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Integrating Aid and Statecraft

Australia's DFAT Model and the US Approach to Strategic Assistance

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Integrating Aid and Statecraft: Australia's DFAT Model and the US Approach to Strategic Assistance

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Executive summary

On July 1, 2025, the United States Agency for International Development (USAID) officially ceased independent operations. Secretary of State Marco Rubio announced that foreign assistance programs aligned with the administration's foreign policy priorities would be administered by the Department of State, completing an absorption that would initially rely on 700 positions to implement remaining US foreign assistance.^{1,2} Other countries, such as Canada, the UK, and Australia have pursued similar mergers with different results. Australia's experience with the Department of Foreign Affairs and Trade (DFAT), which absorbed the Australian Agency for International Development (AusAID) in 2013–2014, offers important lessons for the administration, State Department, and Congress to consider.

Three findings emerge from a review of the Australian model. First, the reform was driven by a strategic imperative that gave the merged institution an organizing framework from day one. Integration without that framework produced the 2014–2017 period of operational disruption; the framework was what enabled recovery. Second, integration imposed real and lasting costs through the loss of development expertise, institutional culture conflict, and operational disruption that were only partially offset by subsequent reforms. Third, a second wave of reform produced the instruments that define the current DFAT model: the Australian Infrastructure Financing Facility for the Pacific (AIFFP); the 2023 Falepili Union compact with Tuvalu; and a portfolio of sovereign lending and blended finance tools. Australia's experience yielded what it has termed “deep integration,” where DFAT has constructed an approach to foreign assistance aligned across four dimensions: policy, institutional architecture, geographic concentration, and program design.

This offers a potential approach for the US government to adopt, with the recognition that US interests are wider than Australia's and will likely never be as tightly prioritized. The State Department's nascent “strategic assistance” framework offers a potential American version of DFAT's concept of deep integration. The State Department's January 2026 Agency Strategic Plan defines strategic assistance as advancing longer-term US interests through economic support, commercial ties, and infrastructure development, which is the same logic that has underpinned DFAT's program since 2015.³ Whether the State Department can operationalize this framework at even a fraction of USAID's former scale, with less than 6 percent of USAID's workforce,⁴ is an important question.

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- 1 “USAID Programs Now Being Run by State Department as Agency Ends Operations,” *ABC News*, July 1, 2025, <https://abcnews.com/Health/usaid-programs-now-run-state-department-agency-ends/story?id=123373289>; CSIS Global Development Department, *The Ground Has Shifted* (Washington, DC: Center for Strategic and International Studies, November 13, 2025), <https://features.csis.org/the-ground-has-shifted/>.
 - 2 Elissa Miolene, “State Department scrambles to rebuild foreign aid workforce,” *Devex*, December 16, 2025, <https://www.devex.com/news/state-department-scrambles-to-rebuild-foreign-aid-workforce-111525>.
 - 3 US Department of State, *Agency Strategic Plan, Fiscal Years 2026–2030*, December 2025, <https://www.state.gov/agency-strategic-plan>.
 - 4 Michael Igoe, “State Dept takeover of USAID is an ‘impending train wreck,’ experts say,” *Devex*, July 2, 2025, <https://www.devex.com/news/state-dept-takeover-of-usaid-is-an-impending-train-wreck-experts-say-110417>.

Introduction

For now, the institutional question is settled, but how the State Department operates in practice remains open. The Trump administration's dismantlement of USAID and absorption of its remaining functions into the State Department represents the most consequential reorganization of US foreign assistance in 60 years. Programs deemed aligned with administration priorities are administered by the State Department, which in mid-2025 planned to take on just over 700 staff to manage a portfolio that previously relied on more than 10,000 people.⁵ While these numbers will likely grow, it remains unclear if they will grow strategically by hiring the right number of individuals or those with the right expertise. Much of the remaining assistance will flow through new offices created in each regional bureau with oversight, management, and strong direction coming from the new F family of bureaus headed by an undersecretary.

The State Department is now trying to build an institutional architecture that Australia spent a decade developing. Even with the absorption of USAID by the State Department, the US system remains highly fragmented with tools and instruments scattered across several remaining departments and agencies, including the US International Development Finance Corporation (DFC), Millennium Challenge Corporation (MCC), and US Trade and Development Agency (TDA). Australia's 2013–2014 integration of AusAID into DFAT is the most far-reaching example of this model among mid-sized donors. It moved Australia from a dual-agency structure to a unified foreign policy institution operating under a single ministerial mandate—the same structural outcome the Trump administration has sought to produce, though through a process that compressed years of Australian deliberation into months of executive action. Other donors, such as Canada and the UK, pursued similar mergers but have failed to achieve the level of integration of Australia. The continued fragmentation of the American system, however, will likely make it difficult for the US ever to achieve Australia's level of integration. This paper will address five questions relevant to the ongoing reorganization of foreign assistance functions into the State Department:

1. What drove Australia's integration and what strategic logic sustained it;
2. What deep integration means as a concept and how DFAT operationalizes it;
3. What costs integration imposed and how Australia managed them;
4. How Australia's financing instruments evolved; and
5. What the State Department should do to avoid similar pitfalls.

5 State Department Office of Inspector General, Evaluation of the Department of State's Approach to Realigning U.S. Agency for International Development Functions (June 2025); Government Executive, "Potential Shortcomings in USAID-State Department Merger Plan Raise Concerns" (June 3, 2025).

