2022 DFAT International Development Policy Submission

What key trends or challenges will shape Australia's engagement in our region and globally over the next five to 10 years? What risks and opportunities does this present for Australia's development assistance?

Increased demand for climate investment to accelerate resilience, bridge funding gaps, and mitigate climate-related disasters and associated forced migration.

Topically, as COP27 has only recently ended, climate change and environmental themes are in the spotlight with renewed vigor. As is obvious from Australia's COP pavilion, and its hosting of the United Nations Climate Change Forum of the Standing Committee on Finance (SCF) this time last year, it understands the pertinence of climate investment and finance. It is encouraging to see from the Policy Consultation Terms of Reference and DFAT's website and press releases that climate change will feature heavily in their upcoming strategy, as is only appropriate for a country and region so at the forefront of climate-related impacts.

However, it is worthwhile identifying the historic and current situation. Australia is in a $1.7 billion (USD) shortfall on its fair share of collective and ratified climate-finance goals, providing only 38% of what it is required to do (Gabbatiss & Evans, 2022). This is not helped by Australia's ranking as fourth in the world for highest cumulative emissions per population in 2021 (tCO2), and third over time (Evans, 2021); and lack of credible plans has earned it rebukes from strategic partners, such as the US and UN. This performance on a key issue is an operational and reputational risk.

Climate change is a top-tier political issue in Australia (New York Times, 2018), and DFAT is uniquely positioned to become a leader among its ministerial equivalents and act as a key influence in reversing performance trends on this key thematic issue. An essential mechanism to do so will be increasing specifically targeted climate investment and grants to address existing gaps in funding.

Specific novel interventions that DFAT could propose include:

- Supporting the development and implementation of sustainable finance taxonomies
- Funding capacity building on best practices associated with low-carbon development
- Helping local authorities measure and manage their own emissions and impacts
- Working with local policy actors, such as Financial Institutions [FIs] and regulators, to green national and regional financial systems, through increasing disclosure.
- Stimulating the growth of sustainable finance by supporting the generation, dissemination, and use of environmental data in financial and regulatory decision making

The above can be done both through interacting with local actors and by collaborating with Australian organisations (FIs and corporations) to support knowledge sharing and financing.

Increased competing strategic intent from multiple national and multinational governments and organizations.

Recently, the Indo-Pacific region has attracted substantial politically strategic attention. In reaction to China's growing influence in regional politics and the economy, the UK, EU, US, France, and Canada have all announced distinct initiatives or indicated their intention to be more visible. There are also several, recent multinational initiatives in the region with overlapping interests. (See Figure 1). Additional activities from multilateral organizations like the World Bank, UN, ADB, and international NGOs add to this congested influence map.

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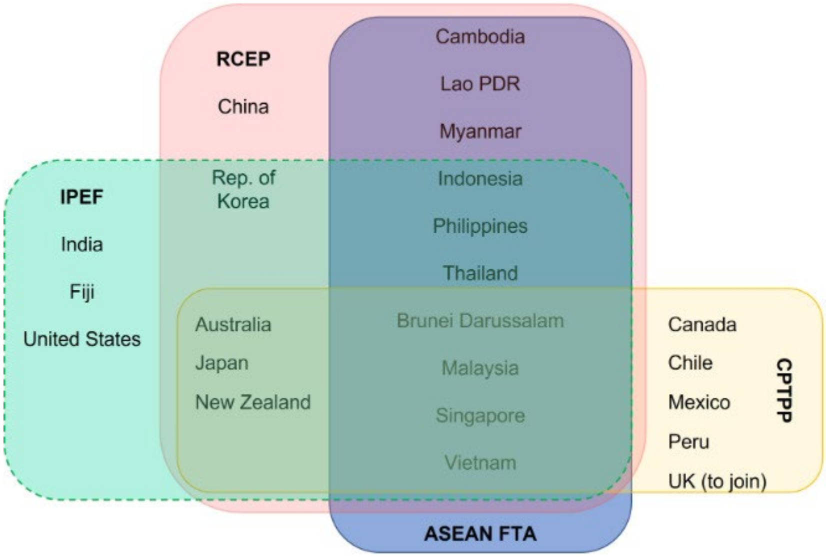
Figure 1 - "ASEAN countries are at the centre of multilateral cooperation in the region", (ODI, 2022)



With all this considered, the risk and opportunity for DFAT are that Australia's contributions will need to be targeted, innovative, well-publicized, and impactful to stand out and not be consumed by the momentum of other actors.

What development capabilities will Australia need to respond to these challenges?

As climate change has a renewed focus in the upcoming policy, and the APAC region accounts for 53% of 2021's global carbon emissions (Statista, 2022), Australia will need the capability to guide and support its Indo-Pacific colleagues through their transition to green economies. There are efforts toward a green transition in the APAC/Indo-Pacific region, but these are occurring unevenly and in an uncoordinated way. Australia could engage to promote the adoption of global standards and avoid development-inhibiting policy fragmentation. An essential part of this will be adhering to the Glasgow Climate Pact and encouraging extensive capital shifts away from fossil fuels and stimulating rapid real economy action. To do so, DFAT can work collaboratively with Indo-Pac Governments to implement policy and capacity-build non-state actors such as financial institutions, corporations, and businesses.

