



Australian Government
Department of Foreign Affairs and Trade

Inquiry into the Export Finance and Insurance Corporation Amendment (Equity Investments and Other Measures) Bill 2021

Joint Department of Foreign Affairs and Trade – Export
Finance Australia Submission to the Senate Foreign Affairs,
Defence and Trade Legislation Committee

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INTRODUCTION

The Department of Foreign Affairs and Trade (DFAT) and Export Finance Australia (EFA) support the *Export Finance and Insurance Corporation Amendment (Equity Investments and Other Measures) Bill 2021* (the Bill).

The amendments will give Australia's export credit agency, EFA, a new equity investment power and the ability to provide stand-alone overseas infrastructure guarantees. These initiatives will support infrastructure development in the Indo-Pacific and export-linked projects in Australia, as well as provide enhanced financing capabilities to the Australian Infrastructure Financing Facility for the Pacific (AIFFP).

The amendments will bolster EFA's ability to support Australia's national interests and priorities. They will enhance EFA's capabilities, and complement its existing suite of financing powers comprised of loans, guarantees, bonds and insurance.

ABOUT EXPORT FINANCE AUSTRALIA (EFA)

EFA is the Australian Government's export credit agency. It provides finance to support Australian exporting businesses and in support of overseas infrastructure development that delivers benefits to Australia.

EFA's functions, as detailed in the *Export Finance and Insurance Corporation Act 1991*, require it to:

- facilitate and encourage Australian export trade and overseas infrastructure development by providing finance;
- encourage banks and other financial institutions to finance exports and overseas infrastructure development;
- provide information and advice about finance to help support Australian export trade;
- assist other Commonwealth entities and businesses in providing finance and financial services;
- administer payments in relation to overseas aid projects financed by the Commonwealth.

In performing its functions, EFA:

- co-operates – rather than competes – with private financiers to operate within the 'market gap'; and
- focuses on supporting:
 - small and medium-sized enterprises (SMEs)

- the infrastructure needs of Pacific Island countries (including Timor-Leste) and the broader Indo-Pacific region
- defence-related exports
- critical minerals projects and related infrastructure.

In doing so, EFA must also have regard to Australia’s international commitments relating to:

- sustainable lending practices;
- environmental and social issues;
- the prevention of bribery and corruption; and
- the security of 5G networks and future communication technologies.

THE BILL WILL ENHANCE EFA’S ABILITY TO SUPPORT INFRASTRUCTURE INVESTMENTS IN THE INDO-PACIFIC AND EXPORT-LINKED SECTORS IN AUSTRALIA

As outlined in the Government’s 2017 Foreign Policy White Paper, Australia is committed to working with regional partners to build an Indo-Pacific that is safe, secure, and prosperous.

The bill enhances EFA’s ability to:

- finance regional infrastructure. In 2019, the Government provided EFA with the power to support overseas infrastructure projects in our region to the benefit of Australia or Australians. In broadening its financing powers to include equity investments, EFA will be able to make investments in a greater range of infrastructure projects, and at an earlier stage of development. The equity power will also be made available to the AIFFP, further supporting Australia’s Pacific Step-up; and
- support the development of export-linked sectors of economic significance in Australia when other financing tools, both public and private, are either unavailable or inadequate.

Export credit agencies can also play an important role ‘crowding in’ private sector finance by reducing the risk profile of transactions and demonstrating the potential for commercial returns. The Minister’s Statement of Expectations for EFA requires it to maintain a demonstration role to private finance providers. Bridging financing gaps and attracting private sector finance is where EFA can and should play a greater role. These amendments will enhance EFA’s capacity to do this.

THE BILL ALIGNS EFA WITH ITS INTERNATIONAL AND DOMESTIC PEERS

The ability to make equity investments will bring EFA’s capabilities in line with those of export credit and finance agencies in other major economies, including the United States, China, Japan, Canada, and South Korea. These countries are already making equity investments in our region to support their development and commercial objectives.