Why Australia integrated aid into DFAT

Strategic alignment

The central rationale for the DFAT-AusAID merger was improved policy alignment was similar to the Trump administration's push for tighter alignment between foreign policy and foreign assistance. The Abbott government argued in 2013 that development assistance should serve Australia's national interests, particularly in the Indo-Pacific where strategic competition with China was growing. The reframing shifted the program from primarily poverty-focused to one that linked aid explicitly to regional stability, economic partnerships, and diplomatic influence.⁶ The Indo-Pacific framing has proved durable across successive governments because the strategic logic was clear: influence in Pacific Island countries and Southeast Asia had direct bearing on Australian security, and that influence was being contested.

In 2013, the Abbott government saw growing Chinese infrastructure financing, deepening diplomatic relations, and attempts to negotiate regional security arrangements in several Pacific Island countries as eroding Australia's strategic position in the region. DFAT officials describe the early integration period as messy and poorly positioned to respond to China's growing presence in the region; this would subsequently shape a second reform period for DFAT.⁷ The Pacific Reset of 2016 was the first systematic policy response. The Office of the Pacific, established as a whole-of-government coordinating body, translated that response into an organizational presence. While DFAT maintained a focus on Southeast Asia, observers have argued that Australian influence in Southeast Asia continued to slip even with integration, suggesting that geographic prioritization without sufficient resources and a clear sub-regional vision produces diffusion rather than coherence.⁸ The Australian government recognized this dynamic and under Prime Minister Albanese, DFAT formed an Office of Southeast Asia to mimic the Office of the Pacific. The State Department, though, faces a similar risk as it reduces presence and resources for deprioritized regions and countries.

This is the organizing logic the State Department currently lacks. DFAT's integration succeeded because it had geographic priorities, an identified competitor, and over time it developed instruments that provide a more coherent whole-of-government response. The State Department's January 2026 Agency Strategic Plan and its Indo-Pacific foreign assistance factsheet signal movement in this direction, framing strategic assistance around economic support, commercial ties,

6 DFAT, Australian Aid: Promoting Prosperity, Reducing Poverty, Enhancing Stability (Canberra: DFAT, 2014), <https://www.dfat.gov.au/sites/default/files/australian-aid-development-policy.pdf>.

7 Notes from Key Informant Interview, January 2026 (internal research notes).

8 Lowy Institute, Southeast Asia Influence Index (Sydney: Lowy Institute); "Link start-ups ecosystems to build influence in Southeast Asia," The Interpreter (Sydney: Lowy Institute).

and infrastructure development.⁹ Yet the administration clearly has broader regional priorities, including in the Western Hemisphere, Africa, and the Middle East. The National Security Strategy and various public statements by the administration suggest a higher priority for the Western Hemisphere and Indo-Pacific regions, including reportedly concentrating 40 percent of future US foreign assistance in these two regions.¹⁰ How this comes together in real time remains unclear, especially in light of the war in Iran, which is occurring in the Middle East—a region the NSS explicitly identifies as one where American engagement “will recede” as it shifts burdens to regional partners.¹¹ Whether the State Department can or should achieve the geographic and programmatic specificity that gave DFAT its coherence is an important question for US policymakers.

Whole-of-government coherence

Prior to 2013, AusAID operated as a semi-autonomous agency alongside DFAT. Practitioners with direct experience from that period describe a “total food fight over resources” at post level, with embassy and aid mission staff operating under different mandates, timelines, and accountability frameworks.¹² Integration was designed to resolve this by creating unified country strategies, closer alignment between aid programs and diplomatic objectives, and a single-point of accountability for heads of mission over all tools of statecraft. That said, coherence was not achieved quickly. Genuine functional integration required decentralized post-level authority and the creation of new organizational structures (e.g., the Office of the Pacific), which did not exist at the time of the merger. This distinction matters for the US case, where consolidation into the State Department risks coherence in name only: as critics of “whole-of-government” approaches have argued, a development function that does not control its own budget or set its own strategic priorities cannot hold its own in interagency competition, and integration can collapse into the subordination of development to diplomacy rather than its elevation.¹³ Australia avoided that outcome only because integration was paired with genuine budget and program authority at post. This is a condition that the fragmented US architecture, with assistance and financing tools still scattered across the State Department, DFC, MCC, USTDA, Treasury, and Ex-Im, does not yet satisfy.

9 US Department of State, *Agency Strategic Plan, Fiscal Years 2026–2030*, January 2026, <https://www.state.gov/agency-strategic-plan>; US Department of State, “America First Foreign Assistance in the Indo-Pacific,” December 29, 2025, <https://www.state.gov/releases/bureau-of-east-asian-and-pacific-affairs/2025/12/america-first-foreign-assistance-in-the-indo-pacific>.

10 Author’s notes from Jeremy Lewin public event at Hudson Institute, December 2025.

11 The White House, National Security Strategy of the United States of America (Washington, DC: The White House, November 2025), 27–28 (Section D, “The Middle East: Shift Burdens, Build Peace”), <https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf>. The NSS states that U.S. focus on the Middle East “will recede” as energy supplies diversify and superpower competition gives way to great-power jockeying. Note that the NSS deprioritizes the Middle East as a region; it continues to treat the containment of Iran as a core U.S. interest.