In 2021, an impressive 3,879 companies across APAC opted to disclose their emissions, targets, and climate action through CDP's Climate Change questionnaire. These companies represented 14% of global market capitalization and 2021 saw a 29% increase in the number of companies reporting compared to 2020. This trend of regional transparency is to be applauded, as it is only through the disclosure and monitoring of climate action that the required changes will happen. Close to one-third (32%) of companies that disclosed in 2021 were first-time responders, showing that CDP and disclosure, in general, are gaining recognition in the Asia Pacific region.

Unfortunately, meaningful engagement with net zero targets in the region is still poor; for example, just 291 companies from the 3,879 companies (8%) across APAC responding to the leading disclosure platform (CDP) had net-zero targets and the majority were set to 2050 or beyond. Less than 10% of the APAC sample have set targets validated by Science Based Target Initiative (SBTi), providing an opportunity for DFAT to be a thought leader on pragmatic and accountable climate progress.

The climate policy and regulatory landscape is rapidly evolving, with new initiatives and regulations emerging across the world; policy actors are leveraging regulatory powers to drive convergence in environmental reporting at both the national and international levels. If DFAT promoted **international climate monitoring frameworks** like that of the Task Force on Climate-related Financial Disclosures

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(TCFD), it would accelerate the Indo-Pac transition by setting more robust and rigorous targets, using unified and agreed methodologies.

Moreover, only 38% of APAC companies responding to CDP had a low-carbon transition strategy, indicating a lack of direction for the region in terms of how to achieve decarbonization. Compounding this, the submitted plans' ambition and quality differed widely among the corporations that even responded. Without sound **transition planning**, the Indo-Pacific will not be able to meet the expectations of investors, citizens, or the global community in terms of achieving significant advancements.

Lastly, 70 million small and medium-sized enterprises (SMEs) in ASEAN account for approximately 97% of all business entities within Southeast Asia and are an important contributor to both emissions generation and future reduction. But little is known about their views on climate change, what steps they are currently taking to reduce emissions and how they plan to deal with a warmer future likely to contain many more extreme weather events [ISEAS]. As impactful figures in both Australian and **Indo-Pacific supply chains**, SMEs should have a key focus for DFAT in the coming policy.

Through a **focus on these non-state actors**, supporting regional governments to design policy requirements that promote higher standards, and facilitating direct capacity-building with key stakeholders; DFAT can position itself as a regional climate leader, develop extensive influence networks, and promote regional trade and investment.

How can Australia best utilize its national strengths to enhance the impact of our development program and address multidimensional vulnerabilities?

Strong and stable economic performance

Before the COVID pandemic, Australia had recorded 28 consecutive years of annual economic growth; and is the world's 13th largest economy with an active share of 1.6% of Global GDP (Investopedia, 2022). With this economic momentum, combined with its extensive network of free trade agreements and trading partners, its open economic policy puts it as a leader in private sector innovation in the region. Australia is uniquely placed to position itself as a broker of international (bi/) multilateral trade, a capacity builder of partner nations, and a launch pad of international business innovation. As a successful recipient of foreign investment, Australia is well placed to enable partner nations to seek finance from new industries, boost regional infrastructure and productivity, and stimulate developing economic activity and employment.

A key example of this capability can be seen in the Singapore-Australia Green Economy Agreement (DFAT, 2022), showing that Australian policy can support the development of the infrastructure necessary to give states and entities access to global flows of sustainable capital. This is an eminently replicable model, which could be even more positively constructive for other regional partners whose economies are less developed than that of Singapore.

How should the new policy reflect the Government's commitments to build stronger and more meaningful partnerships in our region, founded on mutual trust and respect and shared values of fairness and equality?

Climate finance access and measures for success:

Given the priority given to climate change in DFAT's renewed policy communications, an obvious requirement will be to increase the capital available for its portfolio of regional partners to improve

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its climate resilience and adaptation efforts. Recommendations from Eurodad (2022) for ensuring that the climate finance arrangements push for sustainable development include:

- Limit the economic impacts of debt-generating instruments by scaling-up grants.
- Genuine access to high-quality, new, and additional climate finance must be ensured.
- Defining new and additional climate finance to ensure the additionality of climate finance flows.
- Democratic ownership of climate finance strategies based on developing countries' needs. This must be responsive to the needs of different members of society, including women, non-binary, and gender-nonconforming communities, indigenous, racialized and ethnic groups, and the disabled community.
- A comprehensive monitoring and reporting framework that covers bilateral, multilateral, intermediary and private finance flows.
- Regular reviews of the goal to evaluate progress and ensure it can address the evolving needs of developing countries

Co-creation and demand-driven design

An emerging and vital strategy in ODA projects is co-creation and collaborative design. For instance, ODA programs adopting collaborative partnering techniques have been given annual raises of 10% under USAID's Acquisition and Assistance Policy. The final outcomes are less prescriptive, produce a wider range of approaches, and introduce fresh ideas, resources, methods, and collaborators. Additionally, co-creation is demonstrated in their trial results as an efficient and versatile method of handling design activities (USAID, 2018). This can be done at both the national and local levels. Research has shown that developed nations that design programs to support the leadership of local governments and civil society organizations are more likely to achieve effects that endure long after the programs are complete (ICF, 2021).

