

Edward Cavanough

Manager of Policy, McKell Institute

Submission to the Senate Foreign Affairs, Defence and Trade
Committee's Inquiry into the *Export Finance and Insurance
Corporation Amendment (Support for Infrastructure Financing)*
2019.

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

Background Note

This submission is informed by my own research on Pacific infrastructure and development financing. Through my research, I've spoken to many individuals across the region, including those involved in the provision of infrastructure, and those with deep expertise in the Pacific and Australia's engagement with the region. The findings in this submission are informed by those discussions, my ongoing research, and personal experiences travelling, researching and reporting in remote corners of both Vanuatu and Timor Leste - two nations that Australia's 'step up' and creation of the *Australian Infrastructure Financing Facility for the Pacific* aims to benefit.

Author Bio

Edward Cavanough is the Manager of Policy at the McKell Institute.

He has authored reports into a range of issues, including economic inequality, trade, retirement adequacy, industrial relations, indigenous policy, infrastructure provision and more.

In addition to his policy work, Edward's analysis and journalism has featured in *Foreign Policy*, *Al Jazeera*, *ABC News*, *the South China Morning Post*, *The Hill*, *The Guardian*, *The Sydney Morning Herald*, *The Huffington Post*, *The Diplomat*, *The Lowy Interpreter*, and others, and includes foreign reporting from Afghanistan, China, Cuba, Mongolia, Timor Leste, and Vanuatu.

Prior to joining the McKell Institute, Edward was the Australian Foreign Policy Fellow at Young Australians in International Affairs, worked for a US Congressional campaign, and worked for a member of South Australia's parliament.

He holds a BA in History & Politics from the University of Adelaide, and a Masters of International Relations from the University of Sydney.

www.edwardcavanough.com

About The McKell Institute

The McKell Institute is a progressive research institute dedicated to finding practical and innovative solutions to contemporary policy challenges. The opinions expressed in this submission do not necessarily represent the view of the McKell board or its affiliates.

www.mckellinstitute.org.au

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

Contents

Introduction	3
Issues with the EFIC Amendments	5
Australia should focus on risk mitigation for projects focused on rural infrastructure, electricity and maintenance	13
Conclusion.....	16

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

Introduction

In November 2018, Prime Minister Scott Morrison commenced what is now being called Australia's 'step up' in the Pacific, or the 'Pacific Pivot'.

There are, effectively, five pillars to Australia's Pacific 'Step Up': the creation of the Office of the Pacific within DFAT, the expansion of Australia's diplomatic footprint in the region, a series of high-profile visits to the region, the EFIC reforms that are the subject of this submission, and the creation of the AIFFP - the *Australian Infrastructure Investment Fund for the Pacific*. These new measures compliment a suite of ongoing initiatives by the Australian government in the region¹.

Such a step up is sorely needed. Australia, while remaining the dominant aid partner in the Pacific, can certainly do more to help. And there's much to be done: any visitor to the region's rural communities is quickly presented with the dearth of infrastructure - the lack of electricity, the crumbling roads, the grass-strip runways landed on by ageing prop-planes. The region is also becoming strategically contested, with Australia's relations with the Pacific being challenged by strategic rivals.

In August 2017 I reported, as a journalist, on a separatist movement in rural Vanuatu². It was motivated by the lack of services the Vanuatu government granted the region's people. Simply, a lack of basic services not only impedes development – it creates instability.

The Government and the Opposition should be congratulated for committing to deepening and improving Australia's relationship in the Pacific. That bipartisanship, however, should not come at the expense of robust debate about how to leverage Australia's renewed commitment to the region to achieve the best development outcomes. There has been very little debate, either publicly or in the Parliament, about the detailed nature of Australia's step up in the Pacific. This could diminish the outcome of a project that has the goodwill and determination of all sides of politics.

As this submission notes, the policies at the heart of this new 'Pacific Pivot' are being quickly implemented, at times with little consultation. The AIFFP, for example, is limited by the fact that interested parties are only allowed to submit 3 pages of evidence to the design team. Such rapid implementation so void of thorough consultation risks the lofty goals of Australia's step up not being fully realised.