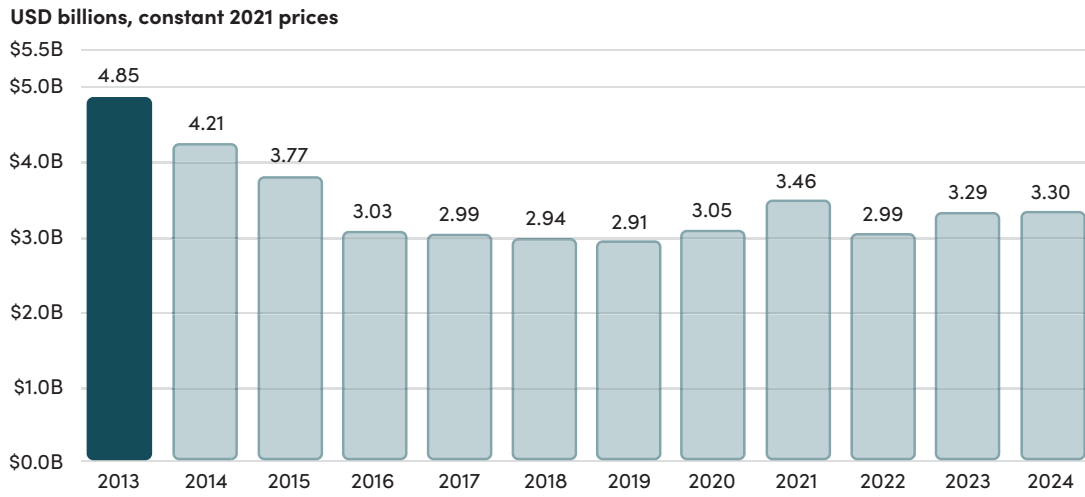
12 Notes from Key Informant Interview, May 15, 2025 (internal research notes).

13 Todd Moss, “Too Big to Succeed? Why (W)hole-of-Government Cannot Work for U.S. Development Policy,” Center for Global Development (blog), October 5, 2010, <https://www.cgdev.org/blog/too-big-succeed-why-whole-government-cannot-work-us-development-policy>.

Political and fiscal drivers

In Australia, a reduction in the foreign assistance budget accompanied integration, as it does in the US case. The Abbott government believed it had a political mandate to reduce Australia's assistance spending alongside its push to integrate AusAID into DFAT. Australia's ODA fell to approximately 0.22 percent of gross national income by 2018.¹⁴ The 2026 OECD-DAC peer review found the figure had stabilized at 0.19 percent in 2024, ranking Australia 28th of 32 DAC member countries.¹⁵ Figure 1 below shows Australian assistance spending over this period.

Figure 1. Australian foreign assistance spending, 2013–2024



Notes: Pre-2018 values use cash-flow methodology; 2018 onwards use grant-equivalent methodology. Figures are approximate pending OECD final dataset access.

Source: OECD DAC (net ODA, grant-equivalent basis from 2018).

The parallel with the US situation is direct: the Trump administration's rescissions of foreign assistance funding, combined with its requested 47 percent reduction in foreign assistance for Fiscal Year 2026,¹⁶ have significantly reduced the amount of foreign assistance as it has dismantled USAID. Even the recent passage of \$50 billion for the international affairs budget by Congress¹⁷ will not

14 Terence Wood, Siopé Ofa, and Luke Roughan, "The Aid Budget Cuts: Context and Consequences," Development Policy Centre Discussion Paper 37 (Canberra: Australian National University, 2014), <https://devpolicy.org/the-aid-budget-cuts-context-and-consequences-20140527/>. OECD, OECD Development Co-operation Peer Reviews: Australia 2018 (Paris: OECD Publishing, 2018), <https://doi.org/10.1787/9789264293366-en>.

15 OECD DAC Peer Review 2026. Australia's ODA was 0.19% of gross national income in 2024, ranking 28th among 32 DAC member countries and 28th at 0.65% of the national budget, the lowest level in a decade according to civil society assessment.

16 Center for Global Development, "Redefining America's Interests? Trump's FY2026 Budget Proposes Sweeping Cuts to US Foreign Aid," May 2025, <https://www.cgdev.org/blog/redefining-americas-interests-trumps-fy2026-budget-proposes-sweeping-cuts-us-foreign-aid>; see also Congressional Research Service, Department of State, Foreign Operations, and Related Programs: FY2026 Budget and Appropriations, R48624.

17 Congressional Research Service, Department of State, Foreign Operations, and Related Programs: FY2026 Budget and Appropriations, R48624, <https://www.congress.gov/crs-product/R48624>.

necessarily address the real fiscal constraints faced by the US government as the administration may opt not to spend new funding, pursuing rescissions or testing the limits of impoundment.

Political justification of Australian aid

Australia's aid program has limited public support. In the Lowy Institute's annual polling, foreign aid is the only policy area in which more Australians favor decreasing federal spending than increasing it.¹⁸ Successive governments have sold aid exclusively through national interest, and practitioners confirm that development for its own sake has never been a viable political argument in Australia.¹⁹ The Australian Government's justification rests on three components, each of which aligns with the State Department's strategic assistance framework.

First, regional stability with DFAT framing fragility in Pacific Island countries as a direct threat to Australian security. Failed states in Australia's near abroad can create vectors for transnational crime, irregular migration, and, most consequentially, strategic access for adversarial powers. This argument resonates with both security and development constituencies because it grounds humanitarian concern in the national interest.

Second, economic engagement. Since DFAT's Aid for Trade Strategy of 2015, development assistance has been deployed to support infrastructure investment, private sector development, and trade facilitation in the Pacific and Southeast Asia.²⁰ AIFFP, for example, seeks to address a market failure in infrastructure investment and provides concessional financing for infrastructure projects that reinforce Australian economic relationships. The mechanism is catalytic: government guarantee structures and convening power bring commercial banks and institutional investors into markets they would not otherwise enter. The 2026 OECD-DAC peer review noted that DFAT should continue building on its growing infrastructure portfolio while managing debt distress and ensuring that poverty reduction remains central to program design.²¹

Third, bilateral relationships and partner trust. Australia's program credibility with partner governments can make catalytic finance work. Partners extend access and co-financing because they trust Australia's sustained commitment; without that trust, the deal-making model that defines DFAT's current approach does not function. This framing is directly relevant to the State Department: the strategic assistance framework depends on partner-country confidence that US commitments

18 Lowy Institute, Lowy Institute Poll 2025: Foreign Aid (Sydney: Lowy Institute, 2025), <https://poll.lowyinstitute.org/report/2025/foreign-aid/>.