For example, a 2018 USAID project collaborated with the Ghanaian government to incorporate climate resilience into the country's energy infrastructure design. Every aspect of the initiative, from personnel development to power grid enhancements, took climate factors into account. The collaboration produced a strategy that may lower carbon emissions, save about $300 million, and provide the Ghanaian government with the tools to implement the plan over several years (ICF, 2021).

What lessons from Australia's past development efforts should inform the policy? What is Australia seen to be doing comparatively well?

As corroborated by Pat Conroy's talk at the International Development Election Forum (Conroy, 2022), Australia's past international development efforts were undermined by a decade of politically motivated underspending. However, it now presents the new Labor administration and DFAT an opportunity for regrowth and new approaches. From this perspective, an obvious recommendation would be to continue along the path of increasing ODA spending. Even with the increases proposed for the new financial year, Australia will still be well below the DAC average of 0.32% ODA: GNI (Donor Tracker, 2022). For truly accelerated performance this budgetary commitment will need to be improved.

From an overall performance perspective according to the Center for Global Development, Australia's Quality of Official Development Assistance was ranked along these 4 themes. As discussed above and in previous sections, prioritization and transparency were poor and most needed improvement; however, Ownership and Evaluation were comparatively better. Ownership's good score was supported by very strong performance in sub-indices "Reliability and Predictability", whereas

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Evaluation was strong due to dually strong performance in "Results Based Management Systems" and "Evaluation Systems".

Table 1 – Australian ODA Performance, (Center for Global Development, 2022)

Overall (/49)	21		
Prioritization (/49)	**Ownership (/49)**	**Transparency & Untying (/49)**	**Evaluation (/49)**
42	11	29	6

How should the performance and delivery systems be designed to promote transparency, accountability, effectiveness, and learning in Australia's development assistance?

In the 2022 Publish WhatYouFund Index, run by the Global Campaign for Aid and Development Transparency, DFAT scored 41st out of 50, achieving its 6th consecutive year sitting at the bottom of the "Fair" category. They have a comprehensive list of 9 recommendations on how DFAT can improve its transparency and accountability systems.

As mentioned in the section on building Australia's capabilities for this policy, climate change progress will be directly tied with the rollout of higher standards of disclosure and target setting. We have seen marked improvements in global economies' emissions by first measuring their impact and informing their action. For example, this month the US government has made it mandatory for all federal suppliers to publicly disclose greenhouse gas emissions (GHG) and climate-related financial risk (CDP, 2022), following an announcement earlier this year that the U.S. Securities and Exchange Commission proposed mandatory disclosure rule for all U.S. publicly listed companies. If DFAT, as part of its climate action programme encouraged its Indo-Pacific colleagues to raise their standards throughout policy and economy, it would make for a profound impact on the transparency, accountability, and efficacy of their climate ODA spending.

How should the new policy address the role of ODA and non-ODA in supporting the development of our regional partners?

The majority of Australian ODA is provided as grants. However, since July 2019, the Australian Infrastructure Financing Facility for the Pacific (AIFFP) is disbursing loans to support infrastructure in the Pacific, with further loans announced in the recent budget. The proposed loans have caused concern from Civil Society Organizations (CSOs) as this could be the first step in the Pacific region toward infrastructure projects supported by loans as opposed to grant-funded development programs (ACFID, 2022) (Donor Tracker, 2022). Considering that several of these nations are already experiencing debt distress, this is concerning. Indonesia is in an active debt crisis and Papua New Guinea is severely at risk of a public and private debt crisis (Debt Justice, 2022). This means that the two top recipient countries of Australia's ODA are an acute reminder of the careful consideration required when planning future regional investment.

Furthermore, related to the previous sub-point, the new loans announced by AIFFP are being counted towards Australia's climate finance commitment, ACFID (2022) have highlighted the disappointment of the Australian development community on this trend as the most significant climate needs in the Pacific are for adaptation, which AIFFP lending is unlikely to be able to fulfil, and has been actively discouraged in the PIF Statement on the Pacific Resilience Facility in 2021.

Linking to previous question sections, through **supporting non-state actors** and developing a conducive policy environment, economic developments in line with a pro-trade agenda can be done through grant mechanisms rather than using Australian national Foreign Direct Investments.

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