Save the Children

The Australian Government's Development Finance Review

SUBMISSION TO THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

October 2021

ABOUT SAVE THE CHILDREN

Save the Children is a civil society organisation (CSO) with a wide Indo-Pacific footprint and a 100-year history of working to protect children and advance children's rights all around the world. Since the onset of COVID-19, we have argued that Australia should enhance its focus on assisting our neighbours to assemble the "social" infrastructure they will require to rebuild their societies and economies in the wake of the pandemic's intersecting health and economic impacts. We argue for the primacy of human security considerations, especially the safety and wellbeing of children, in Australia's approach to foreign policy, and for Australia's international development program to have more prominence in discussions of Australian statecraft and geostrategy.

We would be delighted to talk more about our submission with you. Please contact:

- Ms Marion Stanton, Head of Government Relations – marion.stanton@savethechildren.org.au
- Dr Amrita Malhi, Senior Geoeconomics Adviser – amrita.malhi@savethechildren.org.au
- Ms Julianne Wilkin, Legal Counsel & Company Secretary, Social Enterprise & Impact – julianne.wilkin@savethechildren.org.au

RECOMMENDATIONS

Save the Children endorses the recommendations of the Australian Council for International Development (ACFID).

We add the following recommendations as a suggested way to organise the Australian Government's development finance decisions under a common framework:

1. Ensure that the overarching aim of Australia's investments in international development is to alleviate poverty, insecurity, and inequality around the Indo-Pacific and beyond.
2. Committing to this aim will mean ensuring that all of the Australian Government's development financing instruments are arranged in terms of building the systems and social infrastructure that will help achieve it.
3. ODA should fund development outcomes, including when used within the AIFFP, which should allow for social infrastructure initiatives – such as e-learning or mobile cash payment systems – to be packaged together with hard infrastructure projects.
4. All blended financing instruments should be designed to mobilise additional finance from sources beyond ODA, instead of placing extra pressure on the ODA budget. This logic should apply to any successor to the AIFFP and to facilities that support the creation of private and civil society impact investment funds.
5. Australia's interactions with multilateral forums such as the G20, including on debt relief and SDR redistribution, should also be aimed at freeing up resources to build, finance, and advocate for improved social infrastructure across the Indo-Pacific.
6. The Australian Government should take more action to support civil society organisations to diversify their financing options, including by taking up our suggestions outlined below.

INTRODUCTION

Save the Children welcomes the Australian Government's Development Finance Review. In particular, we welcome the government's intention to examine how different development financing approaches can complement Australia's grant financing, including by expanding the use of blended investments in sovereign and non-sovereign financing instruments. We consider this review an important precursor to the Australian Government's planned review of its broader international development strategy for the Indo-Pacific, especially in light of the expiry of the current Partnerships for Development strategy and the reality of rapidly rising poverty across the region.

Our view, in short, is that Australia should adapt its approach to financing to expand its development program to match these more precarious times. It should also invest in this program's strategic coherence in light not only of sharpening geopolitical competition, but also the compounding economic shocks now exacerbating the already serious impacts of COVID, climate change, and conflict. Australia should move beyond its traditional, state-centric approach to national security and take a holistic, community-centred view of regional resilience, informed by human security and human development considerations. It should certainly move on from the assumption that development is less important than defence or diplomacy, and cease approaching the development program as a collection of small, scattered projects working at cross purposes to each other. It should leverage private, philanthropic, and other sources of funding; and it should do more to support civil society organisations (CSOs) like ours to diversify our own financing options so that we can expand our already innovative use of similar leveraging strategies. Indeed, the Australian Government should learn from our impact investment leadership and invest more in our work.

We have developed our submission in coordination with the Australian Council for International Development (ACFID), whose own submission we endorse; and here, we set out our own messages in fuller detail. We seek not to repeat ACFID's material, but rather to set out a strategic framework for Australia's decision-making around sovereign financing, namely that it should adopt a "social infrastructure" framework to guide its investment aims and modalities.