19 Notes from Key Informant Interview, May 15, 2025 (internal research notes).

20 DFAT, Strategy for Australia's Aid for Trade Investments (Canberra: DFAT, July 2015).

21 OECD DAC Peer Review 2026, DAC Recommendation 8: "Building on Australia's growing portfolio of infrastructure investments, DFAT should continue to prioritise access to procurement opportunities for local actors, manage for debt distress and ensure that poverty reduction is at the heart of the theory of change of all infrastructure investments."

will be honored across budget cycles. Restoring that confidence after the abrupt termination of USAID programs is a prerequisite for the Trump administration's approach to work.

In Australia, the mutual interest narrative has proven durable across budget cycles. The combination of security framing, economic diplomacy, and values rhetoric has sustained the program through three changes of government and sustained budget pressure. The Trump administration is attempting to replicate this durability under its strategic assistance framework: defining assistance not as charity but as a tool that directly advances US economic and security interests. That durability will hold only if program delivery produces demonstrable results in partner countries that the Trump administration can cite as evidence of strategic return.

Challenges of integration

While DFAT's integrated model offers a compelling template, the Australian experience also makes clear that consolidation carries real costs and ones the State Department should anticipate as it builds its own integrated approach. Indeed, some of the costs identified below have already surfaced as the State Department has attempted to assume USAID's former role in programming and managing US foreign assistance. In the case of DFAT, integration surfaced four distinct losses:

1. **Loss of Development Expertise:** AusAID had deep expertise in program management, monitoring and evaluation, and sectoral expertise from public financial management to health systems to agriculture and other development sectors. DFAT did not immediately have the organizational culture to absorb or retain these functions. Moreover, practitioners identify the loss of program management and operational delivery functions as the most consequential gap, and these were only partially reconstructed through subsequent reform.²² The scale of this loss in the US context is proportionally larger: USAID's former workforce of more than 10,000 has been replaced by perhaps a tenth of that total.
2. **Institutional Culture Conflict:** AusAID and DFAT operated on fundamentally different timelines. Development specialists worked on five-to-ten year program cycles with technical accountability to poverty-reduction metrics. Diplomatic generalists operated on 18-to-24 month posting rotations with political accountability to ministerial priorities. The 2026 OECD-DAC peer review found that embedding development capability across DFAT remains an incomplete task over a decade after the formal merger.²³ The cultural divide between development and diplomatic functions has not been resolved, at best it has been managed. The State Department faces a similar challenge.

²² Notes from Key Informant Interview, May 15 (internal research notes, 2025).

²³ OECD DAC Peer Review 2026, DAC Recommendation 5: DFAT should "continue embedding development capability across the department, including through strengthened pre-posting training for staff to enable them to perform in difficult contexts."

3. **Risk of Politicization:** Integration elevated strategic calculations over development logic. During the 2014–2017 period, aid was increasingly deployed as a transactional instrument responding to China’s growing presence in the Pacific rather than a coherent poverty-reduction strategy. The risk is not that development was abandoned, but that short-term political imperatives crowded out long-term investment in the institutional conditions for sustained development. The 2026 peer review noted this tension directly: it recommended that ODA and non-ODA flows reinforce partner countries’ development priorities rather than simply serving Australian strategic objectives.²⁴
4. **Operational Complexity:** The merger mechanics produced disruptions beyond the transition period. Integrating budgeting, procurement, and evaluation systems designed for different institutional logics are the clearest examples. The 2014–2017 period was characterized by reactive problem-solving rather than strategic institutional design; reform followed breakdown rather than preceding it. Eighteen months into the merger of USAID into the State Department and there remain many open questions on how these different processes and systems will be integrated.

Managing integration

DFAT’s response unfolded in two phases with the second being more consequential than the first. The first phase, spanning 2014 to approximately 2017, was largely reactive as DFAT tried to address the early capability gaps and operational failures that followed the merger. The second phase (still ongoing) has been driven by geopolitical pressure and a change in government with an institutional architecture and integrated financing instruments that defines DFAT’s current model.

Structured program planning

DFAT introduced country-level Aid Investment Plans (AIPs) and, since the 2023 International Development Policy, their successor Development Partnership Plans (DPPs) that aligned individual programs with strategic priorities while maintaining development rigor in program design and implementation. The publicly available Papua New Guinea AIP, for example, structured 44 significant investments and up to 25 scheduled reviews under three strategic objectives, with the Pacific Division First Assistant Secretary accountable for strategy and the High Commissioner for in-country delivery.²⁵ The current Australia–Indonesia DPP 2024–2028 contains a similar architecture with agreed objectives co-developed with Indonesia’s national

²⁴ OECD DAC Peer Review 2026, DAC Recommendation 1: the government should “ensure that ODA and non-ODA flows reinforce partner countries’ development priorities and are working towards common objectives.”

²⁵ Australian Government Department of Foreign Affairs and Trade, Aid Investment Plan Papua New Guinea: 2015–16 to 2017–18, <https://www.dfat.gov.au/sites/default/files/papua-new-guinea-aid-investment-plan-2015-18.pdf>.

planning agency Bappenas, defined investment portfolios, and a mandated mid-cycle review.²⁶ This approach—strategic framing at the portfolio level, development accountability at the program level—is the most transferable institutional innovation from the Australian experience. The State Department’s existing Integrated Country Strategies provide an analogous framework, though these would need to be redesigned to better incorporate development objectives and the department will need staff with the development expertise to implement them.

