

NAIF Opening Statement

Introduction

- Thank you Chair and good afternoon Senators.

Pipeline

- As at **26 May 2017**, NAIF has had **119** enquiries which since establishment on 1 July 2016 has been an increase of 68 projects (i.e. 133%)
- **The 119 enquiries are** for projects **across a broad range of sectors** including transport (27); resources (22); agricultural (18); energy generation (24); and others (28) including construction, telecommunications, gas pipelines, tourism and water.
- There are currently **60 active deals** (being at active enquiry, preliminary assessment, strategic assessment or due diligence), which is an increase of 94% since NAIF's inception. They are spread across NAIF's three jurisdictions of **Qld (50%), WA (28%) and NT (13%)** and multi-jurisdictional (**9%**).

Significant progress

- There are **four** transactions currently in the due diligence stage.
- Independent market analysis of government procured infrastructure projects demonstrates the long gestation period of between 19 to 32 months from project conception to a point where a project is ready to be assessed by lenders and then a further 3 to 6 months of commercial negotiations to reach financial close (i.e. ~2 to 3 years). This can significantly increase for higher risk projects.
- Given NAIF is operating under a Proponent Led (not a Government Led model) as a gap financier and with the challenges of financing in Northern Australia those timelines can reasonably be expect to be extended further.
- NAIF is targeting financial close of its first transaction in the third quarter of 2017.
- In the above context, that is significant progress over the first 11 months of NAIF's operation. Of note this is closely aligned with the timing of the close of CEFC's first transaction after its establishment.

Governance

- NAIF has had an independent governance expert review its governance policies. It concluded that the policies are a comprehensive suite and appropriate given NAIF's size and function. In the expert's view in developing its policies NAIF has complied with the requirements of the Investment Mandate to have regard to best practice governance.
- At all relevant times NAIF has had appropriate policies, procedures and a risk management framework, including a Risk Appetite Statement (RAS), in place. Given the start up nature of the organisation it is appropriate to have a staged approach to the development and refinement of policies and procedures.
- NAIF has a high level of transparency in terms of publication of its governance materials. A comparison of 13 governance policies indicates that NAIF has published 11 compared to the Clean Energy Finance Corporation (CEFC) (2) and the Export Finance and Insurance Corporation (Efic) (5). A RAS is not a public

document as it describes in detail the manner in which NAIF's risk appetite and tolerances are established and controlled.

- In developing its governance NAIF has leveraged the expertise of its service provider Efic, which has over 60 years experience including in complex gap lending.

Board Independence

- The NAIF Board's role under the Act of Parliament establishing it which was passed with bipartisan support is to make decisions independent of the responsible Minister who must not direct or have the effect of directing the NAIF to provide finance for a particular project or person.
- The Board makes decisions based on criteria that have been mandated to it under the NAIF legislation and Investment Mandate.

Board Engagement

- The Board been extremely active in engaging with stakeholders to attract interest in investing in partnership with the NAIF to develop Northern Australia, including:
 - a total of five Board meetings held to date
 - direct engagement with regional economic and community leaders across the north – Cairns, Townsville, Rockhampton, Darwin, Kununurra which has raised awareness of NAIF's objectives as well as generated pipeline activity
 - there has also been engagement with investors and proponents in other centres – Perth, Brisbane, Sydney
- The remuneration of the NAIF Board and Board Audit and Risk Committee is set by the independent Remuneration Tribunal, consistent with other government boards. This is appropriate given the Board's responsibility for investing \$5 billion of government finance. No bonuses are paid to Board members.
- This activity is in addition to the stakeholder engagement undertaken by the NAIF team. They have now participated in close to 15 speaking engagements reaching audiences (including international) close to 1500 people with interests in infrastructure and development across the north.

Management of Conflicts of Interest

- All of the NAIF Board members are highly skilled and experienced non executive directors. All of the Board members understand their duties and obligations particularly regarding disclosure of conflicts of interest as required under the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and to comply with the NAIF's Conflict of Interest Policy.
- NAIF has absolute confidence that the Board members have appropriately declared conflicts of interest and have recused themselves from Board discussions where they have an actual, perceived or apparent conflict of interest.
- Directors make disclosures of material personal interests to NAIF on a confidential basis. NAIF is bound by obligations under the Privacy Act 1988 regarding the disclosure of personal information in these disclosures.
- Information regarding directorships held by Directors is publically available.

- Information as to what declarations individual Board members make are not disclosed as they are made as part of Board deliberations which are confidential and because disclosure could reveal commercial in confidence information relating to projects in relation to which the declaration is made.

Staffing

- The NAIF has access to almost 120 full time equivalent (FTE) staff to undertake its functions.
- This includes 9.6 FTE employed directly by NAIF and all Efic staff. This includes Chief Financial and Risk Officer, Chief Credit Officer, General Counsel, Board Secretary, Senior Counsel and Head of Legal, Legal Services, Head of Compliance, Human Resources and Financial Controller.
- NAIF in its first full year is estimated to have operating costs of \$6.1 million. This includes the expenses for the 47 Efic staff that NAIF has accessed to date. Those costs are substantially under what it would have cost if NAIF had been established on a standalone basis i.e. without the ability to leverage the full EFIC resources.
- For example CEFC is a standalone entity. During the FY12/13 year (i.e. its first year of operations) \$18.38 million was appropriated for it. Actual expenses were \$8.38m (11 staff). For FY 13/14 \$8 million was appropriated and actual expenses were \$18.135 million (48 staff).