The proposed amendments to EFIC are a curious method to achieving lasting, better infrastructure outcomes in the Pacific. They may help realise a few key projects, but do little to change the fundamental issues of infrastructure financing in the region. Further, EFIC is *already*

¹ <https://dfat.gov.au/geo/pacific/engagement/Pages/strengthening-our-pacific-partnerships.aspx>

² <https://www.aljazeera.com/indepth/features/2017/08/chief-fighting-indigenous-vanuatu-nation-170807120327055.html>

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

financing projects in the Pacific, including complicated, challenging energy projects in Micronesia and the Marshall Islands. It is not clear how the proposed changes would further incentivise Australian firms to engage in such projects, or if they could create any new incentive for Australian businesses to engage in infrastructure projects where it is most needed: in rural areas.

EFIC's purpose is to improve the prospects for Australian businesses. It is, fundamentally, an institution designed to benefit Australia. It is highly valuable in that regard, and should be granted all the resources it requires to achieve its mandate.

I am concerned that the EFIC reform - which ultimately costs the Australian Government no money - risks being enacted at the expense of more meaningful policies that would ensure Australia's Pacific Pivot is truly transformational, and risks being seen by Pacific partners as ultimately serving Australia's interests before the region's.

Australia is critical of other development partners in the region investing in projects that are primarily self-interested. There is too much 'supply-side' project pushing in the Pacific. This Bill risks seeing more Australian firms engaging in projects that may have a commercial benefit to their firm, but not necessarily a lasting development benefit to the Pacific recipient.

There is indeed a lot to be done in the Pacific – a region of 14 sovereign states harbouring 11 million people who speak 1300 different languages, spanning 30,000 islands littered across continental-sized swathe of ocean. Perhaps the highest priority is providing electricity to the 7 million Pacific islanders currently without it. Australia - the world's 13th largest economy - has the capacity to address such vital development issues, but it needs to be highly innovative if it is to succeed.

Ultimately, the Pacific Pivot needs a 6th pillar: a policy designed in detailed concert with Pacific partners that leverages Australia's unique financial capacity in the region to identify, facilitate and underwrite higher risk infrastructure projects. This would be best focused towards decentralised, off-grid electricity projects in remote communities where the profit incentive for infrastructure investment, by both Australian and foreign businesses, and regional utility companies, is lacking. Such a policy should be included under the AIFFP banner. The \$1 billion of callable capital allocated towards EFIC may be better spent on such a proposal.

The EFIC amendments, as well as the proposed structure of the AIFFP, will likely achieve some good, but they do not alter the fundamental challenges that are standing in the way of best-practice infrastructure provision in the region and do, in fact, carry their own risks.

The Committee must ensure that, if this Bill is implemented, it is not done so at the expense of more meaningful, long-term policies that will primarily benefit our Pacific neighbours.

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

The Pacific Pivot is welcome, but EFIC reform carries risks

1. The Pacific Pivot

- i. Canberra's 'Pacific Pivot' should broadly be welcomed by all Pacific watchers, those who care about Australian foreign policy, and those who care about the development of Australia's closest neighbours.
- ii. The Pacific Pivot has, since its announcement in November 2018, constituted several key pillars:
 - i. The creation of the Office of the Pacific within DFAT.
 - ii. A commitment to expand Australia's diplomatic presence throughout the Pacific.
 - iii. A series of high-profile visits by senior officials to the Pacific, including the Prime Minister.
 - iv. The establishment of the *Australian Infrastructure Financing Facility for the Pacific* (AIFFP) - a proposed \$AU2 billion fund.
 - v. And the proposed reforms to EFIC, Australia's export finance agency, in the Bill that is the subject of this submission.
- iii. These steps should be welcomed, but not enacted without thorough consultation and consideration.
- iv. It is understood that DFAT's AIFFP team is in the process of designing the fund. There is at this stage, however, little detail over the specific nature of the AIFFP - how long it will last, what countries will benefit, its interoperability with EFIC, Australia's existing aid program and the Trilateral Partnership for Infrastructure Provision³, and how it will engage with development partners in the Pacific.
- v. It should be noted that the AIFFP is set to be operational from July 2019 - four months beyond the date of this submission. This submission notes that, considering the AIFFP was only announced in November 2018, the opening of the fund in July 2019 represents a remarkably fast design and implementation of a fund of its scale.