Decentralization and whole-of-government architecture

The creation of the Office of the Pacific as a whole-of-government coordinating body, combined with decentralization of decision-making to post level on defense, development, and trade, gave heads of mission both the authority and institutional support to integrate all tools of statecraft at the country level.²⁷ The OECD’s 2026 peer review affirmed that Australia’s integrated crisis response model—enabling coherent whole-of-government engagement on peace and stability—is a genuine good practice from which other DAC members can learn. This architecture is geographically specific to Australia’s Pacific focus, but the principle—unified authority at post overall program tools—is directly applicable, though will likely remain a challenge for the US system to implement given the continued fragmentation across departments and agencies. To work within the US system, it would likely require a stronger and unified budget authority than what currently exists in the Office of Foreign Assistance Resources (F) at the State Department. When F was created in 2006, the intent was to provide just such a unified budget authority; in practice, it has never functioned as such and has only provided budgetary oversight for State and formerly USAID. Other related agencies, such as MCC and DFC, are not subject to F’s oversight and it is not clear that this would shift under the current administration.²⁸

New financing instruments

Catalytic finance tools are an important feature of DFAT’s deep integration model. Integration enabled deployment of a broader range of instruments beyond traditional grant-based assistance. Australia built a suite of tools in which government guarantee structures and convening power bring

26 Australian Government Department of Foreign Affairs and Trade, Australia-Indonesia Development Partnership Plan 2024-2028, 2024, <https://www.dfat.gov.au/sites/default/files/australia-indonesia-development-partnership-plan-2024-2028.pdf>.

27 Notes from Key Informant Interview, May 15 (internal research notes, 2025); OECD DAC Peer Review 2026. The peer review described Australia’s integrated crisis response model as a good practice for other DAC members.

28 On the Office of U.S. Foreign Assistance Resources (“F”), see Congressional Research Service, Foreign Assistance: An Introduction to U.S. Programs and Policy, CRS Report R40213 (Washington, DC: CRS); Congressional Research Service, Restructuring U.S. Foreign Aid: The Role of the Director of Foreign Assistance, CRS Report RL33491 (Washington, DC: CRS, 2006); and George Ingram and others, “Redesigning the US State Department and USAID Assistance Programs,” Brookings Institution, 2022, <https://www.brookings.edu/articles/redesigning-the-us-state-department-and-usaid-assistance-programs/>.

commercial banks and institutional investors into difficult operating environments that private capital would not enter unaided.²⁹ The suite now encompasses four distinct mechanisms.

The Australian infrastructure financing facility for the Pacific

The AIFFP has emerged as an important instrument for DFAT and one that offers important lessons. Established in July 2019 with an initial commitment of AUD 2 billion and subsequently expanded to AUD 4 billion, the AIFFP provides loans and grants to Australian partners across the Pacific for infrastructure projects with measurable development and strategic impact.³⁰ The facility operates in 15 countries: Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea (PNG), the Republic of the Marshall Islands, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu. Export Finance Australia (EFA) serves as the lender of record, issuing loans on behalf of the facility, while DFAT manages policy oversight.

The facility's portfolio illustrates the catalytic design logic. Investments include an AUD 72 million partnership with the Fiji government to maintain roads and construct nine bridges designed for a 100-year service life capable of withstanding a one-in-100-year rainfall event.³¹ In PNG, the facility provided a \$150 million grant and concessional loan package to repair and upgrade key energy assets.³² In Palau, the AIFFP co-financed a 15.28 megawatt solar photovoltaic facility with a 12.9 megawatt battery storage system—among the largest hybrid renewable installations in the Pacific—and a submarine cable.³³

The 2026 OECD-DAC peer review affirmed the AIFFP's strategic value while flagging two design risks. The review recommended that DFAT continue prioritizing local procurement opportunities, manage for debt distress in sovereign lending, and ensure poverty reduction remains central to the theory of change for all infrastructure investments.³⁴ These recommendations reflect a tension inherent in the catalytic finance model: infrastructure investment serves strategic and commercial objectives, but development logic requires that the neediest communities benefit, not merely the most commercially viable projects. The US International Development Finance Corporation (DFC) faces the same tension with its recent reauthorization pushing it toward more strategic projects by expanding its authority to invest in higher income countries.³⁵

29 Notes from key informant interviews, January 2026 (internal research notes).

30 Erin Collinson, "DFC Reauthorization: What's New and What It Means," Center for Global Development (blog), January 9, 2026, <https://www.cgdev.org/blog/dfc-reauthorization-whats-new-and-what-it-means>.

31 AIFFP, Pacific Regional program documentation (Canberra: DFAT, 2024).

32 Australian Infrastructure Financing Facility for the Pacific, "AIFFP funds upgrade and installation of renewable energy projects across Papua New Guinea," February 8, 2024, <https://www.aiffp.gov.au/news/aiffp-funds-upgrade-and-installation-renewable-energy-projects-across-papua-new-guinea>.

33 Australian Infrastructure Financing Facility for the Pacific, Palau Solar Case Study, 2022, https://www.aiffp.gov.au/sites/default/files/2022-10/palau_solar_case_study_0.pdf.

34 OECD DAC Peer Review 2026, DAC Recommendation 8.

35 Erin Collinson, "DFC Reauthorization: What's New and What It Means," CGD blog, January 9, 2026.

Export finance Australia and the National Interest Account

Australia expanded EFA's risk tolerance to support transactions outside its commercial mandate. Under the National Interest Account (NIA), the Australian government bears all risks and losses and no capital is set aside on EFA's balance sheet, allowing the government to direct EFA to support transactions that fall outside its commercial risk appetite while preserving EFA's commercially comparable pricing discipline. The 2019 mandate amendments expanded EFA's authority to undertake overseas infrastructure financing in the Indo-Pacific, and the account now houses the Southeast Asia Investment Financing Facility, the Critical Minerals Facility, the Defense Export Facility, and lending for AIFFP.³⁶ The mechanism changes what gets financed rather than the terms on which it is financed.

