

Development Finance Review – Terms of Reference

I. Background and Rationale for the Review

At the request of Government, DFAT will lead a review into new forms of development finance (the Review).

As the development needs of the Indo-Pacific region grow, countries face a widening financing gap, and many are at risk of debt distress. Innovative financing instruments can be a valuable tool to pursue Australia's foreign policy, trade, climate, and development interests. Different development financing approaches can support new and modern partnerships to address increasing challenges facing the Pacific and Southeast Asia, and help Australia remain a relevant partner of choice.

II. Scope of the Review

DFAT will examine how different development financing approaches can complement Australia's grant financing and enhance the effectiveness of current financing arrangements in the Pacific and Southeast Asia. DFAT will look at existing sovereign and non-sovereign financing mechanisms being used by the Australian Government and the potential to improve their effectiveness, functionality, coherence, and scale.

DFAT will draw on best practice from around the world and evaluate the opportunities and costs of reshaping existing mechanisms or creating new entities as an effective means of providing development financing. DFAT will consider options to better leverage and blend investment from bilateral donors and multilateral organisations, as well as private, philanthropic, and other sources of financing. Based on this analysis, DFAT will provide advice on policy options to the Minister for Foreign Affairs. DFAT will also examine the potential for greater use of blended finance mechanisms where government financing instruments such as grants and loans are used in combination with and to leverage private sector and philanthropic investment in development.

III. Timing, Format, Consultation and Resourcing

The Review will be led by DFAT's Development Policy Division in consultation with relevant areas of DFAT and other agencies, notably Treasury and Export Finance Australia (EFA). DFAT will aim to present the final Review report to the Minister in November 2022. DFAT officials undertaking the Review will report to a Review Advisory Panel, which will be led by a senior DFAT official and include representatives from key agencies of Government. Public consultation will be targeted and include round tables, invited submissions, and in-person consultation with partner governments, bilateral donors, multilateral organisations, the private sector, ACFID, and philanthropic and civil society organisations. The Review will be resourced through existing departmental funding.

IV. Key Review Questions

DFAT will provide recommendations to the Minister based on the following Key Review Questions:

1. What are the unmet demands for development finance in the Pacific and Southeast Asia and their relevance to Australia?
 - a. What are the different development financing needs and to what extent are they being filled, including by partner governments in the region, bilateral donors, multilateral organisations, as well as private, philanthropic, and other sources of financing?
 - b. What innovative forms of development financing could Australia use to draw on private, philanthropic, and other sources of financing to meet development financing needs beyond

what is available from likeminded bilateral donors and multilateral organisations? What is best practice around the world, including for blended finance? What are relevant international comparators to inform Australia's future use of development finance?

- c. How might changing global economic circumstances and characteristics of domestic markets and financial sectors in the region impact the availability or suitability of certain kinds of development financing, including blended finance?
 - d. What is the opportunity to strengthen gender equality and women's empowerment in the region through development finance?
2. How has Australia's current suite of development finance mechanisms supported strengthening stability, prosperity, peace, and security in the Pacific and Southeast Asia?
- a. How have existing Australia's development financing mechanisms complemented broader development financing to deliver on Australia's international development, climate change, and gender equality objectives?
 - b. How have Australia's development financing mechanisms provided support that is consistent with best practice from around the world, including debt management?
 - c. How have Australia's development financing mechanisms supported Australia's position as a partner of choice in the region?
 - d. How have Australia's development financing mechanisms utilised blended finance to leverage private, philanthropic, and other sources of financing to help fill the development financing gap, and support trade, investment, and technology transfer?
 - e. What challenges have been encountered and what insights can we draw through the use of Australia's current development financing mechanisms? What is the potential for greater use of blended finance?
3. Drawing on evidence from responses to Key Review Questions 1 and 2 above, what are the key options to utilise new forms of development finance and/or reshape existing financing mechanisms that Government should consider?
- a. For each key option, what are the:
 - i. opportunities, risks, and policy trade-offs;
 - ii. resource and capability implications; and
 - iii. regulatory and legislative requirements and budget management considerations?
 - b. What measurement, evaluation, and learning approaches should government consider to support achievement of development, climate and gender equality objectives through development finance?