

NAIF Opening Statement – Senate Inquiry 01 February 2018

Introduction

- Thank you Chair and Senators.
- It is a pleasure to be able to address you today and provide an update on NAIF's activities and to recap on some of the key governance matters raised in this Inquiry.
- I am also very pleased to welcome the Committee here to Cairns. This is where the NAIF headquarters is located and from where we coordinate a lot of our work across all of northern Australia. I trust you have enjoyed your day here.
- As you know NAIF is mandated to contribute to the growth in the economy and population of northern Australia.
- Our focus on public benefit and growth and encouraging private sector and Indigenous involvement in northern Australia, are key differentiators from other lenders.

NAIF Key Performance Indicators

- We are on track to achieve our published performance metrics. As set out in NAIF's 2017-18 Corporate Plan, our financial targets to be achieved by 30 June 2018 are for NAIF to approve between three and five investments, with NAIF investments of between \$300m and \$1bn and total project capital value of between \$750m and \$2.5bn.
- We have 13 projects currently in our due diligence or execution phases (30% increase since our last Senate Estimates appearance in October 2017). Those projects are across all three of the northern jurisdictions: Northern Territory (4); Western Australia (4); and Queensland (5). They represent a diverse range of sectors: renewables and energy; transport; resources; tourism and social infrastructure.
- NAIF's overall project pipeline now includes 194 enquiries (39% increase since October) 82 of which are currently active (30% increase since October). Additional sectors included in those lists include agriculture, water, communications infrastructure and gas pipelines.
- We are extremely pleased with the progress that demonstrates building on the Board's first Investment Decision in September 2017 to approve the Onslow Marine Support Base project in north Western Australia. Over the 10-year life of NAIF's loan there is a forecasted direct economic benefit of over \$100m which includes over 220 job opportunities.

Indigenous and Tourism Opportunities

- A number of the Witnesses today have an interest in NAIF's support for indigenous communities and the tourism sector in northern Australia so I highlight our activity in those areas.

Indigenous Opportunities

- Indigenous Australians are a key focus for NAIF in pursuing its mandate. We are extremely cognisant that by 2040 Indigenous Australians will constitute half of the permanent population of Northern Australia and that they make and will continue to make significant contributions to business growth and the unique cultural heritage of our northern jurisdictions.
- NAIF is currently engaging with Indigenous led proponents or those partnering with Indigenous communities on projects related to social infrastructure, eco-tourism, agriculture and horticulture, resources and innovative energy solutions for remote communities. In total

there are around 12 of those opportunities that are currently active (approximately 15% of the current active enquiries). One of those is in due diligence.

- All NAIF finance recipients must develop strategies for Indigenous participation, procurement and employment. This is a mandatory criterion. NAIF's Board and Executive are conscious that effective strategies may be implemented over extended periods and may require modification but will be looking to see identifiable leadership and change and its loans will ensure there is accountability.

Tourism Opportunities

- Tourism is also a key industry sector in the northern Australia economy and for NAIF. There are 18 currently active enquiries (almost 22% of total active enquiries).
- These opportunities include:
 - Walkways and eco-tourism infrastructure
 - Airports and heliports
 - Cruise ship ports
 - Marinas
 - Associated road, power, communications and water
- NAIF has engaged with a number of stakeholders to help further realise the potential of this sector. In doing so we need to target projects which will meet our investment criteria.
- We expect to be able to contribute strongly to financing tourism assets where there is a differentiated tourist offering. We envisage that bringing together of indigenous culture experiences **and** ecotourism has the potential for NAIF to support the development of iconic attractions. There are a number of great potential opportunities that we are looking at and we hope to make announcements in the coming months.
- Separately NAIF also is looking to support medical and educational tourism with its ability to finance social infrastructure.

Governance Issues

- NAIF and its Board operates at all times to ensure it satisfies its responsibilities as a corporate Commonwealth entity and under its legislation and investment mandate. We have as the Senators are aware submitted a comprehensive submission to this Inquiry. We recognised in doing so that this Inquiry is very important to the integrity of the NAIF process, our brand and our reputation which in turn are extremely important to NAIF's ability to satisfy its objectives of contributing to transformational growth in the economies and population of northern Australia.
- There has been a particular focus on NAIF's *Commercial in Confidence* protocols and *Conflicts of Interests Policy*.
- NAIF maintains the confidentiality of its dealings with proponents and also that of its Board deliberations, its credit decisioning guidelines and its risk appetite statement. Our Submission shows why it is the public interest for us to maintain that position including:
 - If NAIF were to breach our confidentiality protocols, it could compromise our ability to achieve our overall objectives of public benefit, economic growth and indigenous engagement. For example, this would be the case if, as a result, projects do not proceed or that NAIF loses its leverage and has to contribute more public funds.
 - Proponents and other project participants (including other lenders with whom under our mandate we must partner) repeatedly tell us that is what they expect of us. That is standard protocol for lenders and proponents dealing with lenders and