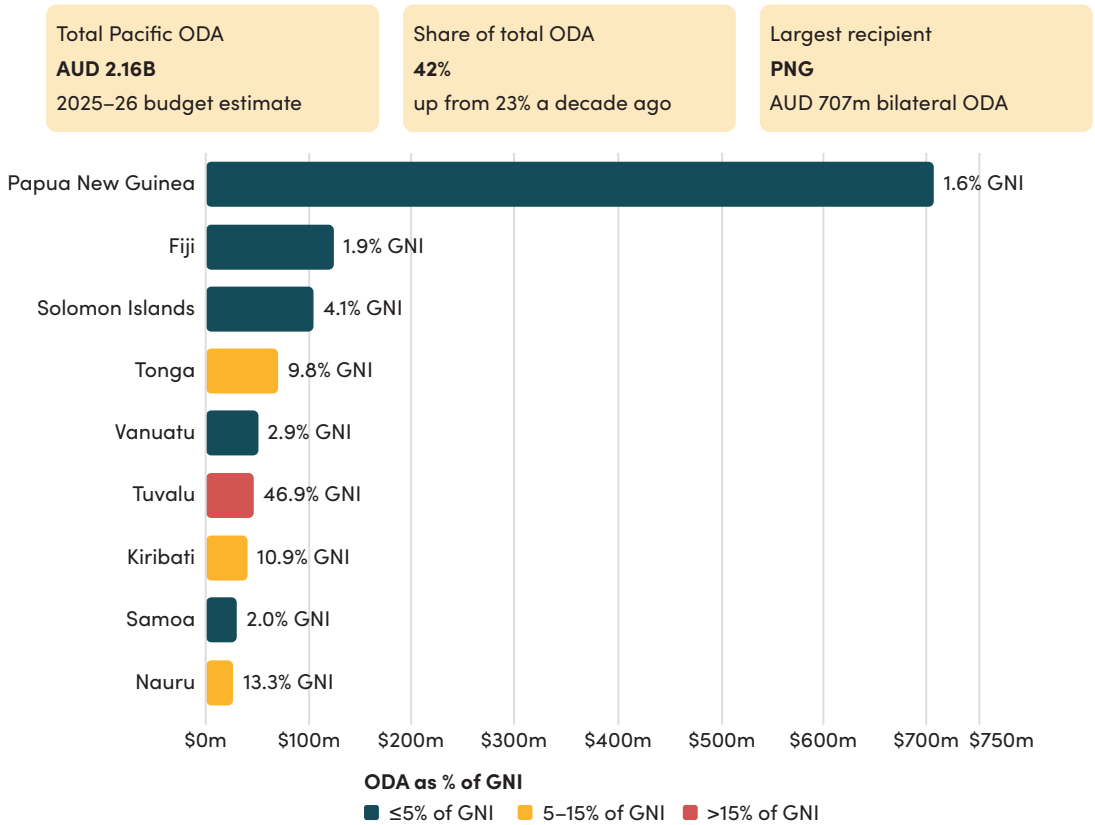
Sovereign lending and budget support

Budget support in small island developing states has become an OECD-recognized good practice. The 2026 DAC peer review highlighted Australia's effective use of budget support in small island developing states (SIDS) as a genuine model for other donors.³⁷ Budget support is a high-trust instrument that signals genuine partnership rather than transactional conditionality. It also reduces the administrative burden on under-resourced SIDS governments. Australia's willingness to use this instrument reflects the depth of its regional relationships and the maturity of its program; it is an instrument the State Department could deploy in contexts where relationship depth justifies the risk. Figure 2 below shows total Australian foreign assistance spending in each Pacific island country and as a percentage of gross national income (GNI).

³⁶ Export Finance Australia, "National Interest Account," <https://www.exportfinance.gov.au>; the 2019 expansion followed the Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) Act 2019.

³⁷ OECD DAC Peer Review 2026. Budget support in SIDS is identified as an OECD good practice with "effective use of budget support in SIDS as well as dedicated guidance and monitoring frameworks."

Figure 2. Australian foreign assistance in the Pacific as a percentage of GNI, 2025–2026 budget estimate



Notes: Excludes Pacific Regional (\$584m), Niue/Takelau (\$2m), Palau (\$2m), FSM (\$3m), Marshall Islands (\$2m). Per capita figures (USD) shown in tooltip on hover.

Sources: DFAT Development Cooperation Factsheets (May 2025) and ODA Budget Summary 2024–25 for Vanuatu, Samoa, Nauru. GNI figures: World Bank Atlas method, 2022–23. ODA/GNI calculated using AUD/USD ≈ 0.63. Budget support is a component of total ODA; country-level budget support breakdowns are not publicly reported for 2025–26.

The Falepili Union and compact-style agreements

For Australia, the Falepili Union represents the furthest expression of the integrated finance and diplomacy model. The 2023 treaty with Tuvalu provides Tuvaluans with a pathway to Australian residency and access to Australian labor markets, in exchange for Australian primacy in Tuvalu’s security and foreign policy decisions.³⁸ The treaty combines migration access through a labor mobility instrument though with defense guarantees and development financing, including AIFFP support. While this is a transactional agreement (Australia has significant say over Tuvalu signing security agreements or treaties with other countries, e.g., China): it still addresses the core strategic and humanitarian interests of both parties.

³⁸ Australian Government, Falepili Union between Australia and Tuvalu (Canberra: DFAT, 2023). The treaty was signed in November 2023 and entered into force in August 2024. AIFFP support for Tuvalu harbor infrastructure in Nui and Niutao outer islands was disbursed concurrently with treaty implementation.

