initiatives under Australian development programs, such as
 - The Indonesia-Australia Partnership for Infrastructure (KIAT). KIAT is a 10-year AUD300 million facility implemented by Cardno, an ASX-listed professional infrastructure and environmental services company. The facility supports improvements to infrastructure policy, planning and delivery which can lead to new projects that may be eligible for EFA overseas infrastructure financing.
- Developing international standards that support quality infrastructure
 - EFA has supported DFAT's pursuit of initiatives such as the G20 Quality Infrastructure Investment Principles (agreed 2019) and the Blue Dot Network (a project to certify quality infrastructure projects, with the concept launched by Australia, the United States and Japan).
- Collaborating with likeminded countries on infrastructure projects and policy
 - EFA and DFAT lead Australia's engagement in the Trilateral Infrastructure Partnership (TIP) with Japan and the United States. The TIP aims to help the Indo-Pacific meet its substantial infrastructure needs in a sustainable way and provides a platform for coordination between the trilateral partners. EFA's overseas infrastructure financing power underpins its involvement in the TIP's project pipeline discussions and joint missions to PNG and Indonesia, and a virtual joint mission to Vietnam.
 - EFA is supporting DFAT to implement the Quad (Australia, India, Japan and the United States) Leaders' and Foreign Ministers' commitment to deepen cooperation on infrastructure.
 - The flexibility granted to EFA via the Australian benefits test has enhanced EFA's ability to cooperate with export financing bodies in other countries, a number of which have also seen significant changes to expand their mandates (e.g. US). Key counterparts include UK Export Finance, Nippon Export Investment Insurance, Japan Bank for International Cooperation, Export Development Canada, US International Development Finance Corporation, the Export-Import Bank of Korea and the European Investment Bank.
- Engaging with multilateral development banks and regional export finance forums to advance preferred infrastructure approaches
 - Alongside DFAT's engagement with multilateral banks, EFA cooperates closely with banks such as the World Bank International Finance Corporation and the Asian Development Bank. It also participates in key regional forums for export finance, such as the Asian Exim Banks Forum.

PROJECT DELIVERY

EFA has finalised three projects worth AUD48 million under its expanded infrastructure financing power. These projects have demonstrated the utility of the expanded powers and how they are advancing broader infrastructure objectives.

The most recent infrastructure project in Vietnam demonstrated how EFA collaborates with likeminded financiers and crowds in private investment. EFA operates in the 'market gap' where private sector finance is not forthcoming. Its involvement can help 'crowd in' private sector finance through its ability to bear



higher risks and longer terms than the private sector. In Vietnam EFA lent alongside the Asian Development Bank and Japan International Cooperation Agency, which facilitated lending from private financiers including Société Générale and Triodos Groenfonds N.V.

EFA's first project under its new power was with Australian/Papua New Guinean company Rhodes Project Services to support the construction in Papua New Guinea of two warehouses, one supermarket, and 32 houses in Tuhava Township, demonstrating how infrastructure projects can support Australian businesses, including small and medium-sized enterprises.

While it is useful to review the operation of EFA's expanded infrastructure financing powers at this juncture, more time is needed for the full impact of the expanded powers to become apparent. Infrastructure projects take time to deliver and COVID-19 has significantly impacted EFA's ability to originate, transact and close infrastructure transactions.

EFA is building a promising pipeline of projects. The AUD1 billion increase in EFA's callable capital will also become more relevant over time. It has enabled EFA to raise its country lending limits, enhancing its credibility and ability to engage project proponents, sovereign borrowers and financing partners.

PROPOSED EQUITY POWER

On 24 June 2021, the Government announced it would introduce legislation to enable EFA to provide equity financing in certain circumstances. This would further enhance EFA's ability to support overseas infrastructure development. Minister for Trade, Tourism and Investment, the Hon Dan Tehan MP, said: 'While used sparingly, this power will give EFA more flexibility to support important infrastructure investments in the Indo-Pacific or export-linked projects in Australia.'