government dealing with other proponents. A number of submissions to the Inquiry by participants who regularly participate in processes akin to those NAIF is involved with support the need for commercial in confidence.

- For example, the Queensland Labor government in its submission said:

‘NAIF has established an appropriate assessment and approval process.’

And that ‘Given the size of the NAIF assistance package on offer, the Queensland Government agrees that the NAIF has the appropriate level of approval processes and requirements in place to support making sound and fully developed recommendations to the NAIF Board.’

- The submission goes on to acknowledge the time required to undertake these processes and the importance of protecting information, where appropriate, during commercial negotiations.
 - We commend the Queensland Government for its understanding of NAIF.
 - In fact, the close consultation that each of the northern Australian jurisdictions have with NAIF and insight into NAIF’s process should give the Inquiry confidence that NAIF ‘s governance is appropriate to support for the important work that we are doing.
- NAIF’s approach **has been endorsed as meeting best practice governance standards** by extremely reputable and experienced experts, both public sector (the Australian Government Solicitor) and private sector (Allens Linklaters) who have provided that confirmation in writing to the Senate (refer to Schedules 6 and 7 of the NAIF Submission).
 - But also look at what other banks do. It is compelling that NAIF’s approach is consistent with how eight other Australian lending institutions operating in similar projects to NAIF including public sector (Efic and CEFC) and private sector lenders (four major Australian major banks (ANZ, CBA, NAB and Westpac), Macquarie and Suncorp (a regional lender) operate. **None of those organisations disclose publically their Risk Appetite Statement or credit decisioning governance documents.** Refer to Schedule 3 of the NAIF Submission.
 - The Australian Government Solicitor has also confirmed that NAIF’s approach to both managing confidentiality of Board deliberations and conflict of interest recusal decisions is consistent with their experience of other Australian government agencies with comparable functions. Refer to the letter dated 9 August 2017 from the AGS to NAIF which was provided to this Committee on 16 August 2017.
 - Specifically, in relation to NAIF’s process relating to conflicts of interest, we have previously noted to the Inquiry:
 - the issues with boards is not that conflicts of interest arise—they will inevitably arise, especially when you have a mandate as broad as NAIF’s and as many sectors being touched as NAIF does. The issue is whether conflicts are managed appropriately. That is the best practice guidance of the Australian National Audit Office (ANAO). Refer to our Submission page 5.
 - NAIF has a published Conflicts of Interest Policy and its established protocols for assessment and management of conflicts are broadly consistent with the approach taken by Efic and CEFC and to publically listed companies (including the four major Australian banks) who have obligations under the Corporations Act.

- The NAIF Board is vigilant in managing conflicts of interest. There is a strong focus on it. There has been from day 1. The Board is very aware of its obligations, in this regard. They recuse themselves. They also have their professional reputations. They know this is good governance and how NAIF is to be operated. NAIF has stated and confirms that it has full confidence that the NAIF Board members have complied with their obligations and where appropriate recused themselves.
- However public disclosure of recusals by Directors is not made. That approach is also consistent with the ANAO Guide and NAIF's Privacy Act obligations and with confidentiality protocols (on disclosure of information on dealings with proponents and Board deliberations) which as discussed above are best practice.
- To require NAIF to act contrary to its confidentiality and conflict protocols would require it to breach its investment mandate (Refer to Section 17 which provides NAIF 'must have regard to Australian best practice government governance principles and best practice corporate governance for Commercial Financiers, when performing its functions').

Other comments

- There are many other issues that have been raised by the Inquiry which NAIF is more than happy to assist in clarifying if requested.
- We would encourage the Inquiry to support the important mandate that NAIF has been given – public benefit, growth in economies and population and sustainable indigenous engagement for northern Australia. My team and the Board are committed to achieving our objectives. We are on track to doing so and we look forward to seeing transformation as a result of the efforts of NAIF and all our stakeholders who I know are equally committed to that outcome.