Defining deep integration

Most OECD donors maintain nominal policy alignment between foreign policy and foreign assistance without a high level of integration between the two. Australia has pursued a model of “deep integration” that reflects across four dimensions that are mutually reinforcing. The State Department’s strategic assistance framework invokes similar logic, but DFAT’s model illustrates what it would take to implement.

First, policy integration. Australia treats development as a core foreign policy tool and not as a parallel track. DFAT strategy documents frame development outcomes as instrumental to diplomatic and security objectives without fully abandoning development logic at the program level. Australia’s development programs are designed to advance both national interest and development outcomes simultaneously, with the former providing political justification and the latter providing desired operational outcomes. The State Department’s initial definition of strategic assistance that links longer-term US interests through economic support and commercial ties represents the beginning of this framing, but deeper policy integration will require that it extends to program design and resource allocation.

Second, institutional integration. Aid is managed within DFAT’s organizational structure, with development staff embedded in geographic and thematic divisions rather than housed in a separate agency or separate division within DFAT. Career pathways, while still imperfect, increasingly create incentives for hybrid expertise combining diplomatic and development skills. The 2026 OECD-DAC peer review recommended that DFAT continue embedding development capability across the department, strengthen pre-posting training, and make greater use of locally engaged staff through access to senior roles in program design, oversight and management, and monitoring, evaluation, and learning efforts.³⁹

Third, geographic integration. Australia benefits from a geographically narrow foreign assistance program with it concentrated in the Pacific Islands and Southeast Asia. That said, performance in Southeast Asia has been weaker; Australian influence in the region has declined relative to the early 2000s,⁴⁰ and the program lacks the resources and strategic clarity to compete with China at scale. Geographic concentration enables coherence; geographic overextension produces the diffusion that undermines both strategic and development objectives.

Fourth, programmatic integration. Individual DFAT programs are designed to advance multiple objectives simultaneously, such as an infrastructure project that supports trade, strengthens governance, and signals Australian presence in a region or country. Programmatic integration

³⁹ OECD DAC Peer Review 2026, DAC Recommendation 5.

⁴⁰ Lowy Institute, Southeast Asia Influence Index (Sydney: Lowy Institute), which finds that Australia’s relative influence in the region has been outpaced by China in recent years. On the connection between declining aid-funded influence and the Albanese government’s establishment of an Office of Southeast Asia within DFAT, see “Link start-ups ecosystems to build influence in Southeast Asia,” The Interpreter (Sydney: Lowy Institute).

requires program design expertise that sits at the intersection of development and foreign policy—the hybrid workforce DFAT has spent a decade building and the State Department has lost through the dismantling of USAID. DFAT has recognized that development expertise brings a certain set of skills and experiences that help it deliver on its integrated strategic approach.

Implications for the United States

Unlike the Abbott government’s decision to merge AusAID into DFAT in 2013, the Trump administration’s decision to disband USAID as an independent agency and merge its remaining foreign assistance functions into the State Department was not the result of a well-organized decision-making process. The State Department Inspector General, the Government Accountability Office, and independent analysts have each documented the same set of problems: no clear plan to formally merge responsibility for foreign assistance programs into the State Department and a limited number of people who could provide oversight of implementation.⁴¹ What this means in practice is a disorganized process that is not setting the State Department up for success. For example, former USAID deputy administrator Jim Kunder estimates that the per-capita management responsibility for State Department officers managing former USAID programs increased from \$1.7 million to \$12.8 million.⁴² These kinds of ratios are unsustainable without significant additional personnel and proper systems to provide management and oversight.

Three structural differences from the Australian case make the US trajectory more challenging, not less. First, scale. USAID managed more than \$35 billion in fiscal year 2024 across more than 130 countries,⁴³ with deep sectoral expertise in global health, food security, and democracy and governance that has no equivalent in any other bilateral donor. Australia’s program at the point of integration was geographically concentrated in the Indo-Pacific and operationally much smaller. Even though the Trump administration has consciously reduced the size of the foreign assistance budget, the U.S. program remains an order of magnitude larger than AusAID’s was. This dynamic is playing out as the State Department tries to manage the remaining portfolio of US foreign assistance with a dramatically smaller workforce and limited processes to manage.

Second, legislative architecture. The Foreign Assistance Act of 1961 and annual appropriations legislation govern program mandates, budget allocation, and Congressional oversight in ways that the Australian ministerial decision did not. Despite the administration’s rescissions packages and

41 James (Jim) Kunder, former acting USAID deputy administrator, speaking at a Devex Pro Briefing on July 1, 2025; see Michael Igoe, “State Dept Takeover of USAID Is an ‘Impending Train Wreck,’ Experts Say,” *Devex*, July 2, 2025, <https://www.devex.com/news/state-dept-takeover-of-usaid-is-an-impending-train-wreck-experts-say-110417>. The estimate is an expert’s verbal projection, not a published or audited calculation.

42 James Kunder, former Acting USAID Deputy Administrator, quoted in Michael Igoe, “State Dept takeover of USAID is an ‘impending train wreck,’ experts say,” *Devex*, July 2, 2025, <https://www.devex.com/news/state-dept-takeover-of-usaid-is-an-impending-train-wreck-experts-say-110417>.

43 Congressional Research Service, U.S. Agency for International Development: An Overview, IF10261, <https://www.congress.gov/crs-product/IF10261>.

budget request for significantly fewer foreign assistance resources, Congress retains the power of the purse, and it will shape what strategic assistance can fund, regardless of what the State Department's planning documents say. Navigating this constraint requires the State Department to engage Congress early on the workforce resources, budgeting and planning, oversight, and evaluation architecture the strategic assistance framework requires. Whether senior leadership at the State Department will do so remains an open question.