³ <https://www.pm.gov.au/media/joint-statement-governments-australia-japan-and-united-states>

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

2. The pace of Australia's Pacific reforms risks key design elements being poorly addressed

- i. This submission questions whether DFAT has had the time to adequately design the broader 'Pacific Pivot' strategy - including the AIFFP and consider its interoperability with EFIC, particularly considering the EFIC reform bill is yet to pass the parliament.
- ii. There at least 62 development partners operating in the Pacific (including state, non-state and multilateral actors ranging from the major regional actors - Australia, the US, China, Japan, New Zealand, Taiwan, to distant nations such as Israel and Estonia, as well as most major multilateral development financing bodies, such as the Asian Development Bank, International Fund for Agricultural Development, the World Bank, the Asian Infrastructure Investment Bank, and others).
- iii. This submission questions whether the few months provided to DFAT is enough to conduct an adequate design process that factored in the disparate nature of the development landscape in the Pacific.
- iv. For Australia's renewed engagement to be consequential, it must find ways of positively differentiating Australia's infrastructure financing strategy to other development partners. Thorough reviews of existing development funds in the region - how they work, what their focus is, and the mistakes they have made - would enable the AIFFP to fill the gaps where other development partners have been ineffective.
- v. While the AIFFP is a significant financial contribution, its size is modest when considering the \$US3 billion of annual infrastructure investment thought to be required across the Pacific. Given its modest overall contribution, the Government must consider how the \$2 billion could best be deployed in intricate detail to ensure it is of most use for Pacific partners.
- vi. While Australia has long been the dominant aid partner in the Pacific - particularly the South Pacific - it has never before created a dedicated infrastructure financing facility like that proposed. It is, therefore, a unique opportunity to create a new facility that can act as true game changer in Pacific development - one that can do more than simply offer large concessional loans for major projects, but can instead use its capital endowment to creatively target some of the most stubborn development challenges in the region - particularly in rural areas in the Melanesian states and Timor Leste.
- vii. Mistakes have been made by development partners in the Pacific - infrastructure maintenance and asset management standards associated with development

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

financing is extremely poor, employment opportunities for locals are rarely realised by Pacific island communities as a result of infrastructure assistance, and there has been a considerable focus on urban communities to, at times, the detriment of the larger rural populations across the region.

- viii. Too often, development partners have focused on meeting their own KPI's above meeting the priorities of local communities. In one (on background) conversation I've had with a senior individual at a major multilateral development body operating in the Pacific, it was made clear the challenges Australia's new fund had in this regard. Without thoroughly exploring the mistakes of the past, and creating new institutions that are 1) genuinely co-designed with Pacific leaders and communities and 2) cognisant of the plethora of issues faced by existing development partners, the AIFFP (nor the EFIC reform) may not be a game changer. As this individual noted, it is highly likely that in 20 years time, a future Australian prime minister will announce another multi billion dollar commitment to address the same issues the AIFFP is designed to address today.
- ix. Australia's step up to the Pacific, and particularly the AIFFP, provides an opportunity to truly change the nature of development financing in the Pacific. Time should be taken to thoroughly consult with Pacific communities to design a fund that will operate in the best interests of the region. Recommendations to that effect are considered later in this submission.

3. EFIC capital unlikely to be called upon.

- i. The additional \$1 billion of callable capital allocated to EFIC would constitute $\frac{1}{3}$ of the overall financial commitments associated with the 'Pacific Pivot', though, as EFIC staff and Professor of Economics and Director of the Development Policy Center at the Australian National University says, it is highly unlikely this additional capital will ever be called upon. The explanatory memorandum affixed to this Bill also stresses it will cost the Government nothing. This risks the reform being perceived as an empty gesture by the region.

4. EFIC is already engaged in Pacific infrastructure investment

- i. While the Committee or the Government may be aware of specific projects that have been impeded by EFIC's current capital levels, this information is not publicly available to the best of my knowledge.
- ii. Additionally, EFIC is already engaged in projects across the Pacific, including smaller scale projects which deliver extremely positive outcomes for local communities. In my research, I've spoken with Australian firms currently

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

operating in the Pacific that have sought project assistance and finance through EFIC. Each have been praiseworthy of EFIC's ability to assist financing in challenging investment theaters like Micronesia and the Marshall Islands. There were key elements of the EFIC process which they thought could be improved - particularly the delivery of information like tax and regulatory environments of the countries they were operating in, as well as cultural information relevant to the projects. There was no concern over the level of financing available in my conversations.

