

Senate Inquiry into the NAIF governance and operation

NAIF - Opening Statement Friday 11 August 2017

Good afternoon Senators and thank you for this opportunity to address the Inquiry.

- NAIF is focussed on its overarching objectives of transforming northern Australia by financing infrastructure that generates: public benefit, longer term growth in the population and economy, greater private sector participation in financing northern Australia infrastructure development and sustainable indigenous participation, procurement and employment.
- As you know the NAIF Act was established with bipartisan support. There are many submissions, which have been made to this Inquiry which also fundamentally support the NAIF objectives. That is because what NAIF is working to achieve is important for the development of northern Australia and its communities and also Australia as a nation.
- For NAIF this Inquiry and its outcome is extremely important. It is for NAIF all about achievement of our overarching objectives. It is essential to achievement of those objectives that all stakeholders have confidence in NAIF, its Board and its executive and in the integrity of our governance and our processes. We absolutely agree with that proposition and accept that our role is to help build that confidence.
- Let me please take you through how NAIF believes the Committee should be comforted as to NAIF's standard of best practice governance and as to the high degree of scrutiny of NAIF's conduct and governance through the extensive engagement, consultation and review that is built into the NAIF legislation.
- NAIF is a public sector lender, with a role to invest funds commercially for public benefit. It is essential that NAIF's governance structures mirrors best practice standards for other public sector and commercial financier lending organisations. This best practice governance structure is built into NAIF's legislation.
- We believe that we have demonstrated comprehensively in our Submission that NAIF satisfies the governance standard set for it in the NAIF Investment mandate Section 17(1) which provides NAIF must : *'...have regard to Australian best practice government governance principles, and Australian best practice corporate governance for Commercial Financiers, when performing its functions....'*
- NAIF's governance meets or exceeds the public sector governance standard set by the **Australian National Audit Office** (in its best practice public sector Governance Better Practice Guide) and the **ASX Governance Council** Core Corporate Governance Principles for listed companies. Reputable governance experts from Allens Linklaters and the Australian Government Solicitor have reviewed NAIF's core governance documents and confirmed in their view they are best practice. This includes NAIF's Confidentiality Policy and its Conflict of Interest Policy.
- NAIF is highly transparent. It has published 10 Governance Documents (compared to 11 for the top private sector lenders, Efic (5) and CEFC (3)). NAIF has complied with those obligations under Section 17(3)(a) and (b) of its mandate to publish guidance on the format of an Investment Proposal and certain Investment Decision processes.
- It also complies with best practice governance, which requires that in the public interest certain governance documents are not published. This includes NAIF's Risk Appetite Statement (RAS), its credit decisioning guidelines, its Board deliberations and information relating to proponents and their dealings with NAIF.

- Essentially NAIF's role in a lending transaction is as the defender of the public purse – of the \$5bn of taxpayers' money that it has been given responsibility to deploy. To disclose the contents of those documents would give away NAIF's negotiating position. Our role as a gap financier is to put the minimum amount of loan moneys and the minimum amount of concessions into a loan package. We **must** partner as to 50% of the debt for infrastructure with other lenders. That is we must negotiate loan terms with them. Proponents and other lenders will be trying to maximise the NAIF loan moneys and concessions. I.e our positions are not aligned in that regard. By disclosing the governance documents that set NAIF's negotiation bottom line risk appetite and tolerances would prejudice NAIF and therefore the custodian of public funds. It would put NAIF at a tactical disadvantage. That may result in more NAIF moneys needing to be contributed.
- If NAIF is required to publish information about a proponent which has commercial value to that proponent then ultimately that risks damage to the NAIF pipeline and therefore the opportunity to achieve NAIF's objectives and therefore to the public interest. NAIF has made this point to the Senate previously. What our Submission demonstrates is that NAIF's position is consistent with best practice. In particular best practice as evidenced by:
 - the analysis of **eight Australian lending institutions operating in similar projects to NAIF, including the two public and the top five private banks and a regional bank, which demonstrates that none of them disclose publically their Risk Appetite Statement or credit decisioning governance documents.** Those organisations are the public sector entities CEFC and Efic, the four Australian major banks (ANZ, CBA, NAB and Westpac), Macquarie Bank and Suncorp.
 - **Allens Linklaters** an extremely well credentialled legal advisor with one of the leading project finance practices in Australia which confirms that in their view NAIF's approach to disclosure of its decision-making process or information provided to it by applicants for loans is typical ,i.e. consistent with general market practice among project finance lenders, is an appropriate position to adopt and is compliant with the NAIF Act, the Investment Mandate, and other applicable laws and directions.
- There is also significant ongoing scrutiny of NAIF in built into its mandate specifically in the way that NAIF works with the northern Australian States and Territories. By legislative direction NAIF must work transparently with those States and Territory including being consulted on the development of the RAS and Investment Proposals and having substantial involvement in NAIF's application and approval procedure. The Jurisdictions also have a veto to block any NAIF loan for projects in the State or Territory.
- NAIF has therefore consulted broadly with the Qld, WA and NT governments on its RAS, its application and approval protocols, its Public Benefit Guideline and its Indigenous Engagement Guidelines. Each of the jurisdictions has made a submission to the Inquiry supportive of the collaborative approach of NAIF. The Queensland & Northern Territory Governments specifically support NAIF's assessment and approval process as appropriate and in the case of Queensland also NAIF's approach to risk appetite and confidentiality. NAIF believes that the transparency of its governance to the State and Territory jurisdictions and their feedback in that regard is significant.
- We understand that there is interest in NAIF's operations as a direct result of the responsibilities that come with our mandate as a public sector lender. We have endeavoured to provide this Inquiry with substantial detail in our written

submission, are happy to answer questions put to us here today, and will continue to cooperate with the Inquiry.

- We are proud of what we have achieved in our short period since establishment.
- We will continue to do everything possible to deliver on our mandate and to create advantage for the people of Northern Australia and our nation.