



Senator the Hon Eric Abetz
Chair
Senate Foreign Affairs, Defence and Trade Legislation Committee
Parliament House
Canberra ACT 2600

Dear Senator Abetz

Inquiry into the Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) Bill 2019 [Provisions]

World Vision Australia (**WVA**) makes this submission to the Senate Foreign Affairs, Defence and Trade Legislation Committee's Inquiry into the Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) Bill 2019 (hereafter referred to as 'the **Bill**').

We also commend to the Committee the submission made by the Australian Council for International Development and fully endorse all the recommendations made therein. In addition, we would like to highlight particular points for the Committee to consider in relation to the purpose, governance, safeguards, and transparency and accountability of the Export Finance and Insurance Corporation (**Efic**), given its proposed expanded role in supporting exports to and infrastructure projects in the Pacific countries where we work.

We have set out below:

- background on WVA at heading 1;
- our submissions in respect of the Bill at heading 2; and
- our summary in respect of the Bill at heading 3.

1. Background on WVA

WVA is a Christian relief, development and advocacy organisation dedicated to working with children, families and communities to overcome poverty and injustice. It is part of the World Vision International Partnership, which operates in more than 90 countries. WVA is Australia's largest overseas aid and development organisation, operating primarily to assist overseas communities living in poverty. It also carries out development work in Australia with Indigenous communities, working collaboratively with both government and non-government organisations in Australia.



2. Our submissions in respect of the Bill

WVA has an interest in the Bill given the proposed role of Efic in Australia's 'Pacific step-up' and its potential role in supporting infrastructure financing in and Australian exports to countries in the Pacific region where World Vision works. World Vision has active community development programs in Timor Leste, Papua New Guinea, the Solomon Islands and Vanuatu.

(a) About the Bill

The Bill seeks to expand the mandate and ability of Efic, Australia's export credit agency, to finance infrastructure projects by increasing its callable capital by \$1 billion and granting it power to finance overseas infrastructure projects based on an Australian benefit test. These are significant changes to the scope and mandate of Efic. Efic's callable capital is currently \$200 million, and the Bill seeks to increase this allocation to \$1.2 billion, which is a six-fold increase. WVA recommends that any increase in callable capital should come with a commensurate increase in scrutiny, governance, safeguarding, transparency and accountability.

(b) Purpose and intent

It is important to remember the strategic intent of the Australian Government's Pacific step-up announcement, of which this Bill is a key component. On 8 November 2018, the Prime Minister, the Hon Scott Morrison MP, announced that it was time to open "*a new chapter*" in Australia's relations with Pacific countries "*based on respect, equality and openness*" in what he called "*a relationship for its own sake, because it's right*". In this context, the Prime Minister announced plans to increase callable capital for Efic and to expand its mandate to finance overseas infrastructure projects.

However, the Bill, as currently worded, does not align with this strategic intent for mutually-beneficial partnerships with Pacific countries. There are no protections in the Bill to ensure that Efic does not support projects that are not in the interest of Pacific countries. The Bill states that for Efic to provide loans for overseas infrastructure projects, Efic must conclude "*that lending the money is likely to result in an Australian benefit*." There is no requirement, however, that the loan be of benefit to the recipient country. As the Minister's second reading speech clarified, Efic "*will be required to maximise Australian participation in overseas infrastructure projects*". This could displace local labour, equipment and skills, when the Australian Government should instead build local capability in Pacific communities. The Government should focus on local empowerment and capacity building in its approach to infrastructure development in order to achieve better development outcomes and to also differentiate itself from other government lenders active in the Pacific region. While there is reference to building "*stronger relationships with our regional partners, especially in the Pacific*" as part of the Explanatory Memorandum, there is no further reference in the Bill on how Pacific interests will be considered.



Given that Efic's purpose as outlined in the Bill is to help Australian companies, it is not consistent with the strategic intent of a relationship with the Pacific "for its own sake". If the Government is committed to genuinely stepping up engagement in the Pacific region, then it should ensure that the interests of Pacific countries are upheld and prioritised across all of its Pacific step-up measures, including export financing through Efic.

(c) Governance

The Efic Board is responsible for corporate governance, however in our view it lacks expertise in development and infrastructure programming for its new role and scope. These skill gaps could be filled by recruiting Board members with experience in development and infrastructure programming and/or appointing an external advisory group with expertise in these areas to formally provide advice within Efic's governance structures. Furthermore, there are limited mechanisms for civil society to engage with, influence and inform the work of Efic and this should be corrected.

(d) Safeguards

Efic, as an institution, is primarily concerned about commercial risk. The Department of Foreign Affairs and Trade, on the other hand, has a much more comprehensive approach to risk management and safeguarding across all stages of the aid management cycle. It is unclear how these two approaches to risk management will interact and whether more robust safeguards will be applied to Efic transactions in the future to better align them with the high standards of the aid program. Safeguarding is not only critical for good development outcomes, but also for Australia's reputation in the region and in the world. Australia's value proposition as a new lender in the Pacific region lies not in participating in a race to the bottom, but in upholding safeguards and empowering its Pacific development partners.

(e) Transparency and accountability

Efic operates in commercial markets and therefore classifies most of its activities and decision-making processes as commercial-in-confidence. This is inconsistent with the principle of aid transparency and the relationship of "openness" between Australia and its Pacific neighbours which the Prime Minister flagged in his Pacific step-up announcement. Efic's complaints mechanism also needs to be reformed to enable complaints to be raised and genuinely addressed in a timely manner.



3. Summary

In summary, WVA advocates that any increase in Efic's mandate and callable capital should be accompanied by an increase in transparency and accountability. We recommend that governance be reformed, safeguarding strengthened, development and loan expertise developed and transparency and accountability upheld for Efic to support exports to the Pacific region.

The relationship between Efic and the Government's proposed Australian Infrastructure Financing Facility remains unclear. Given the concerns outlined above about Efic's lack of strategic alignment with Australia's Pacific step-up and its lack of transparency and accountability, WVA recommends that the Australian Infrastructure Financing Facility not be delivered by Efic and instead be set up as an independent development finance institution within the Foreign Affairs portfolio. The design and set up of such a Financing Facility should be done in close consultation with Pacific governments and communities and it should be carefully staged to ensure the Government has the foundational capabilities in place to manage the provision, monitoring and evaluation of infrastructure loans. Infrastructure funded through such loans should be pro-poor, climate resilient, gender sensitive, and be complemented by soft infrastructure and community development programming that maximises the development benefits of funded infrastructure projects.

We appreciate the opportunity to contribute to this inquiry and to further share WVA's insights and experiences in delivering effective aid.

Yours faithfully

Claire Rogers
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World Vision Australia
6 March 2019