5. The risk of 'project capture' and project pushing is real. We've seen it before.

- i. A justification for EFIC's cap raise may be to help finance macro infrastructure projects in the region. We've already seen, however, Australia's capacity to finance major projects on an ad-hoc basis, such as the internet cable to the Solomon Islands that was signed in July 2018⁴. EFIC's cap raise has not been adequately explained considering Australia has already demonstrated its capacity to finance macro projects on such an ad-hoc basis.
- ii. Further, as Professor Stephen Howes noted, the EFIC reforms risk giving "a green light to Australian businesses in neighbouring countries to push projects, including by recruiting local political champions to their cause. The risks are obvious. They are that the better connected rather than the better infrastructure projects will be approved, that good governance will be undermined, and competitive tendering sidelined."⁵
- iii. That the proposed EFIC reforms seem geared towards larger projects, this risk is exacerbated. Australian firms with the capacity to engage in government relations in both Australia and the region may be more likely to secure contracts primarily motivated by their own commercial interests rather than the development needs of Australia's Pacific neighbours.
- iv. As Professor Howes also notes, this is not a 'theoretical' concern, but an issue that plagues development finance in the region. It should also be noted that this phenomena has occurred before during the period in which Australia's Development Import Finance Facility (DIFF - 1982-1998) was operational. Certain major firms were able to use their weight to hoard a bulk of the financing available through the DIFF. This resulted in limited competition, and a plurality of DIFF financing being directed to a single aid recipient, Indonesia. As identified by Dr. Ravi Tomar,

⁴<https://www.abc.net.au/news/2018-07-12/australia-solomon-islands-png-sign-undersea-cable-deal/9983102>

⁵ <http://www.devpolicy.org/efic-reform-a-bad-idea-20190213/>

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

“a total of some \$118.5 million in DIFF grants provided between 1982-83 and 1988-89, almost all were for projects in Indonesia and China. During this period, one company alone, Transfield Construction, was provided with DIFF funds amounting to \$64.6 million for the Steel Bridges Projects No I and II in Indonesia. Transfield is also a company that did extremely well out of the scheme in its early years between 1984 and 1993 receiving \$153.4 million in DIFF funds, or nearly 30 per cent of all DIFF expenditure during this period. By 1991-92 as well, DIFF expenditure in Indonesia exceeded project aid expenditure and in 1992-93 it was about \$50 million. Over the period 1982-83 to 1992-93, about 46 per cent of total DIFF expenditure was in Indonesia.”⁶

- v. A similar concern was raised into the recently published review into the merger of AusAID and DFAT. As author Richard Moore writes on page 26:

“We need to guard against the possibility that an international 'scramble for influence' disenfranchises the very people whose trust and goodwill we want. We also need to ensure that a flood of new money- estimated to be several times current Pacific development financing - does not lead to bad decisions, unsustainable debt and anti-development incentives in a part of the world that already receives the highest ODA per capita.”⁷

- vi. The risks highlighted above demonstrate that the EFIC reforms may simply facilitate larger scale projects which only a small number of Australian businesses have the capacity to tender for, which may focus on Australian investment in larger Pacific states to the detriment of smaller ones, and may facilitate a flood of money into the region that only exacerbates existing policy and governance issues. It is unclear whether EFIC has the capacity to mitigate such risks.
- vii. Additionally, much of the infrastructure deficit in the Pacific exists because projects are not commercially enticing, and the EFIC reforms do not incentivise projects where they're most needed. The Pacific is unique in that, in many countries, a majority of the population resides in rural communities.
- viii. The EFIC reforms do nothing to encourage Australian firms to invest in rural regions where there is little commercial return on their investments. In my conversations with development experts operating in the region, there is little incentive for foreign firms or even local operators (utility companies etc) to invest in regional areas of the Pacific. This fundamental needs to be addressed in any successful development agenda in the Pacific. The EFIC reforms may bring

⁶https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/CIB/cib9596/96cib20

⁷ <http://devpolicy.org/publications/reports/DFAT-AusAIDIntegrationReview-FullVersion.pdf>

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

about select opportunities for Australian firms, but do not help achieve such a shift.

