



Inquiry into the governance and operation of the Northern Australia Infrastructure Facility

Senate Economics References Committee

Submission by Efic

26 July 2017

1. Purpose of this submission

The Export Finance and Insurance Corporation (**Efic**) is pleased to provide this submission for consideration by the Senate Economics References Committee in its inquiry into the governance and operation of the Northern Australia Infrastructure Facility (**NAIF**).

This submission provides an overview of the relationship between Efic and the NAIF and commentary regarding certain aspects of the NAIF's operational and governance policies.

2. About Efic

Efic, as the Australian Government's export credit agency, supports the growth of viable Australian businesses in their international operations by providing tailored financial solutions.

We seek to fill the 'gaps' in the provision of financial support for exports and overseas investment. Efic's services are provided on a commercial basis and only when the private market is unwilling or unable to provide adequate support.

Under the Efic Act, we have three core functions:

- Facilitate and encourage Australian export trade;
- Encourage banks and other financial institutions to finance exports; and
- Provide information and advice on financing and insuring Australian exports.

We work very closely with private financiers to provide working capital, bonding, buyer finance, project finance, and medium to long-term insurance products.

Efic has been in operation for over 60 years and has over 100 staff. Efic is a portfolio agency of the Department of Foreign Affairs and Trade (**DFAT**) within the wider Foreign Affairs and Trade portfolio of the Australian Government.

Efic is a corporate Commonwealth entity and is governed by the provisions of the *Export Finance and Insurance Corporation Act 1991* (**Efic Act**) and the *Public Governance and Accountability Act 2013* (**PGPA Act**).

3. Efic's relationship with the NAIF

3.1. Legislative arrangements for the provision of services to the NAIF and States and Territory by Efic

In May 2016, Parliament passed the *Northern Australian Infrastructure Facility Act 2016* establishing the NAIF from 1 July 2016. At the same time, Parliament passed the *Northern Australia Infrastructure Facility (Consequential Amendments) Act 2016* amending the Efic Act to provide Efic with the ability:

- to assist the NAIF in the performance of its functions; and
- to assist, on agreement, the relevant States and Territories in relation to financial arrangements and agreements related to the terms and conditions of grants of financial assistance for the construction of Northern Australia economic infrastructure.

These changes enable, but do not require, the NAIF to use Efic for the provision of services. By enabling the NAIF to use Efic there is the potential to utilise existing Commonwealth expertise and provide cost-effective services for the NAIF. It also provides the NAIF with flexibility in the delivery of its mandate and allows for the reduction of duplication of 'back-office' resourcing requirements across multiple government entities.

Similarly, allowing Efic to assist the States and Territories also provides the option to these parties to utilise existing Commonwealth expertise.

These latest Efic Act amendments also allow Efic to charge fees to the NAIF and to the States and Territory (for the provisions of NAIF related services). However, such fees are limited to recovery of Efic's costs only.

3.2 Service Level Agreement

While NAIF has a dedicated team of its own staff, it is supported in its day-to-day operations through a Service Level Agreement (**SLA**) with Efic. The SLA is for a term which extends until the last NAIF loan is expected to be repaid.

Efic is an experienced financier with expertise in managing large and complex lending transactions. NAIF exists to fill a market gap in infrastructure lending, leveraging its own and Efic's expertise and resources to support the provision of infrastructure investment in Northern Australia.

NAIF has the flexibility under the SLA to use Efic to provide services, to use its own resources or access other resources as required.

The services provided by Efic to the NAIF, and provided for under the SLA, fall into two broad categories:

- Transaction due diligence, environment and technical review, credit assessment, and loan management; and
- Corporate and administrative services (including secretariat and board secretary, legal, compliance, financial management and reporting, human resources, information technology and communications, property management).

Efic also assists NAIF in managing its arrangements with the States and Territory.

Under the SLA, NAIF can access resources from Efic as required. This allows NAIF to be responsive and agile in managing its resources to efficiently and effectively meet business and proponent needs.

Efic's support for the NAIF is not at the expense of its primary role of assisting Australian exporters. Efic continues to ensure that it is fully resourced to meet its mandate and has the option of recruiting additional staff or employing additional outside resources if required.

4. NAIF access to Efic's existing governance and risk framework

Efic and the NAIF are both corporate Commonwealth entities governed by their own bespoke legislation and generally by the terms of the PGPA Act. Each entity is governed by their respective Boards who are the "accountable authority" for PGPA Act purposes. The Efic and NAIF Boards are therefore independently responsible for their own corporate governance, managing their affairs and overseeing their operations.

The Efic Board imposes a strong commercial discipline on governance and risk management through the overall governance framework (consisting of a risk management and financial control framework).

Governance and risk management at Efic are built on foundations that include:

- awareness and commitment to a single purpose, common principles, shared values and a Code of Conduct that are reviewed and renewed periodically;
- a suite of policies and procedures that are supplemented by supportive systems and processes;
- human resources practices intended to recruit, develop and retain employees with the required specialist skills;
- delegation of responsibility throughout the business and accountability for outcomes;
- control processes, including structured management reporting, a system of independent review and Board oversight; and
- an operational philosophy that seeks to anticipate and mitigate risks before they occur.

Since NAIF was established, Efic has provided a significant amount of support in relation to the establishment and review of the NAIF's governance framework and other policies and procedures, leveraging its off its own procedures, experience and expertise as well as those from outside experts.

5. Confidentiality – consistency of approach by Efic and NAIF

Efic is partially exempt from freedom of information legislation. The exemption is in relation to matters concerning Part 4 and 5 of the Efic Act, which concern Efic's Commercial Account and National Interest transactions. There is also a secrecy provision applying to all staff and members of the Efic Board contained in section 87 of the Efic Act. Breach of this provision can result in the imposition of a criminal sanction.

The partial freedom of information exemption and the strong secrecy obligation imposed on us recognises the need to keep confidential the commercial information obtained from Australian exporters and investors (Efic clients).

Aligned with these principles of confidentiality and good commercial practice, Efic does not make public its Risk Appetite Statement. Efic's Risk Appetite Statement describes in detail the manner in which its risk appetite and tolerances (qualitative and quantitative limits) are established and subsequently controlled.

To the extent permitted by relevant legislation, we note the adoption of similar confidentiality principles by the NAIF.

Export Finance and Insurance Corporation

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