AUSTRALIA'S DEVELOPMENT FINANCING STRATEGY

It is not surprising that economic historian Adam Tooze is calling the present moment a "polycrisis."[1] Due to the pandemic, intensifying climate impacts, rising conflict, and rapidly rising food and fuel prices, populations across Asia and the Pacific are watching their hard-won development gains slide into reverse, exacerbating poverty, precarity, and inequality. Just this month, the World Bank has outlined that COVID-19 and the war in Ukraine have ended a three-decade phase of global progress in poverty reduction, in which more than 1 billion people escaped extreme poverty and the global extreme poverty rate was cut by more than half. In contrast, in 2020 alone, the number of people living in extreme poverty *rose* by more than 70 million – or from 8.4 per cent of the world's population in 2019 to 9.3 per cent in 2020 – causing the Bank to announce that the global goal of ending extreme poverty by 2030 will *not* be achieved.[2] Further, it is not only extreme poverty that is rising. Rather, as the income losses of the world's poorest were twice as high as the world's richest,

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[1] Refer to Adam Tooze, 'Chartbook #130 Defining Polycrisis - from Crisis Pictures to the Crisis Matrix.', Substack newsletter, *Chartbook* (blog), 24 June 2022, available at: https://adamtooze.substack.com/p/chartbook-130-defining-polycrisis.

[2] All World Bank data referred to in this document is sourced from The World Bank, 'Poverty and Shared Prosperity 2022: Correcting Course', Text/HTML, accessed 6 October 2022, available at: https://www.worldbank.org/en/publication/poverty-and-shared-prosperity.

and the world's low- and middle-income economies are recovering more slowly than the richest, many of the world's poor, not only the extreme poor, have faced setbacks in health and education. This group includes many children living in many communities in our region. Many are now sliding back from relative prosperity into levels of poverty last experienced by their grandparents.

Many from this group are served by fiscally constrained states, and so have watched on while rich economies like Australia have protected their vulnerable using fiscal policy. As the World Bank correctly recognises, many of these people are also working in economies in which work is more informal, relying on social protection systems that are weaker and cover fewer people, and interacting with financial systems that are less developed in terms of access. While some of these people have benefited from food or cash support provided by states in a position to act, many others have relied largely on friends and family via customary social protection systems; or in fact turned to negative coping strategies like selling assets or increasing debt. These conditions are now contributing to political unrest which may or may not lead to progressive reform; and in some cases, it is clearly fuelling populist political movements that do not bode well for regional democracy.

For all these reasons, these developments pose grave risks to Australia's security and prosperity, given Australia's strategic geography and especially its economic model. This model is exposed to changing economic conditions in Asia, especially the condition and confidence of the Asian middle classes whose consumption supports our export industries, from minerals to higher education.

And yet, over recent years, Australia's development program has shifted its attention away from supporting the poor and vulnerable and investing in human capital via health and education system-building, as the World Bank itself calls for in its latest round of reporting. Instead, it has sought to pursue infrastructure competition, which it continued even while responding to the exigencies of the pandemic, creating more competing demands on the official development assistance (ODA) budget. One set of demands came from the Australian Infrastructure Financing Facility in the Pacific (AIFFP), which, as ACFID's submission outlines, has held a proportion of Australia's annual ODA budget back since its launch. It has done so despite delivering "only 12 approved projects in only five Pacific countries," as Pacific leader Dame Meg Taylor has recently pointed out, while Chinese enterprises continue to hold 80 percent of Asian Development Bank infrastructure contracts in Papua New Guinea.[3] As a result, Australia's decision to prioritise hard infrastructure competition continues to be questioned by the very Pacific constituencies the AIFFP was designed to attract, ostensibly by providing a financing alternative to China's Belt and Road.

This review is an opportunity to address Australia's overcrowded development agenda – along with the gap between its stated objectives and the region's painful economic trajectory on the one hand; and its performance against those objectives on the other. We propose that the Australian Government adopt ACFID's recommendations on financing, while also weaving them into a more explicit geoeconomic framework that is suitable for a middle power seeking to shape its regional environment both more actively and more effectively.

Australia should arrange its sovereign development financing instruments, along with its approach to debt relief and reallocating SDRs, within a "social infrastructure" approach. Such an approach would not eschew hard infrastructure entirely, but it would place such investments within a framework that supports its neighbours to build, finance, and advocate for improved crisis resilience

[3] Meg Taylor and Soli Middleby, 'More of the Same Is Not the Answer to Building Influence in the Pacific', 9DASHLINE, 3 October 2022, available at: https://www.9dashline.com/article/more-of-the-same-is-not-the-answer-to-building-influence-in-the-pacific.

measures for their populations. Indeed, all of Australia's development financing decisions should prioritise building systems that Australia can truly deliver, possibly uniquely in this region. These systems include institutions – as well as the infrastructure for connecting and powering them – that ensure high quality human development and human security outcomes, such as universal health, education, and social protection systems.