6. EFIC reform not a panacea for Pacific development, and risks being seen as an empty gesture

- i. My concern is not that the EFIC reforms are entirely unjustified - but that they simply don't help realise the broader strategic objective of being a 'partner of choice' development partner to the Pacific.
- ii. The reforms carry few major risks in isolation. However, when seen in the context of Australia's Pacific Pivot, they risk being seen as an empty gesture for two reasons:
 - i. First, the EFIC amendment does not cost the Australian Government anything. As the Bill's financial impact statement states, **"The bill will have no impact on the Commonwealth's underlying cash balance"**. When placed alongside the proposed nature of the AIFFP, it soon becomes obvious that Australia's commitment - both the AIFFP and EFIC reform - is modest. \$1.5 billion of the AIFFP is proposed to be recoverable loans, while \$500 million in grants will be included. After realising the EFIC reforms have no financial cost, and three-quarters of the AIFFP allocation is recoverable, Australia's 'Pacific Pivot' soon diminishes to an AU\$500/USD\$350 million expense with no guarantee that it will last in perpetuity. To put this in context, China committed US\$3.9 billion to Papua New Guinea alone in 2017⁸.
 - ii. Second, the rapid pace of the AIFFP and EFIC reforms appear (whether true or not) to be a reactive measure by Australia as a response to strategic competition in the Pacific, rather than a proactive measure conducted methodically and in collaboration with the Pacific. Combined with the fact that the EFIC reforms are primarily about improving Australia's commercial interests, there is a genuine risk that Australia's reforms will be seen as insignificant and ultimately self-serving by the Pacific.
 - iii. Australia maintains deep ties across the region: it will not be replaced as a major partner overnight. The Government should take the time to develop, in partnership with the Pacific, development financing frameworks that truly demonstrate Australia's long-term commitment to

⁸ Source: Lowy Institute Pacific aid map. China *committed* to almost \$4 billion in aid and development assistance to Papua New Guinea in 2017.

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

the Pacific. Instead of a phantom investment in EFIC, \$1 billion of tangible funding would be better allocated to the AIFFP to finance higher-risk ‘demand-side’ projects, particularly those in rural areas, that have been identified through collaboration with Pacific states and key multilateral bodies and regional fora, such as the Pacific Regional Infrastructure Facility and the Pacific Power Association.

- iii. EFIC’s core mandate is to benefit Australian businesses and ultimately Australian interests. The ‘Australian benefits test’ included in this proposed amendment furthers this aim. As noted by EFIC in Senate estimates,

“The Australian benefits test is a fairly broad test, and it requires Efic to reach a reasonable belief that, following financing of a transaction, there will be maximum Australian benefits flowing back to Australia, and those benefits may include crowding in of Australian equity and finance institutions, supporting future employment in Australia, supporting export sectors important to Australia, facilitating access of Australian business to new markets, and encouraging future Australian participation in project supply chains”⁹.

- iv. Effectively, reforming EFIC to achieve development outcomes in the Pacific could appear to Pacific states as primarily self-serving on Australia’s behalf. While there will likely be some benefits to Pacific states as a result of the reforms, EFIC’s mandate ensures that these will always be secondary to Australian interests. This is the critique often levied on other development partners in the Pacific, which Australia should not replicate.

7. Proposed amendments don’t specifically focus on the ‘Pacific’

- i. The Bill is proposed in the context of the ‘Pacific Pivot’. It was argued - by the Prime Minister and others - as a central plank of Australia’s ‘step-up’ in the region.
- ii. However, there is no specific language in the Bill that focuses directly on the Pacific. The Australian benefits test is broad and will be interpreted by EFIC staff, with no discernible, legislated focus on the Pacific over any other investment environment.
- iii. If the EFIC reform is to be truly focused on the Pacific, this should be reflected in the Bill. The Australian benefit test is broad, and could theoretically be applied to any investment in any theater of investment. However, specifying one investment

⁹ Mr John Hopkins, EFIC general counsel. Senate Estimates 21 February 2019.

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

theater over another in EFIC legislation risks undermining the institutions broader mandate.

- iv. Hypothetically, EFIC's assessment of 'Australian interests' could shift over time. There is no guarantee the proposed amendments will prioritise Pacific projects over others, and could finance projects directly at odds with Pacific interests. This is perhaps best demonstrated by EFIC's recent financing of projects relating the Adani Carmichael coal mine¹⁰. Australia's milquetoast commitment to climate change policy is already an imposition on Australia-Pacific relations¹¹, and this financing decision may undermine that further. It is unclear how Pacific nations will respond to Australia pinning its Pacific Pivot on a financial boost to an Australia agency that has engaged in projects directly at odds with the Pacific's environmental interests.

¹⁰ <https://www.smh.com.au/politics/federal/federal-government-to-lend-money-to-adani-business-associates-20180305-p4z2uy.html>

¹¹ <https://www.abc.net.au/radio/programs/pm/pacific-leaders-condemn-australia-for-climate-change-deafness/10361114>

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

Australia should focus on risk mitigation for projects focused on rural infrastructure, electricity and maintenance

Part 1 identified the risks associated with EFIC reform, what it will likely achieve and what it won't achieve. While the reform will almost certainly pass into law, the Committee must ensure that the EFIC reforms do not come at the expense of more targeted, nuanced approaches to infrastructure financing in the region.

This submission identifies three key priorities for the region, which an additional allocation of funding to the AIFFP could help achieve.