In addition, the Bill aligns EFA with other Australian Government financing agencies, like the Northern Australia Infrastructure Facility and Clean Energy Finance Corporation, which are already able to make equity investments.

CONSTRAINTS WILL BE PLACED ON EFA'S EQUITY POWER

The Government will instruct EFA to ensure equity investments are only considered for significant transactions that support Australia's national interests. Constraints will also be placed on the use of the equity power, including through a direction from the Minister for Trade, Tourism and Investment and an updated Statement of Expectations to EFA. These constraints are:

- Equity investments will be limited to the National Interest Account (i.e. the Australian Government – not EFA – will make the final decision on equity investments);
- Equity investments will be limited to a minority interest unless there is a compelling reason otherwise;
- Equity investments should be \$20 million or higher unless there is a compelling reason otherwise;
- EFA will only bring forward proposals where other financing options are unavailable or inadequate;
- EFA will ensure equity investments have appropriate exit arrangements and target commercial rates of return; and
- EFA will encourage participation from the private sector and like-minded Governments and multilateral bodies.

These constraints will ensure EFA is not crowding out private finance, but instead filling a gap in the market. Debt solutions like loans, guarantees, and bonds will continue to be the mainstay of EFA's support to Australian exporters and for overseas infrastructure development in the region.

THE BILL ENABLES EFA TO PROVIDE STAND-ALONE GUARANTEES

The proposed bill will also enable EFA to provide stand-alone guarantees to overseas infrastructure projects. Currently, EFA can only provide a guarantee to an overseas infrastructure project if it is also providing a loan to that project. Removing this requirement will improve the flexibility and efficiency of EFA's and the AIFFP's overseas infrastructure financing activities, particularly in the Pacific. The changes will enable EFA to provide a standalone guarantee to local banks to support local currency lending, which is often required in Pacific island countries.

THE BILL MAINTAINS EFA'S RISK CONTROLS AND COMMERCIALY APPROPRIATE RISK APPETITE

EFA has strong governance arrangements and financial management capabilities, as well as a proven track record of successfully implementing new mandates and functions. EFA will establish new mechanisms and internal guidelines to ensure its new equity investment power is effectively implemented. These amendments have no impact on EFA's existing commercial due diligence processes, which remain robust and comprehensive.

For equity investments, EFA will conduct thorough due diligence, including considering investment risks and returns, before making a referral to Government. The decision to enter an equity investment will be made by Government.

EFA has an excellent track record of providing finance and sound commercial judgement. In 2019–20 EFA supported 136 Australian businesses with \$1.1 billion in support, enabling \$2.45 billion of export contracts which supported 9,669 jobs in Australia.

EFA HAS STRONG ENVIRONMENTAL AND SOCIAL ASSESSMENT PROCESSES

EFA will continue to conduct rigorous due diligence for equity investments in a manner which is consistent with its high standards for assessing debt transactions. This includes robust environmental and social risk assessments. This approach is detailed in EFA's Policy and Procedure for Environmental and Social Review of Transactions. Drawing on two recognised global approaches for environmental and social due diligence set out in the OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits and the Equator Principles, EFA's Policy and Procedure is consistent with international practice.

EFA publicly discloses all possible future involvement in projects that carry the potential for significant adverse environmental and/or social impacts (Category A disclosures). EFA also publishes in its online transaction register key details of all transactions, including the name of the client, a description and location of the project, the type of facility being provided, its value and the environmental category of the project. This information is also reproduced in EFA's Annual Report. In addition, transactions on the National Interest Account are gazetted.

CONCLUSION

Providing EFA with a new overseas equity investment power and a stand-alone guarantee power will expand the range of capabilities at its disposal to support Australia's national interests and priorities. The bill will boost EFA's important role in supporting Australia's economic growth and facilitating stronger links between Australian businesses and the Indo-Pacific region while maintaining EFA's robust processes for assessing commerciality, risk, and environmental and social impacts.