Social infrastructure can look like climate-resilient community halls, maternity wards, vaccination clinics, and primary schools, all of which are important for bolstering the key systems required to improve quality of life, especially in crisis conditions. The idea also extends to developing national and universal social protection systems, including child benefit schemes to protect jobs and wages, access to nutritious foods, and protection for the elderly and disabled, and their families, when they can no longer earn in times of economic shock. Investment in social infrastructure can also support customary and community-based forms of mutual support that are currently under strain. All of this infrastructure is critical to aiding the region's COVID-19 and economic recovery.

In the context of this overarching focus, where large-scale hard infrastructure is prioritised for sound reasons – including strategic denial of China – it too should be packaged together with initiatives that improve human development outcomes for communities, especially children. Digital technology, for example, can provide an immense opportunity for nations in the Pacific, a region struggling with global connectivity, by connecting not only producers with markets, but learners with schools, children with health providers, and families with digital cash programs.[4] This potential is why we argue that both the PNG electrification program and Telstra's takeover deal with Digicel should be bundled together with access to initiatives like e-learning programs, e-health, and digital child payments.[5] This is where Australia's comparative advantage lies, and every sovereign financial instrument, from the AIFFP to any proposed climate finance facility, to the ODA budget in general, should explicitly announce that system-building and social infrastructure is Australia's priority.

Indeed, Australia should share its expertise in these priority areas instead of forcing the rest of the development program to compete with hard infrastructure for funding. Adopting such a framework would allow Australia to focus on what value it can offer to its Indo-Pacific neighbours, including as they seek to build back from the present polycrisis, rather than on China, whose own approach to infrastructure appears to be in flux at present in any case.[6] It would also allow Australia to stop talking about our neighbours as if they are pawns in the big players' game – a habit that triggers a great deal of frustration among Pacific and Southeast Asian leaders alike.

Debates on human security in academic and policy circles have produced a growing evidence base demonstrating that "capable states, with effective social protection systems that reach the poorest households, are [more] effective at managing COVID-19 and at mitigating its economic impacts, independent of political systems or ruling ideologies."[7] As part of its middle-power geoeconomic

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[4] See, for example, Save the Children, 'Digital Cash in Fiji', 30 June 2021, available at: https://savethechildren.org.au/our-stories/digital-cash-in-fiji.

[5] Fiu Williame-Igara and Melissa Conley-Tyler, 'Using Digital Technology for Development Outcomes in the Pacific', Australian Institute of International Affairs - Outlook, 5 August 2022, available at: https://www.internationalaffairs.org.au/australianoutlook/using-digital-technology-for-development-outcomes-in-the-pacific/.

[6] Andreea Brinza, 'What Happened to the Belt and Road Initiative?', The Diplomat, 6 September 2022, available at: https://thediplomat.com/2022/09/what-happened-to-the-belt-and-road-initiative/.

[7] See Francis Fukuyama. 'The Pandemic and Political Order: It Takes a State,' Foreign Affairs, July/August 2020, available at: https://www.foreignaffairs.com/articles/world/2020-06-09/pandemic-and-political-order.

strategy, Australia needs to demonstrate that it understands this evidence. Whether these systems are supported via a dedicated DFI or not is a secondary question – the primary question is what sort of region Australia wishes to help build. Once this question is answered – preferably in favour of community resilience as an overarching priority – decisions around what financial instruments Australia should create can then be made on strong foundations.

SUPPORTING NGOS TO DIVERSIFY THEIR FUNDING BASE

In the context of these broad, framework-level changes, Australia should do more to support CSOs working through the polycrisis so that we can do more to diversify our access to finance in the service of building a more secure region, especially for children facing a more precarious future.

Traditionally, CSOs established as charities, like Save the Children, have relied on grants and donations to finance our delivery of social programs. As we have pointed out above, however, the gap between what financing is available from the overcrowded development program on the one hand, and the rising needs of children across the region on the other, has been growing rapidly. As a result, new sources of funding are needed to ensure the financial sustainability of CSOs like ours, along with the ongoing availability of support for children in need.

Impact investing provides flexible financing to meet the needs of CSOs and projects that may not have access to traditional capital markets. The expectation that capital will be repaid with a financial return to investors differentiates impact investing from traditional philanthropy and grant making. Save the Children Australia is a sector leader in establishing impact investment instruments and is the first Australian charity to have launched an impact investment fund while concurrently implementing programs in communities.