In the end, Australia's priority must be on mitigating investment risk in the Pacific to encourage private sector involvement in overcoming three key areas of economic development in the region:

1. Priority Area 1: Rural development

- i. A majority of the populations of the largest states in the Pacific and Timor Leste (PNG, Timor Leste, Solomon Islands, Vanuatu, and Fiji) live outside urban centers.
- ii. By global standards, however, these rural populations still tend to be small, and their earning capacity is relatively low. These reasons - coupled with the perceived high-risk nature of investing in the Pacific more broadly - mean it is often commercially unappealing to invest outside of urban centers. Incentives need to be shifted to encourage development financing for projects in rural regions.
- iii. Australia could differentiate itself from other development partners by creating a fund, within AIFFP, that focuses primarily on achieving this. Such a fund would create goodwill at a community level throughout the region, and help deliver positive development outcomes where the majority of the Pacific's population live.

2. Priority Area 2: Expanding the provision of electricity infrastructure and displacing diesel powered electricity generation

- i. Almost 7.5 million people in the Pacific and Timor Leste have *no access to electricity*. Overcoming this energy deficit is a strategic imperative for development partners in the Pacific, including Australia and its competitors.

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

-
- ii. Australian technology can play a key role in overcoming this deficit while bringing skilled jobs to manufacturing hubs in Australia and employment opportunities to Pacific islands.
 - iii. All Pacific states are highly dependent on imported diesel for power generation, but have ambitious renewable targets - most nearing 100% by 2025-30. There is little local capacity to achieve these targets. They need foreign investment, foreign technology and foreign expertise to achieve these goals. Many Pacific leaders are agnostic as to where such assistance comes from, creating a competitive environment for Australia as a development partner. Diesel displacement initiatives would be warmly received in the region, and could serve as templates for diesel displacement globally.
 - iv. The Papua New Guinea Electrification Partnership¹² is a good start, but its focus appears to be on grid extension rather than the provision of decentralised, off-grid solutions to the most remote communities in PNG.
 - v. The challenges of electrifying PNG are significant, and likely require significant multilateral commitments, like the PNG Electrification Partnership. However, Australia can bilaterally invest in electrification schemes in smaller countries, and should be exploring ways of financing electrification projects throughout the region.
 - vi. Countries with higher rates of electricity access are also seeking to diversify their energy generation. This provides Australian firms involved in renewable technology a unique opportunity to expand into new markets. The Australian Government should help identify these opportunities, and liaise with Australian energy firms with the capacity to undertake rural electrification projects throughout the region.
 - vii. The reality is the unelectrified communities are becoming a strategic battleground. There is some anecdotal evidence that Australia's development competitors in the region are engaged in negotiations with local leaders (tribal chiefs, etc) in remote communities, tailoring electricity solutions to their needs in lieu of any competition.
 - i. For example, pay-as-you-go renewable energy solutions have been implemented in rural Fiji. At least one Australian-owned firm confirmed to me that they were unable to seek the type of microfinance required to do their own PAYG solution for rural villages (they estimated the cost at \$AU500,000), where as the development competitor had easier access to

¹² <https://www.pm.gov.au/media/papua-new-guinea-electrification-partnership>

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

credit. Simply, Australia's competitors are getting smarter, tailoring solutions for and negotiating deals with individual communities in an environment largely void of any competition. This effectively gives local communities a binary choice: go without, or go with, albeit with strings attached (ie, long-term financial commitments). Australia must position itself as a third option.

3. Priority Area 3: Improving asset management and maintenance schedules

- i. Overcoming the 'build, forget, rebuild' syndrome in the Pacific is one of the key infrastructure challenges facing development partners.
- ii. Investing in infrastructure asset management is not appealing but it is vital and cost-effective. It also has the added benefits for local communities, providing better, more sustainable employment opportunities for locals.
- iii. The Government should consider implementing a specific fund, likely within the AIFFP, geared towards investment in asset management.

Edward Cavanough

Submission to *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) 2019* inquiry.

Conclusion

This submission has highlighted several concerns with the EFIC reform bill.

While the Government and Opposition's support for Australia's renewed engagement in the Pacific is sorely needed, the EFIC reform and current nature of the AIFFP leave room for improvement.

The Pacific is a contested development landscape. For Australia's commitment to be truly transformational, it must be carefully designed and highly innovative, addressing the genuine needs of the region with the region itself, and succeeding where other development partners have failed.

The EFIC reform must only be the start of a renewed Australian commitment to Pacific infrastructure development.