Third, the capability lost from dismantling USAID is not recoverable on the current political timeline. USAID's staff carried years of accumulated expertise in global health systems, food security programming, public financial management, and democratic governance. The instruments that define DFAT's current model, such as the AIFFP, the Falepili Union compact, and the Office of the Pacific required a decade of institutional learning to produce and implement. The expertise required to design and manage projects at an appropriate scale does not exist in the State Department and cannot be acquired quickly.

DFAT's deep integration model demonstrates that development assistance can be transformed into a genuine instrument of economic statecraft—one that advances national interest while producing development outcomes—but only when program design expertise, evaluation independence, financing instruments, and geographic strategic clarity are all present simultaneously. DFAT's pivot from earlier institutional upheaval also required clear political direction by its ministers, who recognized that the original intent of tighter alignment between assistance and foreign policy was failing.

Policy recommendations

For the United States, at this current moment, the relevant question is how to make the integration that has occurred at the State Department functional to achieve the administration's stated goals. There are five recommendations for Congress and the administration to consider informed by Australia's experience with its own merger of AusAID into DFAT.

For Congress

- 1. Preserve budgetary transparency and evaluation independence through legislation.**

Congress must maintain distinct oversight of development funding through separate budget lines and authorization requirements. The administration's removal of USAID's monitoring, evaluation, and learning function must be replaced with an evaluation mechanism within the State Department before strategic assistance can produce credible results reporting. Without credible results reporting, the strategic assistance framework cannot distinguish itself from diplomatic discretionary spending, and Congress may question what results are being achieved.

- 2. Mandate a strategic workforce plan to address appropriate personnel levels.** As noted, the State Department Inspector General found that staffing decisions for the USAID realignment were not grounded in a strategic workforce plan.⁴⁴ Congress should require such a plan, with minimum staffing levels for technical development experts in priority sectors, regional expertise, and other program management functions, potentially including it as part of the FY2027 appropriations process. The AusAID-DFAT experience demonstrates that development capabilities, once lost through attrition, require years to reconstruct.

For the State Department

- 3. Build geographic and programmatic specificity into the strategic assistance framework.** The administration must translate the strategic assistance concept into country-specific and/or regional-specific program designs with defined objectives, instruments, and metrics. The Department has released high-level policy documents that are a starting point, but the State Department should develop country-level planning documents that align development programs with foreign policy objectives while preserving development logic in program design. Without this, strategic assistance remains a policy statement rather than an operational framework. The State Department could use its existing integrated country strategies as a starting point, but these will need to be rethought and expanded to better integrate foreign assistance and other tools of economic statecraft.
- 4. Incorporate DFAT's flexible finance model as the architecture for strategic assistance.** DFAT has successfully integrated different financing models into its approach, including concessional lending, guarantees, and budget support. These instruments are used across its portfolio in a complementary way to advance policy objectives. In the US context, DFC can provide financial support to the private sector, but the State Department should begin to look at how it can create more flexible instruments where a private sector partner may not exist. The State Department must provide the strategic direction and country-level deal-making capacity that DFAT's politically smart approach to aid mobilizes. AIFFP's support for infrastructure, DFAT's budget support instruments in SIDS, and its other instruments are all ideas that the State Department should examine for application in its priority geographies.
- 5. Build hybrid workforce capacity.** The State Department must create career tracks that combine diplomatic and development expertise and the department should consider mechanisms to rehire former USAID technical professionals. The Australian experience demonstrates that creating these pathways after the merger is possible but slow; DFAT spent a decade building the hybrid workforce that the 2026 OECD-DAC peer review still characterizes as a work in progress. The State Department has a narrower window and a larger capability gap.

44 U.S. Department of State Office of Inspector General, Evaluation of the Department of State's Approach to Realigning U.S. Agency for International Development Functions, AUD-GEER-25-20, May 2025, <https://www.stateoig.gov/report/aud-geer-25-20>.

Conclusion

Deep integration is achievable, but not through organizational absorption alone. Australia's integration of AusAID into DFAT produced a more coherent and strategically aligned foreign assistance program, but only after a prolonged period of disruption, reactive reform, and institutional recalibration spanning more than three years. Ultimately, it took recognition that the strategic imperative in the Indo-Pacific region that gave the merged institution an organizing framework was not being met even under an integrated DFAT. This realization spurred a second wave of reform that created the current DFAT model of deep integration built around appropriate organizational structures, relevant policy expertise, program design, and flexible financing instruments.

The State Department's strategic assistance framework represents the right analytical frame, though it will need more than simple rhetorical framing to achieve its objectives. The definition of strategic assistance as advancing longer-term US interests through economic support, commercial ties, and infrastructure development is like DFAT's model. The gap, however, is institutional. The State Department is attempting to build the institutional architecture that deep integration requires at the same moment it is managing the immediate consequences of absorbing the foreign assistance portfolio with far fewer staff than USAID had and without the appropriate institutional mechanisms and processes. This may ultimately prove to be a fatal flaw. Indeed, there is an open question as to whether the current administration even wants to build the capacity at the State Department to properly implement its approach.

The 2026 OECD-DAC peer review of Australia confirms that even a mature, well-designed integrated program may continue to face persistent institutional challenges. The embedding of development capability remains incomplete; ODA volumes are insufficient relative to regional need; and the tension between strategic objectives and development logic has not been resolved. These remain even 13 years after the DFAT-AusAID merger. These challenges also provide a realistic baseline for what the State Department should expect, and a concrete set of institutional investments that the Australian experience demonstrates are necessary. The cost of failing to make this investment is the permanent loss of the development capacity that will limit the State Department's ability to deliver on the administration's defined approach to using strategic assistance to advance US foreign policy objectives.