In 2020, Save the Children Australia launched the Save the Children Australia Impact Investment Fund. Since then, $7.425M in new equity has been raised from wholesale investors, including Save the Children, and QBE as the cornerstone investor. To date, we have invested in social enterprises including ThinkMD, Dataro, Oho, Intellischool, Inquisitive. We have also provided a loan to Ngutu College. SCA's $1.5M capital contribution has been invested alongside $18M from other investors, to enable the growth of social enterprises that are currently valued at more than $80M.

The objective of the Fund is to both generate capital returns for investors and to contribute to social and environmental solutions by making investments in enterprises that are working to improve access to education, safety and health care for children and their families. Through Save the Children's network of programs and partners, the Fund has access to a pipeline of entrepreneurs and enterprises working on the social problems aligned with Save the Children's mission. The Fund leverages the strength of Save the Children's existing global platform, networks, and capabilities to enable these enterprises to support more children.

We are planning to launch further funds in 2023 through our new internal development finance advisory team, Save the Children Global Ventures. This will result in the launch of a second fund in Australia, a Children's Endowment Fund, and a Pan-European Children's Impact Fund.

We would be very pleased to discuss ways in which DFAT could directly support and ensure the launch of one or more of these funds, and below, we provide a list of opportunities for the Australian Government to take more action to support CSOs like ours:

- **Provide legislative clarity on our role** – we are comfortable that charities are able to operate in this space, provided the investments are mission-aligned and we are mindful of the restrictions on benefiting individuals. Therefore, there is no need for legislative change to prompt more involvement of charities, but charities tend to be conservative. Proactive endorsement for charities acting in this space or publication of a guidance note by ACNC would give conservative boards comfort and encourage them to consider ways in which they too can do more to support effective development finance. It will also reduce the legal burden on charities who are keen to establish a fund, for example.

- **First Loss Guarantee** or **Capped Investment Returns** – DFAT could provide the first in / last out capital, to make the investment less risky/more comparable to commercial transactions, and therefore will make impact investments more feasible for commercial investors. A recent example is New Zealand MFAT's tender for a fund manager to establish an impact fund that will invest in the Pacific. MFAT has agreed to provide $17M support for the establishment of the fund, with the expectation that the fund manager would raise an additional $30M from corporate or institutional investors.
- **Grants to support launch of CSO managed funds** – charities have deep expertise in contributing to solutions and creating positive impact, but charities tend to have limited unrestricted funding and a 12-month budgetary horizon. Therefore, charities find it difficult to take a longer-term view. They are not able to incur significant start-up expenses now, with the prospect of not being reimbursed for those expenses until in 8-10 years. If DFAT was to provide grants to cover the start-up costs, more charities would be able to take a longer-term view and create impact funds.
- **Engage CSOs as experts –** CSOs have the internal expertise in monitoring and evaluating programs. These skills can also be used to monitor and evaluate development finance. DFAT should engage CSOs as consultants to in the design of development finance initiatives, to identify pipeline opportunities, effective solutions and to measure the effectiveness of the development finance.
- **Tax incentives** – provision of concessional tax treatment for investments made in impact funds and/or entities contributing to solutions and benefiting stakeholders. This is in place for Early Stage Venture Capital Limited Partnerships and has resulted in additional capital being made available to support early stage companies.
- **Legislative clarity to unlock funds held in endowments** – similarly to the clarity/guidance being sought for charities above, managers/trustees of endowments are able legally to invest in impact but tend to have a conservative approach to impact investing and often simply avoid it as it is a new category of investment, may appear risky, and may not neatly fit within their existing investment mandate. Providing guidance to ensure that impact can be a consideration of trustees when making investment decisions will enable managers/trustees to be more confident in their ability to shift assets towards development finance. Likewise for Superannuation Fund Trustees who focus purely on the financial return of investments without considering the impact of their investment on development.

To conclude, we reiterate that all of the Australian Government's development financing decisions should demonstrate that alleviating poverty, precarity, and inequality is its first priority. Sovereign financing instruments and support initiatives for CSOs alike should consider social infrastructure and system-building approaches as critical to delivering against that priority. We urge the Australian Government to look to our impact investment funds as a model for leadership in demonstrating this alignment of priorities, modalities, and instruments.

We look forward to further discussions with DFAT about our submission.